Regional Medical Center at Lubec

Reports Required by
Government Auditing Standards
and OMB Circular A-133

June 30, 2014

CONTENTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Trustees
Regional Medical Center at Lubec
Lubec, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Regional Medical Center at Lubec (a nonprofit organization) (the Center), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Macpage LLC
30 Long Creek Drive, South Portland, ME 04106-2437 | 207-774-5701 | 207-774-7835 fax | cpa@macpage.com
One Market Square, Augusta, ME 04330-4637 | 207-622-4766 | 207-622-6545 fax
One Union Street, Suite 505, Portland, ME 04101-4050 | 207-774-4030 | 866-927-0288 fax
macpage.com

Board of Trustees
Regional Medical Center at Lubec

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macpage LLC

Augusta, Maine
December 4, 2014

Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Trustees
Regional Medical Center at Lubec
Lubec, Maine

Report on Compliance For Each Major Federal Program

We have audited Regional Medical Center at Lubec's (a nonprofit organization) (the Center), compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2014. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Board of Trustees
Regional Medical Center at Lubec

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questions costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The Center's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not indentified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompany schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

The Center's response to the internal control over compliance finding indentified in our audit is described in the accompany schedule of findings and questioned costs and corrective action plan. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Board of Trustees
Regional Medical Center at Lubec

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Center as of and for the year ended June 30, 2014, and have issued our report thereon dated December 4, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Macpage LLC

Augusta, Maine
December 4, 2014

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor/Program Title	CFDA Number	Grant Number	Grant Period	Federal Award	Grant Period Expenditures
U.S. Department of Health and Human Services					
Consolidated Health Centers	93.224	6 H80 CS 00150-12-00	01/01/13-12/31/13	$ 457,617	$ 297,768
Consolidated Health Centers	93.224	5 H80 CS 00150-13-00	01/01/14-12/31/14	270,507	152,367
Subtotal CFDA 93.224					450,135
Affordable Care Act Grants for New and Expanded Services Under the Health Center Program	93.527	6 H80 CS 00150-12-00	01/01/13-12/31/13	338,083	180,001
Affordable Care Act Grants for New and Expanded Services Under the Health Center Program	93.527	5 H80 CS 00150-13-00	01/01/14-12/31/14	330,619	50,155
Subtotal CFDA 93.527					230,156
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5 H76HA00729-12-00	04/01/13-03/31/14	485,109	318,935
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5 H76HA00729-13-00	04/01/14-03/31/15	398,288	45,212
Subtotal CFDA 93.918					364,147
HIV Prevention Activities - Non-Governmental Organization Based	93.939	5U65PS002344-04	07/01/13-06/30/14	339,092	322,442
Total U.S. Department of Health and Human Services					1,366,880
TOTAL FEDERAL EXPENDITURES					$ 1,366,880

See independent auditors' report on schedule of expenditures of federal awards.
The accompanying notes are an integral part of this schedule.

Notes to Schedule of Expenditures of Federal Awards

June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Regional Medical Center at Lubec under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Regional Medical Center at Lubec, it is not intended to and does not present the financial position, changes in net assets or cash flows of Regional Medical Center at Lubec.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for State, Local and Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

NOTE 3 – SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Center provides federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	$167,347
HIV Prevention Activities- Non-Governmental Organization Based	93.939	$127,486

Schedule of Findings and Questioned Costs

June 30, 2014

Section I **Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued:		Unmodified
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	√ No
Significant deficiency(ies) identified?	____ Yes	√ None reported
Noncompliance material to financial statements noted?	____ Yes	√ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	√ No
Significant deficiency(ies) identified?	√ Yes	____ None reported
Type of auditors' report issued on compliance for major programs:		Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	√ Yes	____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.939	HIV Prevention Activities - Non-Governmental Organization Based

Dollar threshold used to distinguish between Type A and Type B programs:		$300,000
Auditee qualified as low-risk auditee?	√ Yes	____ No

Section II **Financial Statement Findings**

None noted.

Schedule of Findings and Questioned Costs - Continued

June 30, 2014

Section III **<u>Federal Award Findings and Questioned Costs</u>**

2014-001 - Subrecipient Monitoring

Significant Deficiency

<u>Information of the Federal Program</u>

Department of Health and Human Services
CFDA #93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
April 1, 2013 - March 31, 2014
April 1, 2014 - March 31, 2015

<u>Criteria</u>

In accordance with OMB Circular A-133, organizations that provide federal funds to subrecepients must have controls in place to monitor and ensure that subrecipients are in compliance with the applicable federal program's requirements and adhere to the provisions of OMB Circular A-122 and Circular A-133.

<u>Condition</u>

A site visit was performed by the U.S. Department of Health and Humans Services (USDHHS) over the federal program CFDA #93.918 in July 2014. The report of the results of the site review noted several recommendations to strengthen internal control over subrecipient monitoring including review of payroll allocations in accordance with OMB Circular A-122, review of supporting documentation for transactions, review of subrecipeints' policies and procedures in place to maintain grant compliance, and implementation of subrecipients' sliding fee scale.

<u>Cause</u>

The deficiencies in internal control over subrecipient monitoring noted in the USDHHS site visit were caused by managements' understanding that the existing controls in place were sufficient to meet USDHHS guidelines.

<u>Effect</u>

As a result of the site review results, management has created a corrective action plan to address all of the USDHHS' recommendations noted in the report. The USDHHS has accepted the corrective action plan and management is in the process of implementing the plan.

<u>Recommendations</u>

We recommend that management continue to implement the corrective action plan approved by the USDHHS as a result of the site review. Management should periodically evaluate the progress of implementation to ensure it meets the recommendations of USDHHS.

<u>Grantee Response</u>

Management agrees with the finding. See the Center's corrective action plan for procedures that have been approved by USDHHS and are being implemented to address the finding.

HealthWays
partners on the path to wellness

HealthWays
The Regional Medical Center at Lubec, Inc.

CORRECTIVE ACTION PLAN

December 4, 2014

U.S. Department of Health and Human Services (USDHHS)

Regional Medical Center at Lubec (the Agency) respectfully submits the following corrective action plan for the year ended June 30, 2014.

Independent public accounting firm:

Macpage LLC
One Market Square
Augusta, Maine 04330

Audit period: July 1, 2013 to June 30, 2014

The findings from the June 30, 2014 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

The Regional Medical Center at Lubec • Sunrise County HomeCare
Maine Telemedicine Services • HealthWays Community Services
Administrative Offices located at 43 South Lubec Road, Lubec, ME 04652 • Tel. 207-733-1090 • FAX 207-733-2847 • www.rmcl.org

Regional Medical Center at Lubec
Corrective Action Plan
June 30, 2014

Finding – Federal Award Finding

2014-001 – Subrecipient Monitoring

Significant Deficiency

Program

U.S. Department of Health and Human Services
CFDA #93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Recommendation

We recommend that management continue to implement the corrective action plan approved by the USDHHS as a result of the site review. Management should periodically evaluate the progress of implementation to ensure it meets the recommendations of USDHHS.

Corrective Action Plan

As a result of the site visit by USDHHS, management has created a corrective action plan to address all of the USDHHS' recommendations noted in the site visit report. The USDHHS has accepted the corrective action plan and management is in the process of implementing the plan. That plan is attached to this report.

Contact persons responsible for corrective action:

Marilyn Hughes	Chief Executive Officer
Andrew Seeley	Chief Financial Officer

Corrective Action Plan should be completed based on the anticipated completion dates noted in the attached plan.

If the USDHHS has questions regarding this plan, please call Marilyn Hughes or Andrew Seeley at (207) 733-1090.

Sincerely Yours,

Marilyn F. Hughes, CEO
Marilyn Hughes, Chief Executive Officer

12/15/14
Date

Andrew Seeley
Andrew Seeley, Chief Financial Officer

12/15/14
Date

GRANTEE NAME: Regional Medical Center at Lubec
GRANTEE #: H76HA00729
DATE: August 19, 2014

DCHAP SITE VISIT
CORRECTIVE ACTION PLAN

CRITICAL FINDING	PERSONS RESPONSIBLE, DUE DATE	INTERVENTION/ ACTION	PROGRESS TO DATE	DATE RESOLVED	
Grants/Contracts Agreement Policy: RMCL's policy is not current with actual practices and all required attachments of the current agreements, do not address annual monitoring visits, the required annual HIV training for all clinical staff and compliance with the Health Insurance Portability and Accountability Act Omnibus Final Rule.	Erica Famous, Program Director; 1. December 31, 2014; 2. December 31, 2014	**1.** Modify the Contract Agreement Policy to include current practices, Health Insurance Portability and Accountability Act Omnibus Final Rule, and all required attachments of the current agreements. Also include reference to Ryan White specific Grants/Contracts Agreement Policy. **2.** Create Ryan White specific Grants/Contracts Agreement Policy to outline required contract components including annual monitoring visits, required annual HIV training for all clinical staff, and acceptable documentation for each.			
Oversight and monitoring of subcontractors: There are no formal processes in place to ensure that subs have administrative and clinical requirements in place, particularly verification of credentialing and licensing and compliance with federal assurances. There is also no tool for use during the site visit for clinical or administrative requirements and there has been insufficient documentation of monitoring visits conducted to date.	Erica Famous, Program Director, Erin Appleby, Clinical Coordinator; 1. December 31, 2014; 2. December 31, 2014; 3. March 31, 2015	**1.** Develop and implement monitoring and oversight procedures to verify that all of the subcontract policy and assurance expectations are being met during at least one visit annually. **2.** Create a monitoring tool to include the minimum requirements expected by HRSA and other funders and share with all subs in advance of visits. **3.** Document visit outcomes and track any areas where improvements are needed.			

DCHAP SITE VISIT CORRECTIVE ACTION PLAN

Subcontract for HIV Medical Director: The current subcontract agreement does not clearly define the duties expected of Dr. Pinsky as the HIV Medical Director. The agreement does not clearly make a distinction between adherence counseling that would be covered as a billable service, versus any additional counseling expected by the Dr. being paid for by Part C program funds.	Erin Appleby, Clinical Coordinator; 1. November 30, 2014; 2. November 30, 2014; 3. November 30, 2014; 4. November 30, 2014; 5. November 30, 2014; 6. December 31, 2014	**1.** Review existing contract to distinguish required Medical Director activities. **2.** create an RMCL job description and include the position on the RMCL and HIV program organization charts. **3.** Determine exactly what adherence counseling can be covered by client insurance and specify what cannot be covered to be provided by contracted clinicians. **4.** distinguish advanced adherence counseling from any adherence counseling provided through 3rd party billing. **5.** Modify contract to incorporate changes. **6.** Dr. Pinksy to review and sign modified contract.		
Client Grievance Procedures: The client grievance policy does not include the procedures for contacting external agencies at the State or Federal levels when not satisfied with RMCL grievance outcomes. None of the subcontractors had such information in their policies.	Erica Famous, Program Director, 1. December 31, 2014; 2. December 31, 2014	**1.** Update RMCL client grievance policy to include contact information for Part B funds received from Maine and the Part C funds from HRSA and procedures for contacting external agencies at the State or Federal levels when not satisfied with RMCL grievance outcomes. **2.** Develop universal grievance policy which includes these items for use by contracted agencies with policy to ensure that the forms signed by the clients acknowledging receipt of the grievance procedure indicates that a copy of the policy was offered to the client and if it was refused.		

DCHAP SITE VISIT
CORRECTIVE ACTION PLAN

Clinical Policies and Procedures: The Grantee did not demonstrate any comprehensive Clinical Policies and Procedures, consistent with Department of Health and Human Services (DHHS) HIV care guidelines being utilized by sub-contractors that are responsible for providing care to HIV clients.	Erin Appleby, Clinical Coordinator; 1. October 31, 2014; 2. December 31, 2014; 3. December 31, 2014; 4. March 31, 2015; 5. March 31, 2015.	**1.** Request clinical policies and procedures only related to HIV care and identify potential gaps. **2.** Establish internal clinical policies and procedures, consistent with DHHS HIV care guidelines and HIV/AIDS Bureau (HAB) performance measures to include in contracts for HIV care provision. **3.** Create simplified annual checklist for agencies. **4.** Monitor to ensure that the policies included in contract are being implemented by conducting semi-annual chart audits. **5.** Identify areas of deficiencies and conduct relevant clinical quality improvement activities.		
Electronic Medical Record Chart: The electronic medical record (EMR) chart review at Ellsworth clinic reflected inadequate information recorded in the areas of screening for sexually transmitted infections (Syphilis, Chlamydia and Gonorrhea), lipid profiles, pap smears, hepatitis B vaccinations, oral health exams and documentation of HIV risk counseling.	Erin Appleby, Clinical Coordinator; 1. December 31, 2014; 2. January 2015; 3. March 31, 2015	**1.** Incorporate screening for sexually transmitted infections (Syphilis, Chlamydia and Gonorrhea), lipid profiles, pap smears, hepatitis B vaccinations, oral health exams and documentation of HIV risk counseling into clinical policies and contracts listed above. **2.** Schedule meetings with physicians to notify of documentation requirement relating to the areas of screening for sexually transmitted infections (Syphilis, Chlamydia and Gonorrhea), lipid profiles, pap smears, hepatitis B vaccinations, oral health exams and documentation of HIV risk counseling. **3.** Review progress through semi-annual chart audits and CQM activities.		

DCHAP SITE VISIT
CORRECTIVE ACTION PLAN

Client Referrals: The Grantee did not demonstrate a mechanism in place to track client referrals to oral health services or a process to follow-up on treatment received. No subsequent documentation was found into the client EMRs, to substantiate receipt of the annual oral health examinations.	Erin Appleby, Clinical Coordinator; 1. November 30, 2014, 2.November 30, 2014, 3. November 30, 2014, 4. October 31, 2014; 5. March 31, 2015	**1**. Request documentation of annual oral health check by ID physician be entered into EMR. **2.** Request documentation of dental referrals be entered in EMR. **3.** Request copies of dental referrals be sent to the client's ASO for assistance. **4.** Request ASOs to document in CAREWare oral health care referrals received, oral health care referrals made, copies of the dental treatment plan, and services received to track and maintain follow-up on the outcomes of the referrals made. **5.** ASOs to report back to physician during semi-annual care team meeting and forward updates of the oral health treatment plan and medication updates to ID provider to be entered in to the clients EMR.		

DCHAP SITE VISIT CORRECTIVE ACTION PLAN

Case Management Charting: The Medical Case Management (MCM) charts failed to demonstrate any care coordination with medical providers and case managers for HIV clients as per legislative requirements of MCM. The chart review revealed that the services being provided were mainly case management (support service) and not MCM (core medical); the service category grantee is funded for. In addition, there were inconsistencies noted in the areas of recertification documents (income and residency), maintaining lab and medication data and referral notes.	Erin Appleby, Clinical Coordinator; 1. November 30, 2014; 2. November 30, 2014; 3. March 31, 2015	**1.** Establish written policy for sub-contractors that clearly outlines RWPC program expectations and legislative requirements for Medical Case Management. **2**. Establish Medical Case Management monitoring tool with all RWPC program expectations, legislative requirements for Medical Case Management and HAB's definition of MCM. **3.** In case of any deficiencies identified, develop a corrective action plan for the sub-agency and document any improvements made in response to the corrective action plan.		

DCHAP SITE VISIT CORRECTIVE ACTION PLAN

CQM: The CQM Program in place demonstrated deficiencies with respect to CQM plan, documentation of CQM meetings/minutes, tracking of performance measures and any improvement activities if conducted. In addition, grantee did not demonstrate any involvement of key staff from sub-contractors in addition to the RMCL staff on committee meetings. Additionally, no consumer involvement was evident in planning, development and implementation of CQM program activities; nor were any specific program improvements identified as a result of consumer involvement with CQM program.	Michael Edwards, Director of Research and Evaluation, Erin Appleby, Erica Famous; 1. December 31, 2014; 2. December 31, 2014	**1.** Review existing CQM plan, update, and implement to address documentation of CQM meetings/minutes, tracking of performance measures and improvement activities, involvement of key staff from contracted agencies and consumer involvement. **2.** Establish a policy to involve key staff from sub-contractors and in addition to the staff at the prime agency on committee meetings. **3.** Ensure that meaningful consumer involvement in the planning, development, implementation and evaluation of the Part C program through consumer advisory board and consumer surveys.		

Subcontract Monitoring (fiscal)–(RMCL): a. It is not demonstrated that the grantee has a comprehensive system in place to monitor and fully ensure that subcontractors are in compliance with all the RWHAP Part C legislative and programmatic requirements. A fiscal monitoring tool is not used for on-site provider assessments and fiscal site visits are not conducted at provider locations. For example, there was no indication that requirements such as; time and effort reporting, cap on charges, and sliding scale compliance have been assessed for all providers. **b.** The subcontractors are not required to submit copies of annual audits including the A-133 audit reports for those subcontractors that meet the threshold. Providers submit quarterly financial reports based on expenditures; however, there is no indication that source document verification has ever been conducted.	Andy Seeley, CFO; December 31, 2014	**1.** Adopt comprehensive sub-contract monitoring policy to describe how subcontractors will be monitored to ensure compliance with RWHAP Part C legislative and programmatic requirements to include: a. schedule for review, b. source document verification, c. review and analysis of the OMB A-133 audit for those subcontractors meeting the threshold d. documentation and follow-up to address any A-133 audit findings, e. a monitoring tool to be used for a comprehensive fiscal assessment of the providers, f. how results of monitoring visits should be documented in contract files along with the documentation to support subcontractor's performance, and g. a plan of correction to be requested by grantee and submitted by subcontractor to address how issues will be resolved.		

DCHAP SITE VISIT
CORRECTIVE ACTION PLAN

c. The subagreement does not describe how the fiscal operations of the providers will be assessed; such as site visits including random reviews of source documentation to support fiscal transactions, review of A-133 audits or certified financial statements, etc. **d.** Subcontract monitoring policy and procedure is not specific and does not adequately describe how providers will be monitored and how agreements will be enforced.	Erica Famous; January 30, 2014	Update contracts to include requirements of comprehensive sub-contract monitoring policy listed above (to be developed).		

DCHAP SITE VISIT CORRECTIVE ACTION PLAN

Expenditures–(RMCL): RMCL's drawdown of federal funds has been based on advances. Providers are paid by the grantee based on quarterly installments of budgeted amounts. The subcontractors are required to submit a quarterly financial report based on expenditures. However, the payments to the subcontractors are made each quarter without reconciliation or consideration of expenditures. Reconciliation takes place during the fourth quarter. Funds are drawn down from the Payment Management System based on the advances made to the subcontractors and reimbursements to the grantee. Written policies and procedures are not in place to minimize the time elapsing between transfer of advance funds to recipients and issuance of check or payments.	1. Andy Seeley 2. Erica Famous 1. November 30, 2014; 2. December 31, 2014	**1.** Andy Seeley to develop written policies and procedures to minimize the time elapsing between transfer of advance funds to receipt and issuance of check or payments. Documentation should clearly demonstrate the amount of time between advancement of funds and disbursement of funds. **2.** Erica Famous to amend contracts to reimburse providers of funds expensed only with no advance payment.		

DCHAP SITE VISIT
CORRECTIVE ACTION PLAN

Expenditures/Budget Monitoring-(RMCL): The percentage of funds expended is not consistent with the percentage of budget period elapsed. Unobligated dollars for the period ending March 2014 is estimated to be $102,000. This is partially due to carryover funds from the previous year. The grantee does not have a system in place to ensure that funds are spent based on the budget. Most of the unobligated dollars is due to provider underspending. Re-current unobligated balances normally occur 1) when there is not a demonstrated need in the community 2) burn rates are not properly monitored so funds can be re-allocated appropriately based on need or 3) the budget is not based on good historical data and accurate projections. The grantee agreed that lack of budget monitoring and working with providers to re-allocate funds in a timely manner is mostly to blame.	Andy Seeley, CFO, Erica Famous 1. December 31, 2014	**1.** Develop policy to describe system used to ensure that funds are spent in accordance to the budget and time-table for budget re-allocations at RMCL and for sub-contracts.		

DCHAP SITE VISIT
CORRECTIVE ACTION PLAN

RMCL/DEAN: – Although a payroll policy and procedure is in place, it does not address time and effort reporting. There is not a procedure in place to ensure that subcontractors have a time and effort certification process based on actual time spent working on the grant. Allocation and percentage of effort is based on the budget, not based on actual time worked.	1. Andy Seeley, CFO, 2. Andy Seeley, CFO; Kenney Miller ED DEAN; Erica Famous 1. November 30, 2014; 2. November 30, 2014	**1.** Establish a process to ensure that allocation and percentage of effort is based on actual time worked. **2.** Request that sub-contracts demonstrate that they have a process to ensure that allocation and percentage of effort is based on actual time worked.		
RMCL: The Grantee reviews quarterly financial statements for the expenditures of the subcontractors. There is not a process to review support documentation for transactions, etc. Policies and procedures are not in place to demonstrate how the grantee will monitor the grant to ensure that all costs, especially subcontractor costs are allowable, allocable and reasonable.	Andy Seeley, Erica Famous, Erin Appleby; 1. December 31, 2014; 2. March 31, 2015	**1.** Develop and implement comprehensive policies and procedures that support grants management. Policies and procedures should describe how the organization adheres to CFR requirements and cost principles and include such areas as: allowable cost and subcontractor monitoring. **2.** Grantee must assess and ensure that subcontractors have policies and procedures that demonstrate compliance with legislative requirements.		

DCHAP SITE VISIT CORRECTIVE ACTION PLAN

RMCL/DEAN: a. Although DEAN has policies and procedures in place, there are minimal systems and policies to address internal control and segregation of duties, time and effort certification, etc. The ED is responsible for all financial operations to include: posting of charges, sole check signatory up to $4000 after which a second signature is required, bank reconciliation and fiscal reporting. This subcontractor is a "high risk" due to the lack of internal controls and the absence of a fiscal subcontract monitoring plan by the grantee. Subcontractor is primarily grant funded with minimal discretionary income.	Andy Seeley, CFO, Kenney Miller ED DEAN; December 31, 2014; 2. March 31, 2015	**1.** DEAN to develop and implement board approved comprehensive policies and procedures that support grants management. Policies and procedures will describe how the organization adheres to CFR requirements and cost principles and include such areas as: allowable cost, internal control and segregation of duties, time and effort certification etc. **2.** Andy Seeley to assess and ensure that subcontractors have policies and procedures that demonstrate compliance with legislative requirements.		
RMCL: The grantee has not tracked and reported program income on Federal Finance Report (FFRs) submitted to HRSA. Grantee states that they have recently begun tracking program income. Program income is not reported on line "N" of the FFR and on annual data reports.	Andy Seeley, CFO, Erin Appleby Clinical Coordinator; 1. October 30, 2014; 2. March 31, 2015; June 1, 2015	**1.** Modify subgrantee reporting requirements to include reporting of program income and reinvestment in HIV program objectives quarterly. **2.** Verify that budget documents to account for this program income and demonstrate it is used to support program activities during site visit. **3.** Report all applicable program income on FFR (Andy Seeley, CFO) and Grantee Report (Erin Appleby and Erica Famous)		

GRANTEE NAME: Regional Medical Center at Lubec
GRANTEE #: H76HA00729
DATE: August 19, 2014

DCHAP SITE VISIT
CORRECTIVE ACTION PLAN

Finding 1. RMCL/DEAN: The grantee does not have a system in place to ensure all subcontractors have an implemented sliding scale and cap on charges. DEAN has not implemented a sliding scale based on the federal poverty guidelines or cap on charges policy to limit the charges imposed on clients.	Andy Seeley, Erica Famous, Erin Appleby; 1. December 31, 2014	**1.** Adopt comprehensive sub-contract monitoring policy to describe how subcontractors will be monitored to ensure compliance with RWHAP Part C legislative and programmatic requirements to include: Sliding Fee Scale and Annaul Cap on Charges.		

Regional Medical Center at Lubec

Financial Report

June 30, 2014

CONTENTS

Independent Auditors' Report

Board of Trustees
Regional Medical Center at Lubec
Lubec, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Medical Center at Lubec (a nonprofit organization) (the Center), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Medical Center at Lubec, as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Macpage LLC
30 Long Creek Drive, South Portland, ME 04106-2437 | 207-774-5701 | 207-774-7835 fax | cpa@macpage.com
One Market Square, Augusta, ME 04330-4637 | 207-622-4766 | 207-622-6545 fax
One Union Street, Suite 505, Portland, ME 04101-4050 | 207-774-4030 | 866-927-0288 fax
macpage.com

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules on pages 17 through 25, as listed in the accompanying contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of Regional Medical Center at Lubec's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Macpage LLC

Augusta, Maine
December 4, 2014

Statements of Financial Position

June 30,

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 311,447	$ 397,272
Investments		29,982
Accounts receivable, net	402,762	434,084
Grants receivable	76,894	61,661
Estimated settlements due from third party payors	13,500	13,700
Prepaid expenses	59,821	65,046
Total Current Assets	864,424	1,001,745
Property and Equipment, Net	541,478	685,127
Other Assets		
Quoddy Regional Land Trust - not used in operations	168,845	168,845
Total Other Assets	168,845	168,845
Total Assets	$ 1,574,747	$ 1,855,717
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 89,093	$ 96,572
Accrued expenses	327,652	350,668
Deferred revenue	32,660	41,708
Total Current Liabilities	449,405	488,948
Total Liabilities	449,405	488,948
Net Assets		
Unrestricted net assets:		
Undesignated	938,817	1,180,244
Designated	186,525	186,525
Total Net Assets	1,125,342	1,366,769
Total Liabilities and Net Assets	$ 1,574,747	$ 1,855,717

Statement of Activities

Year ended June 30, 2014

	General and Board Designated	Limited Use	Total Net Assets
Revenue and Other Support			
Patient service revenue	$ 1,497,158	$ 514,207	$ 2,011,365
Provision for bad debt	(53,020)		(53,020)
Net patient service revenue	1,444,138	514,207	1,958,345
Grants from governmental agencies and others	1,440,601	89,381	1,529,982
Contract revenue	424,109		424,109
Other revenue	2,673	131	2,804
Investment income	8,792	15	8,807
Gifts and bequests	256	272	528
Net assets released from restriction and transfers:			
Limited use transfers	(137,143)	137,143	
Total Revenue and Other Support	3,183,426	741,149	3,924,575
Expenses			
Allied Health Service		575,676	575,676
Bureau of Primary Health Care Programs	2,538,710	78,210	2,616,920
Community Service Programs	33,729	16,286	50,015
Other Health Services	708,078		708,078
Telemedicine Programs	144,336	70,977	215,313
Total Expenses	3,424,853	741,149	4,166,002
Change in Net Assets	(241,427)		(241,427)
Net Assets, Beginning of Year	1,366,769		1,366,769
Net Assets, End of Year	$ 1,125,342	$ -	$ 1,125,342

The accompanying notes are an integral part of these financial statements.

Statement of Activities

Year ended June 30, 2013

	General and Board Designated	Limited Use	Total Net Assets
Revenue and Other Support			
Patient service revenue	$ 1,632,137	$ 652,921	$ 2,285,058
Provision for bad debt	(31,216)		(31,216)
Net patient service revenue	1,600,921	652,921	2,253,842
Grants from governmental agencies and others	1,303,625	66,131	1,369,756
Contract revenue	209,389		209,389
Other revenue	5,010	134	5,144
Investment income	10,991	170	11,161
Gifts and bequests	1,599	3,500	5,099
Net assets released from restriction and transfers:			
Limited use transfers	27,790	(27,790)	
Total Revenue and Other Support	3,159,325	695,066	3,854,391
Expenses			
Allied Health Service		552,176	552,176
Bureau of Primary Health Care Programs	2,632,652	66,130	2,698,782
Community Service Programs	65,296	22,742	88,038
Other Health Services	661,549		661,549
Telemedicine Programs	149,199	54,018	203,217
Total Expenses	3,508,696	695,066	4,203,762
Change in Net Assets	(349,371)		(349,371)
Net Assets, Beginning of Year	1,716,140		1,716,140
Net Assets, End of Year	$ 1,366,769	$ -	$ 1,366,769

The accompanying notes are an integral part of these financial statements.

Statement of Functional Expenses

Year Ended June 30, 2014

	Allied Health Services	Bureau of Primary Health Care Programs	Community Service Programs	Other Health Services	Sunrise & Other Management Contracts	Telemedicine Programs	Total Program Services	General and Administrative		Total
								Administration	Facility	
Salaries	$ 267,479	$ 1,253,483	$ 22,332	$ 214,603	$ 84,356	$ 87,576	$ 1,929,829	$ 295,435	$ 85,432	$ 2,310,696
Payroll taxes & benefits	40,589	269,676	5,270	56,484	19,052	14,462	405,533	66,333	28,886	500,752
Contractual	170,037	184,577	1,720	292,277	68,021	600	717,232	141,309	2,448	860,988
Supplies, postage & other miscellaneous	12,503	135,104	1,990	34,909	2,553	2,959	190,018	27,168	10,090	227,276
Travel	36,851	14,757		36,063	228	1,542	89,440	1,875	4,398	95,714
Utilities		6,881	144	1,867	847		9,739		51,982	61,721
Equipment maintenance & lease		9,971	26	8,602	2,034	64	20,697	2,976		23,673
Insurance		7,450	3,854		4,142	3,017	18,463	3,015	1,183	22,662
Telephone	326	33,925	1,941	11,312	6,168	12,330	66,002	12,512	15,853	94,367
Depreciation & amortization		3,558				70,977	74,535	3,123	51,223	128,881
Conferences & training	900	14,757				1,445	17,102	1,822		18,924
Billing	41,063	209,544			(41,063)		209,544	(209,544)		
Facility	5,928	171,324	6,768	5,496	11,736	2,616	203,868	47,627	(251,495)	
	575,676	2,315,008	44,045	661,613	158,074	197,588	3,952,003	393,651		4,345,655
Allocation of indirect expenses		320,279	5,970	46,465	(158,074)	17,725	232,365	(393,651)		(161,285)
	575,676	2,635,288	50,015	708,078		215,313	4,184,368			4,184,368
Transfers to other programs		(18,366)					(18,366)			(18,366)
	$ 575,676	$ 2,616,920	$ 50,015	$ 708,078	$ -	$ 215,313	$ 4,166,002	$ -	$ -	$ 4,166,002

The accompanying notes are an integral part of these financial statements.

Statement of Functional Expenses

Year Ended June 30, 2013

	Allied Health Services	Bureau of Primary Health Care Programs	Community Service Programs	Other Health Services	Sunrise & Other Management Contracts	Telemedicine Programs	Total Program Services	General and Administrative		Total
								Administration	Facility	
Salaries	$ 252,712	$ 1,341,732	$ 37,409	$ 187,079	$ 80,258	$ 86,179	$ 1,985,369	$ 287,070	$ 86,413	$ 2,358,852
Payroll taxes & benefits	38,824	312,406	11,029	40,081	23,676	21,239	447,254	96,660	34,521	578,435
Contractual	161,672	208,691	16,495	333,692	56,585	1,800	778,935	132,259	2,255	913,449
Supplies, postage & other miscellaneous	14,879	114,902	1,840	22,950	3,246	3,184	161,001	32,074	6,859	199,934
Travel	34,598	29,086	1,040	29,180	244	916	95,064	5,693	3,757	104,514
Utilities		8,034	280	1,480	799		10,593		53,651	64,244
Equipment maintenance & lease		6,727	26	597	1,274	64	8,688	1,618	738	11,044
Insurance		6,102	3,724		3,872	3,587	17,285	3,411	10,100	30,796
Telephone	2,432	39,763	2,044	10,856	5,513	15,577	76,185	12,042		88,227
Depreciation & amortization		2,190			1,181	54,018	57,389	7,261	53,859	118,509
Conferences & training	3,299	10,783	220			723	15,025	9,488		24,513
Billing	38,218	230,831			(38,218)		230,831	(230,831)		
Facility	5,542	160,214	6,471	5,094	10,971	2,366	190,658	61,493	(252,153)	
	552,176	2,471,461	80,578	631,009	149,401	189,653	4,074,278	418,238		4,492,517
Allocation of indirect expenses		244,105	8,002	30,540	(149,401)	13,564	146,810	(418,238)		(271,428)
	552,176	2,715,566	88,580	661,549		203,217	4,221,088			4,221,088
Transfers to other programs		(16,784)	(542)				(17,326)			(17,326)
	$ 552,176	$ 2,698,782	$ 88,038	$ 661,549	$ -	$ 203,217	$ 4,203,762	$ -	$ -	$ 4,203,762

Statements of Cash Flows

Years Ended June 30,

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ (241,427)	$ (349,371)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	128,881	118,509
Provision for bad debt	53,020	31,216
Gain on sale of property and equipment	(32,137)	(3,900)
Gain on investments	(7,667)	
Unrealized gain on investments		(8,458)
(Increase) decrease in operating assets:		
Accounts receivable	(21,698)	115,417
Grants receivable	(15,233)	16,956
Estimated settlements due from third party payors	200	(13,700)
Prepaid expenses	5,225	(17,847)
Increase (decrease) in operating liabilities:		
Accounts payable	(7,479)	(16,421)
Accrued expenses	(23,016)	42,960
Deferred revenue	(9,048)	6,513
Total adjustments	71,048	271,245
Net cash flows from operating activities	(170,379)	(78,126)
Cash flows from investing activities:		
Purchase of property and equipment	(54,134)	(32,319)
Proceeds from sale of property and equipment	101,039	3,900
Net redemption of investments	37,649	414,359
Net cash flows from investing activities	84,554	385,940
Net change in cash	(85,825)	307,814
Cash, beginning of year	397,272	89,458
Cash, end of year	$ 311,447	$ 397,272

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Regional Medical Center at Lubec (the Center) is a Maine nonprofit organization whose purpose is to provide medical, dental and other health and community services in Washington County, Maine and its surrounding communities. Programs offered by the Center serve the needs of adults, teenagers, and children. The Center provides substance abuse and mental health counseling, home health care, and offers several patient community educational programs. A sliding fee based on patient income is used to provide charity care when rendering services.

Financial Statement Presentation

The financial statements of the Center have been prepared using the accrual method of accounting in accordance with professional standards. Under these standards, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted assets, and permanently restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time or purpose. Permanently restricted net assets are those subject to donor-imposed stipulations that they be maintained permanently by the Center. The Center had no temporarily or permanently restricted net assets for the years ended June 30, 2014 and 2013.

The Center reports certain revenues and expenses as limited use in the statements of activities. These revenues and expenses are allocated to the Center's various activities. While most programs offer comprehensive services, some may be limited due to the following: government limiting services to be offered, specific goals and objectives from the funding sources, specialty services requiring specific certifications and licenses, and seasonal programs with one objective to be delivered within a specific time period. Activities within these programs and services are closely monitored for compliance in both financial and performance measures to ensure that non-specific use of the funds does not occur.

Net Patient Service Revenue

Revenue is recorded at the Center's standard charges for medical and dental services rendered. Under the terms of agreements with Medicare, MaineCare, and other third-party payors, reimbursement for the care of program beneficiaries may differ from the standard charges. Differences are recorded as contractual adjustments, which are reflected as an adjustment to patient service revenue together with patient discounts and free services to indigent patients. Credit is extended without collateral.

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Grants and Contracts

The Center receives funding from the federal Public Health Service Agency for its medical operations under a Bureau of Primary Health Care (BPHC) grant program. Since the BPHC grant is available for use in the majority of the Center's operations, it is reported as unrestricted in the financial statements.

The Center reports revenue from the Public Health Service BPHC grant on a pro rata basis over the grant period because it is intended to subsidize the deficits in the Center's medical operations. Other grant revenue is reported as revenue when earned.

Deferred Revenue

Deferred revenue represents grant funds received for which grant revenue has not been earned.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At June 30, 2014 and 2013, the allowance for doubtful accounts was $53,362 and $60,471, respectively.

In evaluating the collectibility of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts for self-pay patients was increased from 25 percent of self-pay accounts receivable at June 30, 2013, to 27 percent of self-pay accounts receivable at June 30, 2014. In addition, the Center's self-pay writeoffs increased $21,804 from $31,216 for fiscal year 2013 to $53,020 for fiscal year 2014. The Center has not changed its charity care or uninsured discount policies during fiscal years 2014 and 2013. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Center considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

The Center's capitalization policy is to capitalize and depreciate fixed asset purchases costing greater than $5,000 and to expense any assets below that threshold. Land, building and equipment acquisitions are recorded at cost. Gifts of land, building and equipment are recorded at estimated fair value at the time of donation. Depreciation is computed on the straight-line basis over the assets' estimated useful lives of 3 to 30 years. Assets include those acquired with funds provided by a Hill-Burton Grant of $320,900 in prior years.

Net Assets Designated for Investment

Assets designated for investment include assets set aside by the Board of Trustees for future capital improvements. The Trustees retain control over assets set aside for capital improvements and may, at their discretion, change or eliminate the designation.

Gifts and Bequests

The Center reports gifts of cash and other assets as restricted support if received with donor stipulations that limit the use of donated assets. When a donor restriction expires, i.e., when a stipulated time restriction or purpose restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

In 2006, Quoddy Regional Land Trust donated approximately 32 acres of land to the Center subject to a perpetual conservation easement including a right of first refusal on the protected property. The conservation easement restricts any development and stipulates that the protected property be maintained "as a scenic old-farm and ocean front preserve." The fair value of the donated land was $168,845.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Center qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been made. The Center is not classified as a private foundation.

Accounting Standards Codification (ASC) 740, *Income Taxes*, requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The adoption of this guidance did not have an impact on the Center's financial statements, as management believes that there are no uncertain tax positions within its financial statements. The Center has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and to review other matters that may be considered tax positions. The Center is subject to U.S. federal and state examinations by taxing authorities for the years ended June 30, 2011 through 2014.

Functional Expenses

Expenses are allocated on a functional basis among the Center's various programs and support services. Expenses that can be identified with a specific program are charged directly to the program. Other expenses, including facility and administrative, are common to several functions and are allocated using appropriate statistical bases.

	2014	2013
Program services	**$3,772,351**	$3,785,524
Management and general	**393,651**	418,238
	$4,166,002	$4,203,762

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Center uses various methods including market, income and cost approaches. Based on these approaches, the Center often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Center is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value Measurements - Continued

- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques. Level 3 valuations incorporate the entity's own assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Center performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the years ended June 30, 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Investment Securities

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Reclassifications

Certain reclassifications have been made to the 2013 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2014	2013
Land	**$ 179,707**	$ 199,707
Land improvements	**168,746**	176,221
Buildings and improvements	**1,657,573**	1,748,859
Equipment	**1,192,505**	1,144,370
Quoddy Regional Land Trust (not used in operations)	**(168,845)**	(168,845)
	3,029,686	3,100,312
Less: accumulated depreciation and amortization	**2,488,208**	2,415,185
	$ 541,478	$ 685,127

The National Health Service Corps (NHSC), a federal agency that supplements health care services in rural areas by supporting regional health centers, has provided medical equipment and furnishings to the Center. Equipment, originally valued at $71,458, donated to the Center by NHSC, must be returned should their relationship terminate.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 3 - INVESTMENTS

Investments are carried at fair value and are summarized as follows at June 30, 2013:

Common stock	$29,982

NOTE 4 - ESTIMATED SETTLEMENTS DUE TO THIRD-PARTY PAYORS AND PATIENT SERVICE REVENUE

Approximately 66% and 72% of total revenue in 2014 and 2013, respectively, was derived from the Federal Medicare and State MaineCare programs. Charges for services to beneficiaries of these programs were billed to the Medicare intermediary and the Maine Department of Health and Human Services, respectively. Settlements for differences between the interim rates paid by Medicare and MaineCare and the Center's actual cost for rendering care are based on annual cost reporting. Amounts estimated to be due or owed to the facility for annual settlements under these programs are reflected in the accompanying statements.

Patient service revenue consisted of the following:

	2014		
	Undesignated Unrestricted	**Limited Use**	**Total**
Dental charges	**$ 287,992**		**$ 287,992**
Fitness center		**$ 6,425**	**6,425**
Home health care		**507,782**	**507,782**
Medical charges	**889,662**		**889,662**
Mental health charges	**146,662**		**146,662**
School clinic	**12,831**		**12,831**
Substance abuse	**106,991**	**-**	**106,991**
	$ 1,444,138	**$ 514,207**	**$ 1,958,345**

	2013		
	Undesignated Unrestricted	Limited Use	Total
Dental charges	$ 208,928		$ 208,928
Fitness center		$ 11,010	11,010
Home health care		641,031	641,031
Medical charges	997,787		997,787
Mental health charges	225,405		225,405
Other service fees		880	880
School clinic	15,913		15,913
Substance abuse	152,888	-	152,888
	$ 1,600,921	$ 652,921	$ 2,253,842

Although management expects to receive the estimated amounts, different interpretations of the governing principles by regulatory authorities could result in subsequent adjustments. The eventual settlements will not become final until cost reports are examined and approved by the Medicare intermediary and Maine Department of Health and Human Services. Any difference between the estimated amount due and the final settlement are recorded as an increase or decrease in patient service revenue in the year of final determination.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 5 - CONTRACTUAL ADJUSTMENTS AND CHARITY CARE

The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. It recognizes significant amounts of patient service revenue at the time services are rendered even though it does not assess the patient's ability to pay. For uninsured patients who do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Accordingly, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts, recognized in the period from these major payor sources, is as follows:

	2014	2013
Gross patient service charges	**$2,335,667**	$2,432,960
Contractual adjustments	**(148,713)**	(38,925)
Charity care	**(175,589)**	(108,977)
Patient service revenue	**$2,011,365**	$2,285,058

The Center accepts patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies, which define charity services as those services for which no payment is anticipated. In assessing a patient's eligibility for charity care, the Center uses federally established poverty guidelines. The Center is required to provide a full discount to patients with annual incomes at or below 100% of the poverty guidelines. For those patients with income between 100% and 200% of poverty guidelines, fees must be charged in accordance with a sliding scale discount policy based on family size and income. No discounts may be provided to patients with incomes over 200% of federal poverty guidelines.

Charity care is measured based on services provided at established rates but is not included in net patient service revenue. Costs and expenses incurred in providing these services are included in operating expenses. The Center determines the costs associated with providing charity care by calculating a ratio of costs to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. Under this methodology, the estimated costs of caring for charity care patients for the years ended June 30, 2014 and 2013 were approximately $254,000 and $170,000, respectively. Charges for services rendered to individuals from whom payment is expected and ultimately not received are written off and netted against patient service revenue as part of the provision for bad debts.

NOTE 6 - LINE OF CREDIT

The Center has an unsecured $100,000 line of credit with Bar Harbor Bank & Trust. The interest rate is at prime plus 2%. There was no balance outstanding on the line of credit as of June 30, 2014 and 2013.

Notes to Financial Statements

June 30, 2014 and 2013

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Center maintains cash and cash equivalents in a local financial institution, which may, at times, exceed the federally insured limits. The Center has a master repurchase agreement with the local financial institution. Under the agreement, funds on deposit exceeding federally insured limits or other amounts as set forth in the agreement are invested in overnight repurchase agreements of U.S. Government Mortgage Backed, U.S. Treasury and U.S. Agency securities. The financial institution has granted to the Center a security interest in the financial institution's right, title, and interest, which the financial institution currently owns or may acquire thereafter in any securities subject to repurchase agreements with the Center, all proceeds of such securities to secure the financial institution's obligations to the Center under the agreement, and the specific transactions that may occur between the Center and the financial institution under the agreement.

The Center has not experienced any losses in its cash and cash equivalents and believes that it is not exposed to any significant risk.

NOTE 8 - PENSION PLAN

The Center has a discretionary defined contribution profit sharing plan, which covers all employees working more than twenty-hours per week. Furthermore, this plan requires three-years of service before an employee is 100 percent vested. The Center's contribution rate was 3%. The Board of Directors had voted to suspend further contributions effective May 1, 2012.

NOTE 9 - LEASES

The Center has entered into several operating leases for building space. Future minimum lease payments under leases are as follows for the years ending June 30:

2015	$24,516
2016	21,065
2017	18,600
2018	15,500
	$79,681

Total lease expense was $33,062 and $33,755 for the years ended June 30, 2014 and 2013, respectively.

NOTE 10 - FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2013 were as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Level 1	Level 2	Level 3
Common Stock	$29,982	$29,982		
Total	$29,982	$29,982		

NOTE 11 - EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 4, 2014, the date the financial statements were available to be issued.

Schedule of Expenses - Allied Health Services

Year Ended June 30, 2014

	Sunrise	Administration and Facility	Total
Salaries	$ 215,424	$ 52,055	$ 267,479
Payroll taxes & benefits	34,638	5,951	40,589
Contractual		170,037	170,037
Supplies, postage & other miscellaneous		12,503	12,503
Travel	32,951	3,900	36,851
Telephone		326	326
Conferences & training		900	900
Billing		41,063	41,063
Facility	2,845	3,083	5,928
	285,858	289,818	575,676
Allocation of administration and facility expenses	289,818	(289,818)	
	575,676		575,676
Transfers to other programs			
	$ 575,676	$ -	$ 575,676

Schedule of Expenses - Bureau of Primary Health Care Programs

Year Ended June 30, 2014

	Medical Clinics	Labs	Dental	Patient Education	Off Site Counseling	Mental Health E. Machias and Lubec
Salaries	$ 547,785	$ 29,804	$ 209,886	$ 21,750	$ 25,038	$ 164,842
Payroll taxes & benefits	125,583	5,021	38,874	2,046	5,138	34,140
Contractual	131,700	607	10,152		2,656	19,922
Supplies, postage & other miscellaneous	53,858	14,074	26,315	284	204	2,312
Travel	4,964	132	1,599	27		3,821
Utilities	5,156				313	1,412
Equipment maintenance & lease	3,837	26	1,018	26	117	2,730
Insurance	5,143	126	697	83		1,154
Telephone	14,167	842	2,046	842	1,141	10,294
Depreciation & amortization	1,040		2,518			
Conferences & training	6,257		5,955	65	45	788
Billing	130,630		41,902		4,813	30,551
Facility	106,380	5,508	18,108	3,000		14,700
	1,136,500	56,140	359,070	28,123	39,465	286,666
Allocation of indirect expenses	371,317	21,994	144,408	11,414	5,356	54,673
	1,507,817	78,134	503,478	39,537	44,821	341,339
Transfers to other programs	(9,850)				(1,207)	(6,991)
	$ 1,497,967	$ 78,134	$ 503,478	$ 39,537	$ 43,614	$ 334,348

Schedule of Expenses - Bureau of Primary Health Care Programs - Continued

Year Ended June 30, 2014

	340B Pharmacy	School Clinic	BPHC Admin	Outreach Enrollment	PCMH - QI	PLWHA	Total
Salaries		$ 2,864	$ 203,717	$ 23,035	$ 9,680	$ 15,082	$ 1,253,483
Payroll taxes & benefits		706	48,315	3,095	2,476	4,282	269,676
Contractual		318	14,272		4,950		184,577
Supplies, postage & other miscellaneous	$ 29,560	375	3,912	4,210			135,104
Travel			1,648	1,905	593	68	14,757
Utilities							6,881
Equipment maintenance & lease		26	2,191				9,971
Insurance		247					7,450
Telephone		842	3,611			140	33,925
Depreciation & amortization							3,558
Conferences & training		27	1,475	145			14,757
Billing		1,648					209,544
Facility			23,628				171,324
	29,560	7,053	302,769	32,390	17,699	19,572	2,315,007
Allocation of indirect expenses	4,139	943	(302,515)	4,535	1,275	2,740	320,279
	33,699	7,996	254	36,925	18,974	22,312	2,635,286
Transfers to other programs		(318)					(18,366)
	$ 33,699	$ 7,678	$ 254	$ 36,925	$ 18,974	$ 22,312	$ 2,616,920

Schedule of Expenses - Community Service Programs

Year Ended June 30, 2014

	WCOC Drug Free Comm	MCD Evaluation	Fitness Port	Total
Salaries	$ 5,364	$ 16,968		$ 22,332
Payroll taxes & benefits	1,448	3,822		5,270
Contractual			$ 1,720	1,720
Supplies, postage & other miscellaneous	13	86	1,891	1,990
Utilities			144	144
Equipment maintenance & lease			26	26
Insurance			3,854	3,854
Telephone	154	945	842	1,941
Facility		960	5,808	6,768
	6,979	22,781	14,285	44,045
Allocation of indirect expenses	870	3,100	2,000	5,970
	7,849	25,881	16,285	50,015
Transfers to other programs				
	$ 7,849	$ 25,881	$ 16,285	$ 50,015

Schedule of Expenses - Other Health Services

Year Ended June 30, 2014

	Maine Cancer Foundation	MPCA-CRC	HIV Ryan White	HIV CDC	DHHS Dental	AMHC Detox	Total
Salaries	$ 1,498	$ 1,103	$ 120,659	$ 86,439		$ 4,904	$ 214,603
Payroll taxes & benefits	323	219	32,609	22,442		891	56,484
Contractual	275		164,373	127,629			292,277
Supplies, postage & other miscellaneous	1,911	659	1,478	30,861			34,909
Travel	267		16,606	19,190			36,063
Utilities			866	1,001			1,867
Equipment maintenance & lease			410	435	$ 7,757		8,602
Telephone			4,157	7,155			11,312
Facility			2,400	3,096			5,496
	4,274	1,981	343,558	298,248	7,757	5,795	661,613
Allocation of indirect expenses	582	277	20,601	24,194		811	46,465
	$ 4,856	$ 2,258	$ 364,159	$ 322,442	$ 7,757	$ 6,606	$ 708,078

Schedule of Expenses - Sunrise & Other Management Contracts

Year Ended June 30, 2014

	Sunrise Administration Contract	Sunrise Billing Contract	Total
Salaries	$ 72,312	$ 12,044	$ 84,356
Payroll taxes & benefits	15,057	3,995	19,052
Contractual	49,321	18,700	68,021
Supplies, postage & other miscellaneous	1,273	1,280	2,553
Travel	228		228
Utilities	847		847
Equipment maintenance & lease	2,008	26	2,034
Insurance	4,142		4,142
Telephone	5,326	842	6,168
Billing		(41,063)	(41,063)
Facility	7,560	4,176	11,736
	158,074		158,074
Allocation of indirect costs	(158,074)		(158,074)
	$ -	$ -	$ -

Schedule of Expenses - Telemedicine Programs

Year Ended June 30, 2014

	Maine Telemedicine Services
Salaries	$ 87,576
Payroll taxes & benefits	14,462
Contractual	600
Supplies, postage & other miscellaneous	2,959
Travel	1,542
Equipment maintenance & lease	64
Insurance	3,017
Telephone	12,330
Depreciation & amortization	70,977
Conferences & training	1,445
Facility	2,616
	197,588
Allocation of indirect expenses	17,725
	$ 215,313

See independent auditors' report.

Schedule of Expenses - Administration & Facility

Year Ended June 30, 2014

	Administration	Billing	Total Administration	RMCL Facility	McCurdy Facility	Total Facility
Salaries	$ 189,447	$ 105,988	$ 295,435	$ 85,432		$ 85,432
Payroll taxes & benefits	46,569	19,764	66,333	28,886		28,886
Contractual	85,289	56,020	141,309	2,448		2,448
Supplies, postage & other miscellaneous	13,289	13,879	27,168	10,078	$ 12	10,090
Travel	1,786	89	1,875	4,398		4,398
Utilities				51,114	868	51,982
Equipment maintenance & lease	2,894	82	2,976	1,183		1,183
Insurance	3,015		3,015	15,283	570	15,853
Telephone	9,539	2,973	12,512			
Depreciation & amortization	2,536	587	3,123	49,719	1,504	51,223
Conferences & training	934	888	1,822			
Billing		(209,544)	(209,544)			
Facility	37,883	9,744	47,627	(248,541)	(2,954)	(251,495)
	393,181	470	393,651			
Allocation of indirect costs	(393,181)	(470)	(393,651)			
	$ -	$ -	$ -	$ -	$ -	$ -

See independent auditors' report.

Schedule of Expenditures of Department Agreements

Year Ended June 30, 2014

Department Office DHHS:	Agreement Number	Agreement Amount	Agreement Period	Agreement Service	Agreement Status	Federal Expenses	State Expenses	Total Federal/State Expenses
CDC	CDC-14-1565	**35,636**	10/15/13 - 06/30/14	Oral Health - Dental Clinic	Final	$ -	$ 35,401	$ 35,401
OSA	OSA-14-382	**91,847**	07/01/13 - 06/30/14	Substance Abuse Outpatient Services - Treatment	Final	-	81,103	81,103
						$ -	$ 116,504	$ 116,504

Notes:

Disclosures:
Is your Agency required to have a federal A-133 audit? Yes X No

See independent auditors' report.