

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

Financial Statements

December 31, 2014



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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, 2014 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 Western North Carolina Community Health Services, Inc. as of December 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.

Report on Summarized Comparative Information

We have previously audited the Western North Carolina Community Health Services, Inc.'s 2013 financial statements, and our report dated July 31, 2014, 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, 2013, 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 September 29, 2015, 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
September 29, 2015

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2014
with comparative totals as of December 31, 2013

	2014	2013
Assets		
Current Assets:		
Cash	\$ 3,136,285	\$ 3,140,183
Grants receivable	394,357	343,459
Accounts receivable	460,580	128,046
Sales tax refund receivable	42,166	48,476
Prepaid expenses	9,570	17,031
Inventory	128,137	108,374
Note receivable, current	217,028	3,900
Total current assets	4,388,123	3,789,469
Property and equipment, net	2,733,307	2,902,996
Other Assets:		
Note receivable	-	216,987
	\$ 7,121,430	\$ 6,909,452
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,603,236	\$ 1,616,685
Promissory note	31,500	31,500
Capital leases, current	14,805	56,420
Notes payable, current	167,334	43,470
Total current liabilities	1,816,875	1,748,075
Long-term Liabilities:		
Capital leases	31,566	50,734
Notes payable	569,294	736,625
Total liabilities	2,417,735	2,535,434
Net Assets:		
Unrestricted	4,703,695	4,374,018
Temporarily restricted	-	-
Total net assets	4,703,695	4,374,018
	\$ 7,121,430	\$ 6,909,452

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, 2014

with comparative totals for the year ended December 31, 2013

	2014	2013
Unrestricted net assets		
Revenues and support:		
Service fee revenue	\$ 12,338,047	\$ 11,351,037
Federal, state and local grants	6,052,131	5,974,612
United Way	81,771	102,000
Contributions and other	22,737	85,451
In-kind rent assistance	477,000	477,000
Loss on disposal of equipment	-	(71)
Total	18,971,686	17,990,029
Temporarily restricted assets satisfying program requirements	-	-
Total unrestricted revenues and support	18,971,686	17,990,029
Functional expenses:		
Program services	17,546,224	16,755,925
Supporting services	1,095,785	1,078,089
Total expenses	18,642,009	17,834,014
Increase in unrestricted net assets	329,677	156,015
Temporarily restricted net assets		
Net assets released from restrictions	-	-
Increase in temporarily restricted net assets	-	-
Increase in net assets	329,677	156,015
Net assets, beginning of year	4,374,018	4,218,003
Net assets, end of year	\$ 4,703,695	\$ 4,374,018

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, 2014

with comparative totals for the year ended December 31, 2013

	Program Services		
	Primary Care	Dental	Pharmacy
Salaries	\$ 5,581,182	\$ 1,559,464	\$ 1,452,110
Payroll taxes and employee benefits	749,747	204,699	186,248
Contracted services	174,284	-	-
Training and education	39,918	-	-
Supplies	150,808	120,965	4,893
Pharmacy and lab expense	229,807	67,377	3,922,505
Client food, transportation and assistance	-	-	-
Consultant services	-	-	-
Printing and postage	47,582	15,861	15,861
Telephone	19,241	7,696	11,544
Information technology	45,106	18,042	27,063
Utilities	68,150	17,037	17,037
Repair and maintenance	114,713	34,232	15,270
Rent	10,017	-	10,017
Rent (in-kind)	400,000	-	77,000
Dues and subscriptions	-	-	-
Tax and licenses	1,736	-	-
Legal and accounting	62,867	20,956	6,985
Miscellaneous	-	-	-
Travel	17,474	4,369	4,369
Depreciation	229,731	90,109	16,540
Insurance	42,215	10,554	3,518
Interest	29,762	4,960	7,440
Total	\$ 8,014,340	\$ 2,176,321	\$ 5,778,400

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>2014 Total</u>	<u>2013 Total</u>	
\$ 525,031	\$ 9,117,787	\$ 545,009	\$ 9,662,796	\$ 9,101,218	
75,453	1,216,147	96,369	1,312,516	1,338,169	
-	174,284	-	174,284	379,272	
-	39,918	-	39,918	36,901	
74,649	351,315	13,048	364,363	410,629	
-	4,219,689	-	4,219,689	3,824,235	
790,490	790,490	-	790,490	729,048	
-	-	-	-	15,143	
15,861	95,165	63,443	158,608	125,963	
-	38,481	38,482	76,963	90,012	
-	90,211	90,211	180,422	129,563	
17,037	119,261	51,112	170,373	174,048	
54,537	218,752	21,815	240,567	184,073	
-	20,034	8,586	28,620	19,691	
-	477,000	-	477,000	477,000	
-	-	45,138	45,138	7,583	
-	1,736	579	2,315	17,769	
13,971	104,779	34,926	139,705	114,688	
-	-	-	-	25,731	
-	26,212	2,912	29,124	47,268	
6,616	342,996	66,161	409,157	442,781	
3,518	59,805	10,554	70,359	62,502	
-	42,162	7,440	49,602	80,727	
\$ 1,577,163	\$ 17,546,224	\$ 1,095,785	\$ 18,642,009	\$ 17,834,014	

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, 2014

with comparative totals for the year ended December 31, 2013

	2014	2013
Cash Flows from Operating Activities:		
Increase in net assets	\$ 329,677	\$ 156,015
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	409,157	442,781
Loss on disposal of property equipment	-	71
Net change in operating assets and liabilities:		
Grants receivable	(50,898)	7,004
Accounts receivable	(332,535)	400,534
Sales tax refund receivable and prepaid expenses	13,771	15,169
Inventory	(19,763)	(17,928)
Accounts payable and accrued expenses	(13,449)	166,274
	<u>335,960</u>	<u>1,169,920</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(239,467)	(242,243)
Collections on notes receivable	3,859	422,887
	<u>(235,608)</u>	<u>180,644</u>
Cash Flows from Financing Activities:		
Proceeds from (payments on) credit line, net	-	(393,297)
Capital lease principal payments	(60,783)	(63,086)
Note principal payments	(43,467)	(37,430)
	<u>(104,250)</u>	<u>(493,813)</u>
Cash used by financing activities	<u>(104,250)</u>	<u>(493,813)</u>
Net increase (decrease) in cash	(3,898)	856,751
Cash, beginning of year	<u>3,140,183</u>	<u>2,283,432</u>
Cash, end of year	<u>\$ 3,136,285</u>	<u>\$ 3,140,183</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	<u>\$ 49,602</u>	<u>\$ 80,727</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, 2014

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, 2014.

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, 2014.

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.

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.

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.

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).

Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The bank account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amount that exceeded FDIC insurance was \$2,911,532 at December 31, 2014. The Organization has \$1,600 in petty cash at December 31, 2014.

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 September 29, 2015, 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. Approximately \$50,000 has been recorded as receivable from individual patients as receivables for financial statement purposes.

Grants receivable consisted of the following at December 31, 2014:

Buncombe County	\$ 201,750
Ryan White, Part B	102,492
U.S. Department of Housing and Urban Development	<u>90,115</u>
Total grants receivable	<u>\$ 394,357</u>

Accounts receivable consisted of the following at December 31, 2014:

Third party (Medicaid, etc.) receivables	\$ 410,580
Patient billing receivable	<u>50,000</u>
Total accounts receivable	<u>\$ 460,580</u>

Note 3 – Note Receivable

In 2012, the Organization obtained a promissory note receivable of \$230,000 from the sale of formerly owned property. The \$217,028 is the outstanding principal and interest from the note receivable as of December 31, 2014. The note receivable bears interest at 5% per annum with a required monthly payment of \$1,235. The outstanding balance of the note receivable is payable in full to the Organization on March 1, 2015.

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, 2014.

Note 5 – Property and Equipment

Property and equipment consisted of the following at December 31, 2014:

Land, buildings, and leasehold improvements	\$ 3,427,268
Vehicles	138,476
Medical and dental equipment	665,927
Office equipment	1,107,583
Furniture and fixtures	<u>153,160</u>
	5,492,414
Accumulated depreciation	<u>(2,759,107)</u>
	<u>\$ 2,733,307</u>

Depreciation charged to expense was \$409,157. All property and equipment is pledged as collateral for the three mortgage notes payable with one banking institution as listed in Note 6.

Note 6 – Notes Payable and Line of Credit

Notes payable consisted of the following at December 31, 2014:

Mortgage note payable to bank in monthly installments of \$1,473, including fixed interest at 6.25% per annum, maturing in 2015.	\$ 131,353
Mortgage note payable to bank in monthly installments of \$1,668, including fixed interest at 7.40% per annum, maturing in 2016.	150,707
Mortgage note payable to bank in monthly installments of \$3,653, including fixed interest at 3.85% per annum, maturing in 2018.	<u>454,568</u>
Current Maturity	<u>736,628</u> <u>(167,334)</u>
	<u>\$ 569,294</u>

The three note payables described above are cross-collateralized by all property and equipment owned by the Organization.

Aggregate long-term principal and interest payments for the next four year are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 167,334	\$ 29,240
2016	169,394	20,296
2017	28,951	14,889
2018	<u>370,949</u>	<u>4,713</u>
	<u>\$ 736,628</u>	<u>\$ 69,138</u>

The Organization incurred interest expense of approximately \$41,000 for the notes payable for the year ended December 31, 2014.

Note 7 – Promissory Notes

The Organization has entered into an agreement prior to 2014 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. The promissory note does not provide for interest to accrue.

Note 8 – Capital Lease Commitment

The Organization leases software from Sage and is considered to be a capital lease. Depreciation of the assets under current and former capital leases is included in depreciation expense. The capitalized cost of the software capital lease was approximately \$74,000 and accumulated depreciation was approximately \$31,000 at December 31, 2014.

Capital lease liability consisted of the following at December 31, 2014:

Capital lease payable in monthly installments of \$1,475, including interest at 7.3% per annum, maturing in 2017.	<u>\$ 46,371</u>
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Future minimum payments, including interest, under all non-cancellable capital leases as of December 31, 2014 are as follows:

2015	\$ 17,696
2016	17,696
2017	<u>16,222</u>
Total minimum lease payments	51,614
Less amounts representing interest	<u>(5,243)</u>
Total minimum lease payments principal	<u>\$ 46,371</u>

Interest expense related to capital leases was approximately \$9,000 for the year ended December 31, 2014.

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 through June 2016 at the same terms of \$1 per year. The Organization agreed to provide their services for an additional 1,500 patients annually through June 2016. Unless these terms are extended beyond 2016, the Organization can lease the property starting in July 2016 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 2013

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, 2013, from which the summarized information was derived.

Note 11 – Concentration of Revenue and Support

Revenues and support for the year ended December 31, 2014 include revenues from the major sources together with the receivable due from these sources as of December 31, 2014 as follows:

	<u>Revenues</u>	<u>Receivable</u>
Service fee revenues	\$ 12,338,047	\$ 460,580
Buncombe County (includes in-kind rent assistance)	3,103,000	201,750
U.S. Department of Health and Human Services	2,320,757	102,492
U.S. Department of Housing and Urban Development	552,687	90,115
All other sources	<u>657,195</u>	<u>-</u>
Total	<u>\$ 18,971,686</u>	<u>\$ 854,937</u>

In 2014, the Organization received 32% 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 65% of the Organization’s total 2014 revenue. Service fee revenue consists primarily of Medicare and Medicaid revenue (76% and 24% of service fee revenue, respectively).

Note 12 – 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 (12%) and the U.S. Department of Housing and Urban Development (3%). 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



**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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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*.

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
September 29, 2015



**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, 2014. 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, 2014.

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 material weaknesses or significant deficiencies. 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 14-1 that we consider to be a significant deficiency.

Western North Carolina Community Health Services, Inc.'s response to the internal control over compliance 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.

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

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
September 29, 2015

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2014

<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	-	\$ 641,714
Ryan White (Part IV) Women, Infants, Children, and Youth	93.153	-	489,316
Health Center Cluster	93.224	-	1,116,575
Passed through North Carolina Department of Health and Human Services:			
Ryan White (Part B) HIV Primary Medical/Dental Care	93.917	-	625,839
<u>U.S. Department of Housing and Urban Development:</u>			
Passed through North Carolina Department of Health and Human Services; Division of Public Health:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	-	<u>552,687</u>
Total federal financial assistance			<u>\$ 3,426,131</u>

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

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: Unmodified

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

Major federal programs for the fiscal year ended December 31, 2014 are:

Program Name	CFDA #
Ryan White (Part B) HIV Care Formula Grants	93.917
Health Center Cluster	93.224
Ryan White (Part IV) Women, Infants, Children, and Youth	93.153
Housing Opportunities for Persons with AIDS	14.241

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, 2014

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

Finding 14-1

US Department of Health and Human Services

Program Names: Consolidated Health Centers

CFDA #'s: 93.224

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: During our testing of program controls, we examined 2014 patient information forms to verify a second employee review occurred noted by their initial on the patient's form. The second employee review would verify the patient's information had been updated appropriately during 2014, income verification and sliding scale is applied appropriately, and the enrollment form is completed and entered into the computer system accurately. However, several instances were discovered where no second review was noted by the second reviewer's initial or the form was not updated during 2014 for the selected patient in our test sample. In addition, we discovered a few instances where patient's annual personal income recorded in the computer system did not match documentation provided by the patient or income verification documentation was not available for the selected patient. For these internal control deficiencies over compliance, we reviewed each patient's eligibility within the applicable program based upon the available patient's information and determined the patient was properly handled as to eligibility and services provided by the program.

Effect: Ineligible disbursements could occur if the patient does not qualify for the program. Also, patients could be charged inappropriately if income levels are not correct.

Recommendation: Management should ensure procedures are being properly followed for a second review (that is documented) to verify patient provided information is correctly entered in the computer system and all documentation is completed or updated accurately and timely. If patient information is not provided, documentation should be retained indicating the effort used to collect appropriate patient information.

Corrective Action Plan/Management Response: Management is aware of the internal control issue noted and implemented the second review procedures in late 2014. Management is continuing to improve the process including the reassignment of personnel to ensure the appropriate review is being performed and documented. The Organization took steps in reviewing the patient in-take and out-take function process to ensure patient documentation is obtained or followed up. In addition, the Organization is in process of implementing policies and procedures to be in compliance with HRSA's policy notice PIN 2014-02 related to the sliding fee discount program and related billing and collections requirements.

WESTERN NORTH CAROLINA COMMUNITY HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the year ended December 31, 2014

III. Summary Schedule of Prior Year Audit Findings

Finding 13-1

Status: The Organization implemented the procedures as recommended in the previous audit. The implementation occurred in late 2014 when the recommendations were made. Because of the departmental procedural changes were made in late 2014, the recommended procedures were not fully implemented for intake workers and the second reviewers. A similar finding was repeated in the current year as noted by finding 14-1 for the CHC Cluster.