

**Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)**

**Financial Statements,
Schedule of Expenditures of Federal and State
Awards, Internal Control and Compliance
and Independent Auditor's Reports**

March 31, 2014

**Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)**

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Independent Auditor's Report

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-County Community Health Council, Inc. (d/b/a CommWell Health) (the "Center") which comprise the statement of financial position as of March 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 auditor's 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 auditor considers 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of March 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 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 September 22, 2014, on our consideration of the Center'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.



New York, New York
September 22, 2014

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Statement of Financial Position
March 31, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 1,601,132
Certificates of deposit, at cost	980,568
Patient services receivable, net	1,853,925
DHHS grants receivable	282,757
Contracts receivable	250,664
Inventory	75,751
Other receivables	48,227

Total current assets 5,093,024

Property and equipment, net 6,899,898

Total assets \$ 11,992,922

Liabilities and Unrestricted Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$ 456,418
Accrued compensation	782,857
Refundable advances	183,762
Current portion of long-term debt	133,574

Total current liabilities 1,556,611

Long-term debt, less current portion 3,122,768

Total liabilities 4,679,379

Commitments and contingencies

Net assets:

Unrestricted net assets 7,313,543

Total liabilities and unrestricted net assets \$ 11,992,922

See Notes to Financial Statements.

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Statement of Activities and Changes in Net Assets
Year Ended March 31, 2014

Unrestricted revenue:	
Patient services revenue (net of contractual allowances and discounts)	\$ 7,535,039
Provision for bad debts	<u>(807,064)</u>
Net patient services revenue less provision for bad debts	6,727,975
DHHS grants	9,709,357
Contract services and other grants	1,230,578
Pharmacy	378,414
In-kind contributions	152,548
Other	<u>232,465</u>
Total unrestricted revenue	<u>18,431,337</u>
Expenses:	
Salaries and fringe benefits	10,272,261
Other than personnel services	5,521,159
Interest	<u>175,910</u>
Total expenses	<u>15,969,330</u>
Operating income prior to depreciation and amortization	2,462,007
Depreciation and amortization	<u>581,041</u>
Increase in unrestricted net assets	1,880,966
Unrestricted net assets:	
Beginning of year	<u>5,432,577</u>
End of year	<u><u>\$ 7,313,543</u></u>

See Notes to Financial Statements.

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Statement of Functional Expenses
Year Ended March 31, 2014

	Program Services	General and Administrative	Total
Salaries and wages	\$ 7,152,075	\$ 1,732,092	\$ 8,884,167
Fringe benefits	1,117,277	270,817	1,388,094
Consultants and contractual services	1,778,010	772,230	2,550,240
Insurance	64,388	21,893	86,281
Professional fees		76,520	76,520
Consumable supplies	1,156,519	23,317	1,179,836
Occupancy	364,731	87,284	452,015
Repairs and maintenance	149,847	36,321	186,168
Equipment rental	168,807	40,637	209,444
Printing and publications	17,796	4,314	22,110
Dues and subscriptions	45,414	8,780	54,194
Travel, conferences and meetings	68,398	98,249	166,647
Continuing education	24,407	8,009	32,416
Recruitment and retention	108,362	26,266	134,628
Telephone	204,623	49,599	254,222
Interest expense	140,728	35,182	175,910
Other	68,721	47,717	116,438
	<u>12,630,103</u>	<u>3,339,227</u>	<u>15,969,330</u>
Totals			
Depreciation and amortization	<u>476,242</u>	<u>104,799</u>	<u>581,041</u>
Total functional expenses	<u>\$ 13,106,345</u>	<u>\$ 3,444,026</u>	<u>\$ 16,550,371</u>

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Statement of Cash Flows
Year Ended March 31, 2014

Cash flows from operating activities:	
Cash received from patient services	\$ 5,970,704
Cash received from DHHS grants	9,721,907
Cash received from contract services and other grants	1,305,132
Cash received from other	228,907
Cash paid to employees	(10,206,236)
Cash paid to vendors	(5,256,851)
Cash paid for interest	(175,910)
Net cash provided by operating activities	1,587,653
Cash flows from investing activities:	
Purchase of property and equipment	(137,955)
Purchase of certificates of deposit	(401,339)
Net cash used in investing activities	(539,294)
Cash flow from financing activity - principal payments on long-term debt	(339,565)
Net increase in cash and cash equivalents	708,794
Cash and cash equivalents, beginning of year	892,338
Cash and cash equivalents, end of year	\$ 1,601,132
Reconciliation of increase in unrestricted net assets to net cash provided by operating activities:	
Increase in unrestricted net assets	\$ 1,880,966
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	581,041
Provision for bad debts	807,064
Changes in operating assets and liabilities:	
Patient services receivable	(1,942,749)
DHHS grants receivable	12,550
Contracts receivable	131,292
Inventory	224,057
Other receivables	(3,558)
Accounts payable and accrued expenses	(112,297)
Accrued compensation	66,025
Refundable advances	(56,738)
Net cash provided by operating activities	\$ 1,587,653

See Notes to Financial Statements.

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Notes to Financial Statements
March 31, 2014

Note 1 - Organization

Tri County Community Health Council, Inc. (d/b/a CommWell Health) (the "Center") operates health centers in Sampson, Johnston, Wayne, Brunswick, Pender and Bladen Counties, North Carolina. The Center provides a broad range of health and human services to a largely medically underserved population in the North Carolina townships of Newton Grove, Salemburg, Dublin, Penderlea, Four Oaks, Ocean Isle Beach, Tar Heel, Harrells, Goldsboro, Smithfield, McGee's Crossroads and Clinton.

The U.S. Department of Health and Human Services ("DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Note 2 - Summary of significant accounting policies

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of net assets

The Center reports information regarding its financial position and activities according to the following three categories:

Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Center and an outside party other than a donor or grantor.

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions. There are no temporarily restricted net assets at March 31, 2014.

Permanently restricted net assets are assets which are not expendable. Income and/or appreciation on the investments of these net assets are either unrestricted or temporarily restricted based on donor-imposed stipulations or by operation of law. There are no permanently restricted net assets at March 31, 2014.

Tri-County Community Health Council, Inc.
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Notes to Financial Statements
March 31, 2014

Cash and cash equivalents

The Center maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally insured limits. The Center has not experienced any losses in such accounts. At March 31, 2014, the Center's cash balance exceeds Federally-insured limits by approximately \$2,400,000. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Patient services receivable and concentration of credit risk

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off against the allowance for doubtful accounts when deemed uncollectable. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

DHHS grants and contracts receivable

DHHS grants and contracts receivable consists of costs under the grant and contract agreements which were incurred prior to year-end for which payment has not been received. DHHS grants and contracts receivable credit risk is limited due to the nature of the DHHS grants and contracts. The Center regularly monitors its DHHS grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Center considers all DHHS grants and contracts as collectible.

Property and equipment

Property and equipment are recorded at cost, or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment in excess of \$5,000.

Tri-County Community Health Council, Inc.
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Notes to Financial Statements
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According to Federal regulations, any property and equipment items obtained through Federal funds are subject to a lien by the Federal government. Provided that the Center maintains its tax-exempt status and the property and equipment are used for their intended purpose, the Center is not required to reimburse the Federal government. If the stated requirements are not met, the Center would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

Maintenance, repairs and other minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in change in net assets.

Impairment of long-lived assets

The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Center compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset's carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Center does not believe that any material impairment currently exists related to its long-lived assets.

Inventory

Inventory consists primarily of pharmaceuticals and is stated at the lower of cost (determined by specific identification) or market.

Patient services revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments, if applicable, under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable care deducted to arrive at gross self-pay patient revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before provision for bad debts.

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Notes to Financial Statements
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Pharmacy revenue is generated through the 340B program that the Center operates internally. Under this program, the Center manages two pharmacies at different Center sites. This program allows the Center to offer discounted medications to eligible patients. The Center recognizes pharmacy revenue as prescriptions are filled for the self pay population and upon adjudication from other third-party payors.

Charity care and community benefit

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. 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. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Community benefit represents the cost of services for Medicaid, Medicare and other public patients for which the Center is not reimbursed.

Based on the cost of patient services, charity care approximated \$4,800,000 and community benefit approximated \$1,200,000 for the year ended March 31, 2014.

Grants and contracts

Revenue from government grants and contracts designated for use in specified activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Grant and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At March 31, 2014, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$1,531,704 that have not been recorded in the accompanying financial statements as they have not yet been earned. These grants and contracts require the Center to provide certain services during specified periods. If such services and capital expenditures are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Contributions

Contributions are recorded at fair value when received or pledged. Amounts are recorded as temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted

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**Notes to Financial Statements
March 31, 2014**

net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions.

In-kind contributions

In-kind contributions consist of donated pharmaceuticals, space rent and property, and are recorded at fair value in the statement of activities and changes in net assets as both revenue and expenses.

Meaningful use incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of six years and be disbursed based on a transitional schedule. The Center's providers have met the criteria for Stage 1 and have earned \$212,500 from the Medicaid incentive program for the year ended March 31, 2014 and is included in other revenue on the statement of activities and changes in net assets.

Interest earned on Federal funds

Interest earned on Federal funds is recorded as a payable to the United States Public Health Service ("PHS") in compliance with the regulations of the United States Office of Management and Budget.

Functional expenses

Expenses are charged to program services or general and administrative based on a combination of specific identification and allocation by management.

Performance indicator

The statement of activities and changes in net assets includes increase in unrestricted net assets as the performance indicator.

Tax status

The Center was incorporated as a not-for-profit corporation under the laws of the State of North Carolina and is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Center has no unrecognized tax benefits at March 31, 2014. The Center's Federal and state income tax returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

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Notes to Financial Statements
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The Center recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the statement of financial position.

Subsequent events

The Center has evaluated subsequent events through September 22, 2014, which is the date the financial statements were available to be issued.

Note 3 - Patient services receivable, net

Patient services receivable, net consist of the following:

Medicaid	\$1,681,017
Medicare	122,311
Other third-party payors	378,552
Self-pay	<u>380,835</u>
	2,562,715
Less allowance for doubtful accounts	<u>708,790</u>
Total	<u>\$1,853,925</u>

Patient services receivable is reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services 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 example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). 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 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 or the discounted rates provided by the Center's policy 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 was 28 percent of patient services receivable at March 31, 2014. The Center had material write-offs in the amount of \$2,449,554 for the year ended March 31, 2014. The Center has not changed its charity care or uninsured discount policies during fiscal year 2014.

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**Notes to Financial Statements
March 31, 2014**

Note 4 - Contracts receivable

Contracts receivable consist of the following:

North Carolina Department of Health and Human Services:	
Women, Infants, and Children Program	\$ 37,917
HIV Pre/Post Test Counseling	11,731
Community Health Grant	102,520
Eastpointe Human Services:	
Substance Abuse Cross Area Service Program (CASP) Non-UCR	57,904
Walk-In Crisis Center Funding	16,667
SAPTBG HIV Drug Non-UCR Eastpointe LME	7,159
Other	<u>16,766</u>
Total	<u>\$250,664</u>

Note 5 - Property and equipment, net

Property and equipment, net, consists of the following:

Land	\$ 173,051
Land improvements	718,459
Building	6,369,966
Equipment	3,049,571
Vehicles	<u>301,983</u>
Total	10,613,030
Less accumulated depreciation and amortization	<u>3,713,132</u>
Total	<u>\$6,899,898</u>

In the event the DHHS grants are terminated, DHHS reserves the right to have the Federal interest in all assets purchased with grant funds transferred to PHS or third parties.

Note 6 - Refundable advances

Refundable advances consist of the following:

Kate B. Reynolds Diabetes	\$156,762
City of Goldsboro	<u>27,000</u>
Total	<u>\$183,762</u>

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**Notes to Financial Statements
March 31, 2014**

Note 7 - Line of credit

The Center has an unsecured revolving line of credit with a bank in the amount of \$500,000 maturing on January 30, 2015. Interest is payable monthly and is computed at the prime rate, 3.25% at March 31, 2014, plus 1% with a minimum of 5.75%. There was no outstanding balance as of March 31, 2014.

Note 8 - Long-term debt

Long-term debt consists of the following:

Installment loan agreement with the United States Department of Agriculture payable in annual installments of \$56,005 including interest of 4.75%, with a final payment of all outstanding principal and interest due December 2033. Secured by an interest in all rents, revenues, fees, charges, assessments, and all income derived in connection with the operation of the facilities. The Center entered into this Rural Development loan agreement with the United States Department of Agriculture in 2001, for which they are required to make monthly deposits into a reserve account in an amount equal to ten percent of the Rural Development payment. The deposits are to be made on a monthly basis until the reserve account has an amount equal to the equivalent of one year of principal payments. At March 31, 2014, the reserve account balance of \$60,818 exceeded one year of principal payments and is included in certificates of deposit, at cost in the statement of financial position.	\$ 691,092
Promissory Note - \$3,297,733 face amount, payable in monthly installments of \$22,500 including interest at prime rate, (3.25% as of March 31, 2014) plus 1% with a minimum of 5.25% per annum, with a balloon payment due September 10, 2018. This loan is secured by two real estate properties.	<u>2,565,250</u>
Total	3,256,342
Less current portion	<u>133,574</u>
Long-term portion	<u><u>\$3,122,768</u></u>

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Notes to Financial Statements
March 31, 2014

Principal payment requirements on the above obligations in each of the five years subsequent to March 31, 2014 and thereafter are as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2015	\$ 133,574
2016	140,284
2017	159,571
2018	156,719
2019	2,103,556
Thereafter	<u>562,638</u>
Total	<u>\$ 3,256,342</u>

The Center is required to comply with certain covenants under its long-term debt obligations.

Note 9 - Patient services revenue (net of contractual allowances and discounts)

The Center recognizes patient services revenue associated with services provided to patients who have Medicaid, Medicare, and third party payor coverage on the basis of contractual rates for services rendered. For uninsured self pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates provided by the Center's policy. Charity care services are computed using a sliding fee scale based on patient income and family size. 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. Thus, the Center records a provision for bad debts related to uninsured patients in the period the services are provided. Patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

Medicaid (includes Medicaid settlement of \$1,480,896)	\$2,404,740
Medicare	391,935
Other third party	1,004,935
Self-pay	<u>3,733,429</u>
Total	<u>\$7,535,039</u>

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

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Notes to Financial Statements
March 31, 2014

Note 10 - DHHS grants

For the year ended March 31, 2014, the Center received the following grants from the DHHS:

<u>Grant Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Recognized</u>
6H80CS00655-12-18	4/01/13 - 3/31/14	\$9,150,326	\$8,248,662
6H76HA00547-14-03	4/01/13 - 3/31/14	574,970	302,164
6H12HA24821-01-02	8/01/12 - 7/31/13	476,196	213,002
5H12HA24821-02-00	8/01/13 - 7/31/14	451,572	323,235
5H79TI019896-05REV	9/30/12 - 1/31/14	450,000	324,281
1H97HA24961-01-00	9/30/12 - 8/31/13	299,935	164,874
5H97HA24961-02-00	9/30/13 - 8/31/14	299,935	<u>133,139</u>
Total			<u><u>\$9,709,357</u></u>

Note 11 - Contract services and other grants

For the year ended March 31, 2014, contract services and other grants consist of the following:

North Carolina Department of Health and Human Services:		
Women, Infants, and Children Program		\$ 261,379
HIV Pre/Post Test Counseling		47,228
Community Health Grant		160,967
Eastpointe Human Services:		
Substance Abuse Cross Area Service Program (CASP) Non-UCR		457,006
Walk-in Crisis Center Funding		81,988
SAPTBG HIV Drug Non-UCR Eastpointe LME		57,093
Robeson County Department of Health:		
Ryan White Part B		72,854
Kate B Reynolds Diabetes		54,856
Smithfield Corporation		22,011
Other		<u>15,196</u>
Total		<u><u>\$1,230,578</u></u>

Note 12 - In-kind contributions

In-kind contributions consist of the following for the year ended March 31, 2014:

Donated pharmaceuticals	\$ 74,675
Donated rent	65,400
Donated property	<u>12,473</u>
Total	<u><u>\$152,548</u></u>

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Notes to Financial Statements
March 31, 2014

Note 13 - Pension plan

The Center maintains a defined contribution pension plan covering all employees who meet certain eligibility requirements. The Center, at its discretion, may elect to match a portion of the employees' contributions and may also elect to make profit-sharing contributions to the plan. The Center did not make any contributions during the year ended March 31, 2014.

Note 14 - Commitments and contingencies

The Center has contracted with various funding agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the Federal and state governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by the Federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for reimbursing the agencies for the amounts in question.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. There are no known claims or incidents that may result in assertion of additional claims arising from services provided to patients as of March 31, 2014.

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers.

The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amounts in question.

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Notes to Financial Statements
March 31, 2014

The Center leases various facilities under noncancellable operating leases, the longest lease of which expires in October 2020. Rent expense for the year ended March 31, 2014 amounted to \$246,920. Future minimum lease payments under these operating leases are as follows:

Year ending March 31:	
2015	\$163,931
2016	86,818
2017	70,026
2018	64,026
2019	64,026
Thereafter	<u>90,700</u>
	<u>\$539,527</u>

Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Schedule of Expenditures of Federal and State Awards
Year Ended March 31, 2014

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Grantor's Number	Federal and State Expenditures
Federal awards:			
U.S. Department of Health and Human Services:			
Direct programs:			
Health Center Cluster:			
Consolidated Health Centers	93.224	N/A	\$ 3,735,106
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	N/A	<u>4,513,556</u>
Subtotal Health Center Cluster			<u>8,248,662</u>
Substance Abuse and Mental Health Service-Projects of Regional and National Significance	93.243	N/A	<u>324,281</u>
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	N/A	<u>536,237</u>
Special Projects of National Significance	93.928	N/A	<u>298,013</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	308,068
Passed through Robeson Health Care Corporation:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>5,581</u>
Total - CFDA 93.918			<u>313,649</u>
Passed through North Carolina Department of Health and Human Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	27309	47,228
Passed through Eastpointe Human Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	<u>57,093</u>
Total - CFDA 93.959			<u>104,321</u>
Passed through Robeson County Department of Public Health:			
HIV Care Formula Grants	93.917	N/A	<u>72,854</u>
 Total U.S. Department of Health and Human Services			 9,898,017
U.S. Department of Agriculture:			
Passed through North Carolina Department of Health and Human Services:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	00027570/ 29486	<u>261,379</u>
Total Federal awards			<u>\$ 10,159,396</u>
State awards:			
State of North Carolina Grant Programs:			
N.C. Department of Health and Human Services - Community Health Grant		00027942/ 00029413	\$ 160,967
Substance Abuse Cross Area Service Program (CASP) Non-UCR		09-E29-EP06	457,006
Walk-in Crisis Center Funding		N/A	81,988
Angelic House Respite Bed		N/A	<u>13,750</u>
Total state awards			<u>\$ 713,711</u>

See Notes to Schedule of Expenditures of Federal and State Awards.

**Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)**

**Notes to Schedule of Expenditures of Federal and State Awards
March 31, 2014**

Note 1 - General Information

The accompanying schedule of expenditures of Federal and state awards (the "Schedule") presents the activities in all Federal and state awards of Tri-County Community Health Council, Inc. (d/b/a CommWell Health) (the "Center"). All financial assistance received directly from the Federal and state agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the Schedule.

Note 2 - Basis of accounting

The accompanying Schedule is presented using the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal and state funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

Note 3 - Relationship to basic financial statements

Federal expenditures are reported on the statement of functional expenses. In certain programs, the revenues reported in the basic financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency-matching or in-kind contributions which are not included in the Schedule.

Note 4 - Outstanding loan

At March 31, 2014, the Center has an outstanding loan with the U.S. Department of Agriculture as follows:

<u>Program Title</u>	<u>CFDA No.</u>	<u>Amount</u>
Community Facilities Loans and Grants	10.766	\$ 691,092

The Center is required to maintain a reserve account equivalent to one year of principal payments. At March 31, 2014, the reserve account balance of \$60,818 exceeded one year of principal payments and is included in certificates of deposit, at cost in the statement of financial position.

Note 5 - Subrecipients

Of the Federal and state expenditures presented in this Schedule, the Center provided no Federal and state awards to subrecipients for the year ended March 31, 2014.

Independent Auditor's 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 Directors
Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tri-County Community Health Council, Inc. (d/b/a CommWell Health) (the "Center"), which comprise the statement of financial position as of March 31, 2014, and the related statements of activities and changes in net assets, 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 September 22, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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*.

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.

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York
September 22, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Report on Compliance for Each Major Federal Program

We have audited Tri-County Community Health Council, Inc.'s. (d/b/a CommWell Health) (the "Center") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("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 March 31, 2014. The Center's major Federal programs are identified in the summary of auditor's 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.

Auditor's 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 March 31, 2014.

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 each 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



New York, New York
September 22, 2014

Independent Auditor's Report on Compliance for Each Major State Program
and Report on Internal Control Over Compliance in Accordance with
OMB Circular A-133 and the State Single Audit Implementation Act

To the Board of Directors
Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)

Compliance

We have audited Tri-County Community Health Council, Inc.'s (d/b/a CommWell Health) (the "Center") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Center's major state program for the year ended March 31, 2014. The Center's major state program is identified in the summary of auditor's 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 state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Center's major state program 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 and applicable sections of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 state 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 the major state program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major State 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 its major state program for the year ended March 31, 2014.

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 state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act, 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 state 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 state 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 state 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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 results of that testing based on the requirements of OMB Circular A-133 and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.



New York, New York
September 22, 2014

**Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)**

**Schedule of Findings and Questioned Costs
Year Ended March 31, 2014**

Section I - Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued: Unmodified

- 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 auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes ✓ no

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	U.S. Department of Health and Human Services:
	Health Center Cluster:
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program
93.243	Substance Abuse and Mental Health Service - Projects of Regional and National Significance
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish between type A and B programs: \$304,781

Auditee qualified as low-risk auditee? yes ✓ no

**Tri-County Community Health Council, Inc.
(d/b/a CommWell Health)**

**Schedule of Prior Year's Findings
Year Ended March 31, 2014**

There were no findings reported in the 2013 OMB Circular A-133 report.