

**Western North Carolina Community
Health Services, Inc.
Asheville, North Carolina**

Financial Statements

December 31, 2012

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**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Directors
Western North Carolina Community Health Services, Inc.
Asheville, North Carolina

We have audited the accompanying financial statements of Western North Carolina Community Health Services, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2012 and the related statements of activities, 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. 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 Western North Carolina Community Health Services, Inc. as of December 31, 2012, 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.

Report on Summarized Comparative Information

We have previously audited the Western North Carolina Community Health Services, Inc.'s 2011 financial statements, and our report dated October 8, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 July 17, 2013, on our consideration of Western North Carolina Community Health Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 Western North Carolina Community Health Services, Inc.'s internal control over financial reporting and compliance.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
July 17, 2013

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2012
with comparative totals as of December 31, 2011

	2012	2011
Assets		
Current Assets:		
Cash	\$ 2,283,432	\$ 1,013,717
Grants receivable	350,463	490,595
Accounts receivable	528,580	416,956
Sales tax refund receivable	62,733	22,007
Prepaid expenses	17,943	14,056
Inventory	90,446	96,091
Notes receivable, current	62,088	-
Total current assets	3,395,685	2,053,422
Property and equipment, net	3,103,605	3,639,239
Other Assets:		
Notes receivable	581,686	-
	\$ 7,080,976	\$ 5,692,661
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,450,411	\$ 1,101,464
Promissory note	31,500	31,500
Line of credit	393,297	369,484
Capital leases, current	69,843	61,051
Notes payable, current	37,429	592,000
Total current liabilities	1,982,480	2,155,499
Long-term Liabilities:		
Capital leases	100,397	93,382
Notes payable	780,096	388,818
Total liabilities	2,862,973	2,637,699
Net Assets:		
Unrestricted	4,218,003	3,054,962
Temporarily restricted	-	-
Total net assets	4,218,003	3,054,962
	\$ 7,080,976	\$ 5,692,661

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

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2012

with comparative totals for the year ended December 31, 2011

	2012	2011
Unrestricted net assets		
Revenues and support:		
Service fee revenue	\$ 11,381,460	\$ 10,099,449
Federal, state and local grants	6,717,425	6,811,177
United Way	88,355	109,663
Contributions and other	111,533	37,803
In-kind rent assistance	477,000	477,000
Gain (loss) on disposal and sale of property	283,178	(204)
Total	19,058,951	17,534,888
Temporarily restricted assets satisfying program requirements	-	-
Total unrestricted revenues and support	19,058,951	17,534,888
Functional expenses:		
Program services	16,822,249	15,712,652
Supporting services	1,073,661	946,612
Total expenses	17,895,910	16,659,264
Increase in unrestricted net assets	1,163,041	875,624
Temporarily restricted net assets		
Net assets released from restrictions	-	-
Increase in temporarily restricted net assets	-	-
Increase in net assets	1,163,041	875,624
Net assets, beginning of year	3,054,962	2,179,338
Net assets, end of year	\$ 4,218,003	\$ 3,054,962

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

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2012

with comparative totals for the year ended December 31, 2011

	Program Services		
	Primary Care	Dental	Pharmacy
Salaries	\$ 4,862,826	\$ 1,485,120	\$ 1,375,948
Payroll taxes and employee benefits	683,462	211,469	203,611
Contracted services	119,602	3,319	3,319
Training and education	26,926	2,080	637
Supplies	176,565	118,996	9,372
Pharmacy and lab expense	140,956	61,644	3,574,521
Client food, transportation and assistance	-	-	-
Consultant services	4,607	-	-
Printing and postage	34,053	11,351	11,351
Telephone	33,904	13,562	20,342
Information technology	39,244	15,697	23,546
Utilities	60,675	15,169	15,169
Repair and maintenance	70,701	20,933	9,264
Rent	9,030	-	9,030
Rent (in-kind)	400,000	-	77,000
Dues and subscriptions	-	-	-
Tax and licenses	13,596	161	1,255
Legal and accounting	38,965	12,988	4,329
Miscellaneous	4,498	1,285	1,285
Travel	44,155	11,039	11,039
Depreciation	246,769	92,295	18,064
Insurance	38,137	9,534	3,178
Interest	58,421	9,737	14,605
Total	\$ 7,107,092	\$ 2,096,379	\$ 5,386,865

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

		<u>Supporting Services</u>		
<u>Ancillary Program</u>	<u>Program Services Total</u>	<u>General & Admin</u>	<u>2012 Total</u>	<u>2011 Total</u>
\$ 675,573	\$ 8,399,467	\$ 548,022	\$ 8,947,489	\$ 7,658,039
113,100	1,211,642	89,397	1,301,039	1,215,770
276,344	402,584	6,638	409,222	753,037
-	29,643	8,729	38,372	26,060
62,470	367,403	24,993	392,396	125,862
-	3,777,121	-	3,777,121	4,024,168
1,023,829	1,023,829	-	1,023,829	851,245
-	4,607	-	4,607	6,000
11,351	68,106	45,404	113,510	22,072
-	67,808	67,808	135,616	131,027
-	78,487	78,487	156,974	144,246
15,169	106,182	45,506	151,688	83,807
33,087	133,985	13,235	147,220	178,285
-	18,060	7,740	25,800	94,014
-	477,000	-	477,000	477,000
-	-	6,498	6,498	5,133
-	15,012	1,950	16,962	28,712
8,659	64,941	21,647	86,588	88,844
1,928	8,996	3,855	12,851	64,015
-	66,233	7,359	73,592	47,228
7,225	364,353	72,254	436,607	425,778
3,178	54,027	9,534	63,561	122,466
-	82,763	14,605	97,368	86,456
\$ 2,231,913	\$ 16,822,249	\$ 1,073,661	\$ 17,895,910	\$ 16,659,264

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

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

with comparative totals for the year ended December 31, 2011

	2012	2011
Cash Flows from Operating Activities:		
Increase in net assets	\$ 1,163,041	\$ 875,624
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	436,607	425,778
(Gain) loss on disposal or sale of property and equipment	(283,178)	204
Net change in operating assets and liabilities:		
Grants receivable	140,132	(490,595)
Accounts receivable	(111,624)	(144,410)
Sales tax refund receivable and prepaid expenses	(44,613)	24,332
Inventory	5,645	(4,306)
Accounts payable and accrued expenses	348,947	464,621
	<u>1,654,957</u>	<u>1,151,248</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(364,612)	(280,600)
Proceeds from sale of property	150,784	-
Collections on notes receivable	26,226	-
	<u>(187,602)</u>	<u>(280,600)</u>
Cash Flows from Financing Activities:		
Proceeds from credit lines, net	23,813	19,484
Capital lease principal payments	(58,160)	(81,254)
Note principal payments	(163,293)	(85,352)
	<u>(197,640)</u>	<u>(147,122)</u>
Cash used by financing activities		
	<u>(197,640)</u>	<u>(147,122)</u>
Net increase in cash	1,269,715	723,526
Cash, beginning of year	<u>1,013,717</u>	<u>290,191</u>
Cash, end of year	<u>\$ 2,283,432</u>	<u>\$ 1,013,717</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	<u>\$ 97,368</u>	<u>\$ 86,456</u>

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

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

Note 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

Western North Carolina Community Health Services, Inc. (the Organization) was established to provide primary health care and social support services to low-income residents of its service area. The Organization receives federal, state and county funding, as well as support from a variety of foundations and other organizations. Program services include outpatient primary medical, dental, and behavioral health care, pharmacy, social work, and housing assistance for persons with disabilities.

Basis of Accounting

The financial statements of the Organization are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization has presented its financial statements in accordance with FASB Accounting Standards Codification (ASC) 958. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions and are expendable resources that are currently available at the discretion of the Organization.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions as to the purpose and/or time of use. The Organization had no temporarily restricted net assets as of December 31, 2012.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the asset be maintained permanently by the Organization. The Organization had no permanently restricted net assets as of December 31, 2012.

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.

Inventory

Inventory consists primarily of prescription medications and other medical supplies. Inventory is stated at the lower of cost (determined by the first-in, first-out method) or market value.

Cash

The Organization considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of these financial instruments.

Property and Equipment

Property and equipment are recorded at cost if purchased or at their estimated fair value at the date of the gift, if donated. Such donations are reported as unrestricted support unless donated for a specific purpose. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which generally range from five to thirty years.

Income Tax Status

Western North Carolina Community Health Services, Inc. was incorporated in 1993 as a nonprofit corporation under the laws of the State of North Carolina. It qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal income taxes except for income from its unrelated business activities. In addition, the Organization has been classified as a publicly supported organization that is not a private foundation under Section 509(a)(1).

Tax Positions

The Organization follows the provisions of "Accounting for Uncertainty in Income Taxes" issued by the Financial Accounting Standards Board (FASB) which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of nonprofit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Organization's financial statements.

The Organization analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and board members, the reporting of unrelated business income, and its status as a tax-exempt organization under North Carolina state statute. The Organization does not know of any tax benefits arising from uncertain tax positions, and there was no effect on the Organization's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after December 31, 2009 remain subject to examination by federal and state authorities.

Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. All of the Company's non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage reverted to \$250,000 per depositor at each financial institution, and the non-interest bearing cash balances may again exceed federally insured limits.

Donated Services

A number of volunteers have donated a significant amount of time to the Organization's operations and program services. No amounts have been reflected in the accompanying financial statements for these donated services, as there is no objective basis available to measure the value of such services.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their nature and expenditure classification. Other expenses that are common to two or more functions are allocated based on management's estimate of the program activities benefited. General and administrative provide for the overall support and direction of the Organization.

Subsequent Events

The Organization evaluated the effects subsequent events would have on the financial statements through July 17, 2013, which is the date the financial statements were available to be issued.

Note 2 – Accounts and Grants Receivable

All recorded receivables are due within one year and are expected to be received. Based on management's experience, amounts due from individual patients are generally not recoverable, and, therefore, are not recorded as receivables for financial statement purposes.

Grants receivable consisted of the following at December 31, 2012:

U.S. Department of Health and Human Services	\$ 232,757
U.S. Department of Housing and Urban Development	<u>117,706</u>
Total grants receivable	<u>\$ 350,463</u>

Accounts receivable consisted of the following at December 31, 2012:

Third party (Medicaid, etc.) receivables	\$ 524,380
Client receivables	<u>4,200</u>
Total accounts receivable	<u>\$ 528,580</u>

Note 3 – Notes Receivable

During 2012, the Organization sold their land and building located at 10 Ridgelawn Road in Asheville for \$550,000. The Organization incurred selling expenses of \$28,826, received cash in the amount of \$81,174 and received a note receivable for \$440,000. The note requires monthly installments of \$6,529, including interest at 5.0% per annum, maturing in 2014. A gain of \$114,450 was recorded on the sale.

During 2012, the Organization sold their land and building located at 264 Haywood Road in Asheville for \$320,000. The Organization incurred selling expenses of \$20,390, received cash in the amount of \$69,610 and received a note receivable for \$230,000. The note requires monthly installments of \$1,235, including interest at 5.0% per annum, maturing in 2015. A gain of \$169,247 was recorded on the sale.

Notes receivable consisted of the following at December 31, 2012:

Note receivable #1	\$ 416,327
Note receivable #2	<u>227,447</u>
	643,774
Less: Notes receivable, current	<u>(62,088)</u>
Notes receivable, long-term	<u>\$ 581,686</u>

Note 4 – Restrictions On Assets

Restrictions on assets relate primarily to grant funds received or receivable that have been designated or promised as support for future periods. Accordingly, these funds would be reflected as temporarily restricted net assets in these financial statements. However, if grant restrictions expire in the same reporting period that the contribution was made, such contribution is reported as unrestricted support in the statement of activities. There were no temporary restricted assets as of December 31, 2012.

Note 5 – Property and Equipment

Property and equipment consisted of the following at December 31, 2012:

Land, buildings, and leasehold improvements	\$ 3,099,709
Vehicles	113,184
Medical and dental equipment	636,545
Office equipment	1,079,901
Furniture and fixtures	<u>153,160</u>
	5,082,499
Accumulated depreciation	<u>(1,978,894)</u>
	<u>\$ 3,103,605</u>

Depreciation charged to expense was \$436,607.

Note 6 – Notes Payable and Credit Lines

Notes payable consisted of the following at December 31, 2012:

Mortgage note payable to bank in monthly installments of \$1,473, including interest at 6.25% per annum, maturing in 2015.	\$ 149,100
Mortgage note payable to bank in monthly installments of \$1,668, including interest at 7.40% per annum, maturing in 2016.	167,142
Mortgage note payable to bank in monthly installments of \$3,653, including interest at 3.85% per annum, maturing in 2018.	<u>501,283</u>
	<u>\$ 817,525</u>

Annual note payable payments as of December 31, 2012 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 37,429	\$ 46,088
2014	43,468	38,062
2015	167,335	29,240
2016	169,393	20,296
2017	28,951	14,889
2018	<u>370,949</u>	<u>4,713</u>
	<u>\$ 817,525</u>	<u>\$ 153,288</u>

Credit lines consisted of the following at December 31, 2012:

Credit agreement to a finance company with current minimum month installments of approximately \$500, including interest at 3.25% per annum.	\$ 43,297
Working capital credit line of \$350,000 with a local bank with interest at 5% per annum, maturing in August 2013.	<u>350,000</u>
	<u>\$ 393,297</u>

Note 7 – Capital Lease Commitments

The Organization leases telephone and computer equipment under three separate capital leases expiring through 2017. Depreciation of the assets under capital leases is included in depreciation expenses. The cost of assets under capital leases was approximately \$360,000 and accumulated depreciation was approximately \$198,000 at December 31, 2012.

Capital lease liability consisted of the following at December 31, 2012:

Capital lease payable to vendor in monthly installments of \$4,194, including interest at 12.21% per annum, maturing in 2014.	\$ 82,298
Capital lease payable to vendor in monthly installments of \$913, including interest at 28.19% per annum, maturing in 2014.	15,000
Capital lease payable to vendor in monthly installments of \$1,475, including interest at 7.288% per annum, maturing in 2017.	<u>72,942</u>
	<u>\$ 170,240</u>

Future minimum payments, including interest, under all non-cancellable capital leases as of December 31, 2012 are as follows:

2013	\$	87,037
2014		62,746
2015		17,697
2016		17,697
2017		<u>13,272</u>
Total minimum lease payments		198,449
Less amounts representing interest		<u>(28,209)</u>
Total minimum lease payments principal	\$	<u>170,240</u>

Note 8 – Promissory Notes

The Organization has entered into an agreement prior to 2012 with the North Carolina Housing Finance Agency to sponsor a group home project. The Agency advanced the Organization \$31,500, as evidenced by loan agreements and promissory notes, to provide start up financial assistance for the project.

Note 9 – In-Kind Rent Assistance and Future Rental Options

The Organization renovated 257 Biltmore Avenue; a property owned by Buncombe County, in 2009 and moved its healthcare operations to the location in January 2010. Buncombe County initially agreed to accept \$1 per year for the initial lease term of July 2009 to June 2012. The parties agreed that the discounted market rental amount is \$15 per square foot or \$477,000 per year. The difference between the rent paid and the market rent is reported as an in-kind rent assistance of \$477,000.

The first lease renewal for these premises was instituted in July 2012 and extended the lease through June 2014 at the same terms of \$1 per year. The Organization agreed to provide their services for an additional 1,000 patients annually through June 2014. Unless these terms are extended beyond 2014, the Organization can lease the property starting in July 2014 at \$40,000 a month through June 2018. The Organization has the option to purchase the property at any time during the lease for the purchase price of \$4,090,000.

Note 10 – Summarized Financial Information for 2011

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Note 11 - Reclassifications for 2011

Certain 2011 items have been reclassified in order to conform with the 2012 financial statement presentation.

Note 12 – Concentration of Revenue and Support

Revenues and support for the year ended December 31, 2012 include revenues from the major sources together with the receivable due from these sources as of December 31, 2012 as follows:

	<u>Revenues</u>	<u>Receivable</u>
Service fee revenues	\$ 11,386,399	\$ 528,580
Buncombe County (includes in-kind rent assistance)	3,196,746	-
U.S. Department of Health and Human Services	2,791,226	232,757
U.S. Department of Housing and Urban Development	1,036,233	117,706
All other sources	<u>653,286</u>	<u>-</u>
Total	<u>\$ 19,063,890</u>	<u>\$ 879,043</u>

In 2012, the Organization received 37% of its support from three sources – federal funding pass through grant funding provided by the U.S. Department of Health and Human Services and U.S. Department of Housing and Urban Development and various grants from Buncombe County. The service fee revenues represent 60% of the Organization's total 2012 revenue. Service fee revenue consists primarily of Medicare and Medicaid revenue (46% and 37% of service fee revenue, respectively).

Note 13 – Supplemental Schedule of Noncash Investing and Financing Activities

During the year, the Organization had noncash investing activities of \$670,000 related to the sale of two properties in exchange for promissory notes (see also Note 3).

Also, the Organization had noncash investing and financing activities of \$73,967 for the lease of key equipment through capital lease financing.

Note 14 – Risks and Uncertainties

The Organization is engaged primarily in providing health care and housing opportunities to residents in its service area without regard to the residents' ability to pay. Since a substantial amount of its support is from federal, state and local governments and Medicare and Medicaid funding, any significant reduction in the level of this support could have an adverse effect on the Organization's programs.

Funding for its programs is from the U.S. Department of Health and Human Services (15%) and the U.S. Department of Housing and Urban Development (5%). Periodic audits of these grants and other federal and state funding may occur in the future and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds would be immaterial. No provision has been made in the accompanying financial statements for this potential refund of grant monies.

COMPLIANCE SECTION



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

**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
Western North Carolina Community Health Services, Inc.
Asheville, North Carolina

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 Western North Carolina Community Health Services, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Western North Carolina Community Health Services, Inc.'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 Western North Carolina Community Health Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the internal control over financial reporting 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 financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Western North Carolina Community Health Services, Inc.'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matter that we reported to management of the Organization in a separate letter dated July 17, 2013.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
July 17, 2013



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report On Compliance For Each Major Program
And On Internal Control Over Compliance Required By OMB Circular A-133**

To the Board of Directors
Western North Carolina Community Health Services, Inc.
Asheville, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Western North Carolina Community Health Services, Inc.'s 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 Western North Carolina Community Health Services, Inc.'s major federal programs for the year ended December 31, 2012. Western North Carolina Community Health Services, Inc.'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 Western North Carolina Community Health Services, Inc.'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 Western North Carolina Community Health Services, Inc.'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 Western North Carolina Community Health Services, Inc.'s compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Western North Carolina Community Health Services, Inc. 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 December 31, 2012.

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 questioned costs as item 12-1. Our opinion on each major federal program is not modified with respect to these matters.

Western North Carolina Community Health Services, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Western North Carolina Community Health Services, Inc.'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 Western North Carolina Community Health Services, Inc. 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 Western North Carolina Community Health Services, Inc.'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 Western North Carolina Community Health Services, Inc.'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 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 significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 12-2 that we consider to be a significant deficiency.

Board of Directors
Western North Carolina Community Health Services, Inc.

Western North Carolina Community Health Services, Inc.'s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Western North Carolina Community Health Services, Inc.'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 results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
July 17, 2013

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2012

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Grant Number</u>	<u>Expenditures</u>
<u>Federal Grants:</u>			
<u>U.S. Department of Health and Human Services:</u>			
Direct:			
Ryan White (Part C) Outpatient EIS Program	93.918	-	\$ 657,867
Ryan White Title IV Program	93.153	-	484,029
Health Center Cluster	93.224	-	769,335
Passed through North Carolina Department of Health and Human Services:			
Ryan White (Part B) HIV Primary Medical/Dental Care	93.917	-	879,995
<u>U.S. Department of Housing and Urban Development:</u>			
Direct:			
Supportive Housing Program	14.235	-	278,449
Passed through North Carolina Department of Health and Human Services; Division of Public Health:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	-	426,095
Passed through Asheville Housing Authority:			
Shelter Plus Care	14.238	-	115,407
Passed through Western Highlands Area Authority:			
Shelter Plus Care	14.238	2283/2278	216,282
Total federal financial assistance			\$ 3,827,459

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no

- Significant deficiency(s) identified that are not considered to be material weaknesses _____yes X none reported

- Noncompliance material to financial statements noted _____yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____yes X no

- Significant deficiency(s) identified that are not considered to be material weaknesses? X yes _____none reported

Type of auditor's report issued on compliance for major federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 X yes _____no

Major federal programs for the fiscal year ended June 30, 2012 are:

Program Name	CFDA #
Ryan White (Part B) HIV Primary Medical/Dental Care Health Center Cluster	93.917
Supportive Housing Program	93.224
	14.235

The threshold for determining Type A programs for Western North Carolina Community Health Services, Inc. is \$300,000.

Western North Carolina Community Health Services, Inc. qualified as a high-risk auditee under Section .530 of OMB Circular A-133.

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended December 31, 2012

II. Findings - Financial Statements Audit

None reported.

III. Findings and Questioned Costs-Major Federal Awards Program Audit

Finding 12 – 1

US Department of Health and Human Service

Program Name: Ryan White (Part B) HIV Primary Medical/Dental Care
CFDA #: 93.917

COMPLIANCE AUDIT FINDING

Compliance - Reporting

Criteria: In accordance with 42 USC 300ff-21 through 300ff-38 and in the State approved plan, contracted agencies are responsible for submitting timely quarterly reports to the AIDS Care Unit per the schedule provided by the State.

Condition: Two of the Ryan White Part B Patient Management Model Networks of Care quarterly program reports for the fiscal year 2012 were not submitted in a timely manner. The quarterly report for April through June 2012 was submitted eighteen days after the deadline. The quarterly report for October through December 2012 was submitted one day after the deadline.

Effect: Timely reporting demonstrates accountability. Noncompliance with reporting requirements and deadlines could jeopardize funding streams.

Recommendation: Management should implement procedures to ensure that all reports are filed in a timely manner.

Corrective Action Plan/Management Response: Management will implement procedures to ensure all reports are filed in a timely manner.

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended December 31, 2012

III. Findings and Questioned Costs-Major Federal Awards Program Audit (continued)

Finding 12 – 2

US Department of Health and Human Services

Program Names: Ryan White (Part B) HIV Primary Medical/Dental Care, Consolidated Health Centers

CFDA #'s: 93.917, 93.224

US Department of Housing and Urban Development

Program Name: Supportive Housing Program

CFDA #: 14.235

SIGNIFICANT DEFICIENCY

Internal Controls over Compliance

Criteria: Management of Western North Carolina Community Health Services, Inc. is responsible for establishing and maintaining effective internal control over compliance.

Condition One: During our testing of controls, several instances were discovered of patient provided information not matching the patient information entered into the computer system. For the Department of Health and Human Services programs tested, information provided by the patient is entered into the computer by an employee with no verification by a second employee to ensure accuracy of the information entered into the computer system. In spite of this condition, all patients tested did meet the eligibility requirements of the applicable program based on the patient provided information.

Condition Two: During our testing of controls, we noted the rent calculation used in the Supportive Housing Program is performed and submitted for payment by one employee without verification from a second employee to ensure accuracy of the rent calculation and eligibility determination.

Effect (Condition One): The Organization had limited internal control procedures in place to monitor the entry and accuracy of entering patient provided information. Ineligible disbursements could occur if the patient does not qualify for the program. Also, in the case of the Ryan White (Part B) program, a patient may have insurance available that is not billed since their patient information may be entered incorrectly in the computer system.

Effect (Condition Two): The Organization could underpay or overpay the correct amount of rent to the program participant because of a potential calculation error or error in determining eligibility.

Recommendation: Management should implement procedures of a second review to verify patient provided information is correctly entered in the computer system and the accuracy of meeting eligibility requirements and rent calculations for the Supportive Housing Program.

Corrective Action Plan/Management Response: Management is aware of the internal control issues noted and is in process of implementing second review procedures.

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended December 31, 2012

IV. Summary Schedule of Prior Year Audit Findings

Finding 11-1

Status: The Organization has implemented the procedures as recommended. Therefore, the finding is not repeated in the current year.

Finding 11-2

Status: The Organization has implemented the procedures as recommended. Therefore, the finding is not repeated in the current year.