

AUDIT REPORT AND FINANCIAL STATEMENTS

OF

**LINCOLN COUNTY PRIMARY
CARE CENTER, INC.**

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

NOVEMBER 13, 2017

DHHR - Finance

NOV 17 2017

Date Received



Lincoln Primary Care Center Inc.
Southern West Virginia Health System

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November 14, 2017

Ms. Kimberly Merritt, Director
WV Department of Health and Human Resources
Office of Internal Control and Policy Development
Division of Compliance and Monitoring
One Davis Square, Suite 401
Charleston, WV 25301

RE: Annual Audit Reports

Dear Kimberly:

Please find attached a copy of our most recent audit report which is due 9 months after the end of our fiscal audit period. The audit report is for the period of July 1, 2016 through June 30, 2017.

If your offices should require any additional information, please contact me. My office number is (304) 824-5806 extension #1231.

Sincerely,

Julia Barrett
Chief Financial Officer

DHHR - Finance

NOV 17 2017

Date Received



C O N T E N T S

	<u>P A G E</u>
INDEPENDENT AUDITORS' REPORT -----	1 - 2
STATEMENT OF FINANCIAL POSITION-----	3 - 4
STATEMENT OF ACTIVITIES -----	5
STATEMENT OF CASH FLOWS -----	6 - 7
NOTES TO FINANCIAL STATEMENTS-----	8 - 19
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS-----	20
SCHEDULE OF EXPENDITURES OF STATE AWARDS-----	21
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> -----	22 - 23
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE -----	24 - 25
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -----	26 - 27
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS-----	28

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lincoln County Primary Care Center, Inc.
Hamlin, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Lincoln County Primary Care Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln County Primary Care Center, Inc., as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MEMBERS

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KENTUCKY SOCIETIES OF CERTIFIED
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INC., WITH OFFICES IN PRINCIPAL
U.S. AND INTERNATIONAL CITIES

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of state awards is also 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 November 13, 2017, on our consideration of Lincoln County Primary Care Center, Inc.'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 Lincoln County Primary Care Center, Inc.'s internal control over financial reporting and compliance.

Somerville & Company, P.L.L.C.

Huntington, West Virginia
November 13, 2017

DHHR - Finance

NOV 17 2017

Date Received

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 3,062,723	\$ 2,271,476
Patient receivables, net	951,629	1,654,274
Federal and state grant receivables	22,366	272,396
Other receivables	31,040	41,226
Investments	9,698,521	5,666,015
Accrued interest receivable	12,769	2,000
Inventory	814,694	814,730
Prepaid expenses and deposits	78,254	75,023
Note receivable	-	1,150
	<hr/>	<hr/>
Total Current Assets	14,671,996	10,798,290
	<hr/>	<hr/>
Assets Whose Use Is Limited		
Under donor agreements	939,174	942,483
	<hr/>	<hr/>
Property and Equipment		
Land	716,870	630,946
Building and improvements	7,149,819	7,044,179
Fixtures and equipment	2,761,129	2,719,697
Computer software	49,113	49,113
Vehicles	166,750	166,750
Construction in progress	81,658	80,077
	<hr/>	<hr/>
	10,925,339	10,690,762
Less accumulated depreciation	4,305,945	3,862,727
	<hr/>	<hr/>
Total Property and Equipment	6,619,394	6,828,035
	<hr/>	<hr/>
Other Assets		
Intangible assets	383,203	383,203
	<hr/>	<hr/>
Total Assets	\$ 22,613,767	\$ 18,952,011
	<hr/> <hr/>	<hr/> <hr/>

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

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017 and 2016

LIABILITIES	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts payable	\$ 447,734	\$ 485,266
Accrued salaries and benefits	720,629	689,735
Accrued interest	3,410	5,643
Accrued taxes	2,035	1,806
Current portion of long-term debt	<u>73,691</u>	<u>104,738</u>
Total Current Liabilities	1,247,499	1,287,188
Long-Term Debt	<u>1,975,602</u>	<u>2,067,701</u>
Total Liabilities	<u>3,223,101</u>	<u>3,354,889</u>

NET ASSETS		
Net Assets		
Unrestricted	18,451,492	14,654,639
Temporarily restricted	<u>939,174</u>	<u>942,483</u>
Total Net Assets	<u>19,390,666</u>	<u>15,597,122</u>
Total Liabilities and Net Assets	<u>\$ 22,613,767</u>	<u>\$ 18,952,011</u>

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

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

STATEMENT OF ACTIVITIES

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets		
Revenues		
Net patient service revenue	\$ 9,303,214	\$ 9,834,218
Federal and state grant revenue	2,677,494	2,429,952
Other grant revenue	13,500	107,208
Net pharmacy revenue	6,259,052	4,924,915
Interest income	56,076	30,598
Donations	84,372	90,772
Other income	45,338	75,509
Gain on disposal of assets	-	500
	<hr/>	<hr/>
Total Revenues	18,439,046	17,493,672
	<hr/>	<hr/>
Expenses		
Salaries and benefits	10,131,716	9,448,866
Contracted services	269,123	98,642
General and administrative	1,237,439	1,069,751
Medical supplies	1,438,871	1,309,845
Repairs and maintenance	317,985	280,281
Legal and accounting	53,635	128,062
Telephone and internet	242,310	227,247
Utilities	157,366	162,293
Postage	27,248	32,498
Insurance	69,694	91,626
Interest	87,646	104,708
Depreciation	443,218	417,291
Provision for bad debts	165,658	337,994
Laboratory fees	1,865	780
	<hr/>	<hr/>
Total Expenses	14,643,774	13,709,884
	<hr/>	<hr/>
Increase in Unrestricted Net Assets	3,795,272	3,783,788
Federal/State Capital Grants (State Construction and PCMH-FI)	1,581	219,893
	<hr/>	<hr/>
Change in Unrestricted Net Assets and Capital Grants	3,796,853	4,003,681
	<hr/>	<hr/>
Temporarily Restricted Net Assets		
Contributions	4,175	921,373
Restrictions satisfied by payments	(7,484)	(99,654)
	<hr/>	<hr/>
Change in Temporarily Restricted Net Assets	(3,309)	821,719
	<hr/>	<hr/>
Increase in Net Assets	3,793,544	4,825,400
Net Assets at Beginning of Year	15,597,122	10,771,722
	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 19,390,666</u>	<u>\$ 15,597,122</u>

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

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

STATEMENT OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Increase in net assets	<u>\$ 3,793,544</u>	<u>\$ 4,825,400</u>
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	443,218	417,291
Change in assets whose use is limited-donor agreements	3,309	(821,719)
(Increase) decrease in current assets		
Patient receivables, net	702,645	(648,967)
Federal and state grant receivables	250,030	13,353
Other receivables	10,186	(39,670)
Accrued interest receivable	(10,769)	(159)
Inventory	36	(175,247)
Prepaid expenses and deposits	(3,231)	49,998
Increase (decrease) in current liabilities		
Accounts payable	(37,532)	26,996
Accrued salaries and benefits	30,894	114,509
Accrued interest	(2,233)	1,436
Accrued taxes	229	544
Total adjustments	<u>1,386,782</u>	<u>(1,061,635)</u>
Net Cash Provided By Operating Activities	<u>5,180,326</u>	<u>3,763,765</u>

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

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

STATEMENT OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	\$ (234,577)	\$ (368,168)
Purchase of investments	<u>(4,032,506)</u>	<u>(2,521,608)</u>
Net Cash Used In Investing Activities	<u>(4,267,083)</u>	<u>(2,889,776)</u>
Cash Flows From Financing Activities		
Payments on long-term debt	(123,146)	(171,661)
Payments received on note receivable	<u>1,150</u>	<u>1,656</u>
Net Cash Used In Financing Activities	<u>(121,996)</u>	<u>(170,005)</u>
Net Increase in Cash and Cash Equivalents	791,247	703,984
Cash and Cash Equivalents at Beginning of Year	<u>2,271,476</u>	<u>1,567,492</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,062,723</u>	<u>\$ 2,271,476</u>

Supplemental Disclosure of Cash Flow Information:

Cash Paid During The Year For:

Interest	\$ 89,879	\$ 103,272
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A noncash investing and financing transaction consisting of the cost of purchasing Dennis' Pharmacy and the related obligation have been included in assets and liabilities, respectively, in the accompanying financial statements for the year ended June 30, 2016, at \$750,000.

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

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies:

A. Description of organization:

Lincoln County Primary Care Center, Inc. (the Organization) is a non-profit corporation incorporated in the State of West Virginia. The Organization provides primary health care services to the residents of Lincoln, Logan, Mingo, and portions of Cabell and Kanawha Counties in West Virginia and the surrounding areas.

B. Basis of accounting:

The Organization follows the accrual basis of accounting.

C. Accounting estimates:

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

D. Cash and cash equivalents:

For the purposes of the Statement of Cash Flows, the Organization considers all cash accounts, short-term investments, and all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

E. Inventories:

Inventories which consist of pharmaceutical drugs and over-the-counter drugs are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

F. Investments:

Investments in certificates of deposit with readily determinable fair values are stated at their fair values in the Statement of Financial Position. Fair value for certificates of deposit is based on amortized cost or original cost plus accrued interest.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies (Continued):

G. Property and equipment:

Property and equipment are stated at cost for purchased items and fair market value at the date of the gift for contributed items. Major renewals and improvements are charged to property accounts, while replacements, maintenance, and repairs, which do not improve or extend the life of the respective assets, are expensed in the period incurred. Depreciation is computed over the useful lives of the assets using the straight-line method as follows:

	<u>Range of Lives</u>
Building and improvements	5 – 40 years
Fixtures and equipment	3 – 10 years
Computer software	3 – 5 years
Vehicles	5 years

H. Economic dependency and geographic concentration:

The Organization generates a substantial portion of its patient service revenue from services to Medicaid and Medicare beneficiaries. Changes in payment rates or methodologies by those programs could, therefore, significantly impact its ability to continue in existence. The Organization also receives significant funding from the West Virginia Department of Health and Human Resources and the Bureau of Public Health as discussed in other notes to financial statements. Discontinuation of support from these sources would also significantly impact operations.

Patient service revenue generated is primarily limited to services to residents in the Lincoln, Logan, Mingo, and portions of Cabell and Kanawha County areas of West Virginia. General economic conditions in the area can, therefore, significantly influence the Organization's ability to collect fees for services rendered.

I. Patient receivables and credit policies:

The Organization grants credit without collateral to its patients. These receivables resulting from services rendered to patients have been disclosed net of an allowance for uncollectibles and contractual adjustments. In addition to those patients unable to pay, there are patients receiving services who will not pay. The Organization has established credit and collection policies to hold these costs to a minimum.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies (Continued):

J. Revenue recognition:

Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers. Revenues are based on visits performed and medical services provided. Contractual allowances relative to these revenues were \$3,523,773 and \$3,092,833 for the years ended June 30, 2017 and 2016, respectively.

Sliding fees are adjustments to revenue based on the patient's ability to pay for services. The patient must meet certain criteria in order to qualify. The sliding fee adjustment is determined by the family size and income of the patient. Sliding fee adjustments against revenues were \$105,871 and \$113,397 for the years ended June 30, 2017 and 2016, respectively.

K. Net assets:

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor/grantor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor/grantor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - net assets subject to donor/grantor-imposed stipulations that they be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor/grantor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor/grantor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor/grantor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

L. Contributions, grants, and awards:

All contributions, grants, and awards are considered to be available for unrestricted use unless specifically restricted by the donor/grantor. Amounts received that are designated for future periods or restricted by the donor/grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution, grant, or award is received, the Organization reports the support as unrestricted.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies (Continued):

M. Income taxes:

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an Organization that is not a private foundation under 509(a)(1) and 170(b)(a)(iii).

N. Accounting for uncertain tax positions:

The Organization follows the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Organization is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Organization believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2017 and 2016.

2. Patient receivables, net:

Patient receivables at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Patient receivables	\$ 500,018	\$ 859,203
Pharmacy receivables	630,002	1,052,832
Less: Allowance for doubtful accounts	<u>(178,391)</u>	<u>(257,761)</u>
Patient receivables, net	<u>\$ 951,629</u>	<u>\$ 1,654,274</u>

The activity in the Allowance for Doubtful Accounts for the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Beginning of the year	\$ 257,761	\$ 141,915
Provision for doubtful accounts	<u>(79,370)</u>	<u>115,846</u>
End of the year	<u>\$ 178,391</u>	<u>\$ 257,761</u>

In addition, there were direct write-offs of patient receivables in the amount of \$245,028 and \$222,148 for the years ended June 30, 2017 and 2016, respectively.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

3. Investments:

Investments are carried at fair value at June 30, 2017 and 2016 as follows:

Certificates of deposit at June 30, 2017:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Cost</u>	<u>Fair Value</u>
September 2017 to June 2019	.30% to 1.65%	<u>\$ 9,698,521</u>	<u>\$ 9,698,521</u>

Certificates of deposit at June 30, 2016:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Cost</u>	<u>Fair Value</u>
September 2016 to June 2018	.30% to 1.10%	<u>\$ 5,666,015</u>	<u>\$ 5,666,015</u>

4. Fair value measurements:

Fair values of assets measured on a recurring basis at June 30, 2017 and 2016 are as follows:

Fair Value Measurements at Reporting Date Using:

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2017</u>				
Certificates of deposit	<u>\$ 9,698,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,698,521</u>
<u>June 30, 2016</u>				
Certificates of deposit	<u>\$ 5,666,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,666,015</u>

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

4. Fair value measurements (Continued):

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Certificates of Deposit</u>
July 1, 2016	\$ 5,666,015
Purchases and sales (net)	3,999,841
Total income (losses)	<u>32,665</u>
June 30, 2017	<u>\$ 9,698,521</u>

	<u>Certificates of Deposit</u>
July 1, 2015	\$ 3,144,407
Purchases and sales (net)	2,496,000
Total income (losses)	<u>25,608</u>
June 30, 2016	<u>\$ 5,666,015</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 are based on significant unobservable inputs.

Level 1 Fair Value Measurements

No Level 1 inputs were held by the Organization as of June 30, 2017 and 2016.

Level 2 Fair Value Measurements

No Level 2 inputs were held by the Organization as of June 30, 2017 and 2016.

Level 3 Fair Value Measurements

Fair value for the certificates of deposit is based on amortized cost or original cost plus accrued interest.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

5. Assets whose use is limited:

Assets whose use is limited consists of funds set aside for specific purposes at June 30, 2017 and 2016 and are as follows:

	<u>2017</u>	<u>2016</u>
Under donor agreements:		
Sisters of St. Joseph Health and Wellness Foundation for the School Based Health Center	\$ -	\$ 4,453
WVU Healthy Family	14,657	14,657
MURC Diabetes Control Project	4,000	2,000
Chilifest	-	1,450
State of West Virginia (Construction)	918,342	919,923
WV Higher Education	<u>2,175</u>	<u>-</u>
	<u>\$ 939,174</u>	<u>\$ 942,483</u>

6. Note receivable:

The Organization entered into an agreement with Lincoln Volunteer Emergency Services, which consists of a note receivable in the initial amount of \$23,267. The note was payable in monthly installments of \$148, including interest at 6%, through January 2017. The note receivable balances were \$-0- and \$1,150 as of June 30, 2017 and 2016, respectively. The note related to the portion of the building Lincoln Volunteer Emergency Services shares with the Organization. The note was retired during the year ended June 30, 2017.

7. Line of credit:

The Organization renewed a line of credit dated February 14, 2013 with a total authorization of \$1,200,000. The outstanding line of credit balances were \$-0- as of June 30, 2017 and 2016.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

8. Long-term debt:

A summary of the debt obligations at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Note payable to Huntington National Bank, in monthly installments of \$9,201, including interest of 3.99%, with a balloon payment due August 2026; secured by deed of trust on real estate.	\$ 1,470,425	\$ -
Note payable to Huntington National Bank, in monthly installments of \$3,868, including interest of 3.99%, with a balloon payment due August 2026; secured by deed of trust on real estate.	578,868	-
Note payable to First Sentry Bank, in monthly installments of \$12,206, including interest of 4.75%, through January 2021; secured by deed of trust on real estate. This note was retired during fiscal year ended June 30, 2017.	-	1,523,045
Note payable to First Sentry Bank, in monthly installments of \$4,800, including interest of 4.50%, through July 2020; secured by deed of trust on real estate. This note was retired during fiscal year ended June 30, 2017.	<u>-</u>	<u>649,394</u>
	2,049,293	2,172,439
Less current maturities	<u>73,691</u>	<u>104,738</u>
	<u>\$ 1,975,602</u>	<u>\$ 2,067,701</u>

Scheduled principal payments are as follows:

Years ending June 30,	
2018	\$ 73,691
2019	79,556
2020	82,789
2021	86,153
2022	89,655
Thereafter	<u>1,637,449</u>
	<u>\$ 2,049,293</u>

The Organization received a state grant for the year ended June 30, 2016 that supplemented the payments on mortgage notes.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

9. Functional classification of activities:

Expenses are charged to program and support services based on the actual costs incurred. Those expenses which are not directly identifiable with any other specific function but provide overall support and direction have been included as General and Administrative.

	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>
Expenses:		
General and administrative	\$ 2,807,590	\$ 2,585,784
Program services	<u>11,836,184</u>	<u>11,123,600</u>
	<u>\$ 14,643,774</u>	<u>\$ 13,709,384</u>

10. Pension plan:

The Organization adopted a defined contribution pension plan on July 1, 1989. In order to become eligible, employees must be at least 16 years of age and have completed at least one year of service. Employees can voluntarily contribute to the plan an amount not to exceed Internal Revenue Code limitations. The Organization contributes up to 3% of eligible salaries. The participant is fully vested immediately when plan contributions are made. Contributions for the years ended June 30, 2017 and 2016 were \$127,069 and \$111,741, respectively.

11. Cost report settlements:

The Organization is required to file separate year-end cost reports with the Medicare program for primary care. For primary care services, the Organization is reimbursed at the lower of its costs or per encounter cost limit. Variances may exist between the as-filed and settled cost report for primary care services that can result in amounts being owed to or due from the Medicare fiscal intermediary. These amounts are then adjusted in the year in which the cost report is settled. The financial statements at June 30, 2017 and 2016 do not reflect amounts owed to or due from the Medicare fiscal intermediary. Medicare cost reports have been settled through June 30, 2016.

Medicaid rates for primary care services are determined prospectively based upon amounts determined by the Medicare program.

During the years ended June 30, 2017 and 2016, \$11,242 and \$95,376, respectively, were received in settlements of prior year filings of Medicare and Medicaid cost reports.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

12. Primary care program grants:

The Organization operates school-based health programs in the Lincoln and Logan County areas, which are primarily funded with grants provided through the Division of Primary Care Programs of the West Virginia Department of Health and Human Resources. Prior-year amounts have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. The following is an analysis of revenues and expenses of the program for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Revenues:		
Grant revenues	\$ 89,462	\$ 79,577
Net patient services revenues	<u>1,412,290</u>	<u>1,331,151</u>
	<u>1,501,752</u>	<u>1,410,728</u>
Expenses:		
Personnel salaries and personal services	961,382	839,966
Fringe benefits	174,137	144,929
Supplies and other	<u>525,598</u>	<u>472,074</u>
	1,661,117	1,456,969
General and administrative allocation	<u>393,673</u>	<u>336,557</u>
	<u>2,054,790</u>	<u>1,793,526</u>
School-based health program net loss	<u>\$ (553,038)</u>	<u>\$ (382,798)</u>

The Organization received additional grants during the years ended June 30, 2017 and 2016, which are detailed in the Schedules of Expenditures of Federal and State Awards.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

13. Operating lease obligations:

The Organization is the lessee of facilities under operating leases expiring between March 2018 and July 2030.

Future lease payments under the facility operating leases at June 30, 2017 for each of the next five years and in the aggregate are as follows:

2018	\$ 268,517
2019	83,310
2020	42,608
2021	27,006
2022	-
Thereafter	-
Total minimum lease payments	<u>\$ 421,441</u>

Facility rental expense for the years ended June 30, 2017 and 2016 amounted to \$258,962 and \$226,363, respectively.

The Organization has other various equipment leases that are not included in the above schedule.

14. Contributed services:

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended June 30, 2017 and 2016, \$64,461 and \$56,991, respectively, of such contributions were received.

15. Credit risk:

Financial instruments that are exposed to concentrations of credit risk consist of cash, accounts receivable, and investments. The cash and investments are in high quality institutions with high credit ratings. Accounts receivable are with insurance providers (Medicare, Medicaid, private insurers, etc.) and patients of the Organization. The Organization has concentrated its credit risk for cash by maintaining deposits in banks located within the same geographic region. Credit risk for accounts receivable is concentrated as well because substantially all of the balances are receivable from individuals located within the same geographical region.

The Organization maintains cash balances at various local financial institutions. Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalent accounts in the financial institutions. The Organization has entered into repurchase agreements with local banks with which it does business to provide collateral for amounts exceeding federal insurance coverage. Cash and cash equivalents exceeding federally insured limits totaled \$-0- at June 30, 2017.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

16. Subsequent events:

The Organization has evaluated all subsequent events through November 13, 2017, the date the financial statements were available to be issued.

The Organization has been awarded a Health Center Quality Improvement (QI) Fund one-time grant supplement from the Health Resources and Services Administration (HRSA) in the amount of \$63,929 in recognition of health centers that displayed high levels of quality performance in Calendar Year 2016 Uniform Data System reporting. This funding provides support for those health centers to continue to strengthen quality improvement activities and to recognize and provide support for health centers with one or more sites with new and/or continued patient centered medical home recognition. The grant is for expenditures incurred between August 9, 2017 and August 9, 2018.

The Organization has been awarded supplemental funding for Fiscal Year 2017 Access Increases in Mental Health and Substance Abuse Services (AIMS) from the Health Resources and Services Administration (HRSA) in the amount of \$123,080. The grant is for expenditures incurred between September 2017 and August 2018 to expand access to mental health services, and substance abuse services focusing on the treatment, prevention, and awareness of opioid abuse at existing health centers.

The Organization has been awarded a Health Center Cluster carryover grant of an unobligated balance from the Health Resources and Services Administration (HRSA) in the amount of \$97,831. The grant will be carried over from budget period March 1, 2016 through February 28, 2017 into the current budget period ending February 28, 2018. The funds can only be used for the purposes stated in the Prior Approval request.

SUPPLEMENTARY INFORMATION

LINCOLN COUNTY PRIMARY CARE CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2017

<u>Contract Control Number</u>	<u>Federal Grantor / Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
<u>Department of Health and Human Services Direct Programs (Non-ARRA Grants)</u>					
6 H80CS00254-16-01	Consolidated Health Centers	93.224	n/a	\$ 184,162	\$ -
6 H80CS00254-15-15	Consolidated Health Centers	93.224	n/a	449,947	-
	Total Consolidated Health Centers			634,109	-
6 H80CS00254-16-01	Consolidated Health Centers	93.527	n/a	566,946	-
6 H80CS00254-15-15	Consolidated Health Centers	93.527	n/a	1,100,929	-
	Total Consolidated Health Centers			1,667,875	-
	Total Department of Health and Human Services Direct Programs			2,301,984	-
G170732	WV Department of Education	93.283	212009	10,000	-
G170732	WV Department of Education	93.283	212021	10,000	-
	Total WV Department of Education			20,000	-
<u>Department of Health and Human Services Pass-Through Programs (Non-ARRA Grants)</u>					
G170411	Coal Miners Respiratory Impairment Treatment Clinics and Services (Black Lung Program)	93.965	1600002197	126,461	-
	Total Expenditures of Federal Awards			\$ 2,448,445	\$ -

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Lincoln County Primary Care Center, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Organization.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

LINCOLN COUNTY PRIMARY CARE CENTER, INC.
 SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the year ended June 30, 2017

<u>State Grantor</u>	<u>Award/ Contract Control Number</u>	<u>Award Amount</u>	<u>Expenditure Amount</u>
Department of Health and Human Services:			
Primary Care Centers-State Loan Repayment Program (1/1/2017 - 6/30/2017)	G170676	\$ 40,000	\$ 40,000
School-Based Health Center (7/1/2016 - 6/30/2017)	G170366	69,462	69,462
Uncompensated Care (7/1/2016 - 6/30/2017)	G170366	85,437	85,437
Black Lung Program (7/1/2016 - 6/30/2017)	G170411	22,323	22,323
West Virginia Construction (7/1/2015 - 6/30/2017)	G160255	1,000,000	1,581
West Virginia Higher Education Policy Commission (2/1/2016 - 9/30/2017)	2016-RHI-9	14,500	8,700
West Virginia Culture & History (7/1/2016 - 6/30/2017)	FY17	<u>3,127</u>	<u>3,127</u>
Total Expenditures of State Awards		<u>\$ 1,234,849</u>	<u>\$ 230,630</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Lincoln County Primary Care Center, Inc.
Hamlin, West Virginia

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 Lincoln County Primary Care Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017, 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 November 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lincoln County Primary Care Center, 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 Lincoln County Primary Care Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Lincoln County Primary Care Center, Inc.'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 organization'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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-01, that we consider to be a significant deficiency.

MEMBERS

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ACCOUNTANTS

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• CPA ASSOCIATES INTERNATIONAL,
INC., WITH OFFICES IN PRINCIPAL
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln County Primary Care Center, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Lincoln County Primary Care Center, Inc.'s Response to Findings

Lincoln County Primary Care Center, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Lincoln County Primary Care Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Somerville & Company, P.L.L.C.

Huntington, West Virginia
November 13, 2017

DHHR - Finance

NOV 17 2017

Date Received

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Lincoln County Primary Care Center, Inc.
Hamlin, West Virginia

Report on Compliance for Each Major Federal Program

We have audited Lincoln County Primary Care Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lincoln County Primary Care Center, Inc.'s major federal programs for the year ended June 30, 2017. Lincoln County Primary Care Center, 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lincoln County Primary Care Center, 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the *Uniform Guidance* 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 Lincoln County Primary Care Center, 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 Lincoln County Primary Care Center, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, Lincoln County Primary Care Center, 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 June 30, 2017.

Report on Internal Control over Compliance

Management of Lincoln County Primary Care Center, 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 Lincoln County Primary Care Center, 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 the Uniform Guidance, 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 Lincoln County Primary Care Center, 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Soremill & Company, P.L.L.C.

Huntington, West Virginia
November 13, 2017

DHHR - Finance

NOV 17 2017

Date Received

LINCOLN COUNTY PRIMARY CARE CENTER, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

1. SUMMARY OF AUDITORS' RESULTS

	<u>YES</u>	<u>NO</u>
FINANCIAL STATEMENTS		
Type of auditors' report issued: <u>Unmodified</u>		
Internal control over financial reporting:		
Material weakness(es) identified?	_____	_____ X _____
Significant deficiencies identified that are not considered to be material weaknesses?	_____ X _____	_____
Noncompliance material to financial statements noted?	_____	_____ X _____
FEDERAL AWARDS		
Internal control over major programs:		
Material weakness(es) identified?	_____	_____ X _____
Significant deficiencies identified that are not considered to be material weaknesses?	_____	_____ <u>None Reported</u> _____
Type of auditors' report issued on compliance for major programs: <u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	_____	_____ X _____
Major Programs:		
Health Center Clusters:		
93.224	Consolidated Health Centers	
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	
Dollar threshold used to distinguish between Type A and type B programs:	_____ \$ 750,000 _____	
Auditee qualified as low-risk auditee?	_____	_____ X _____

LINCOLN COUNTY PRIMARY CARE CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

2. FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2017-01 Internal Controls – Accounts Receivable

Condition:

There is a lack of controls in place to verify every encounter is supported by a signed and dated consent form.

Criteria:

Management is responsible for establishing and maintaining effective internal controls over financial reporting.

Cause:

No process in place to determine consent form was properly scanned and added to the correct patient file.

Effect:

As a result of this condition, there is lack of supporting documentation for accounts receivables balances.

Recommendation:

Implement internal control policies that would allow for proper monitoring of the database system to determine all encounters are supported by a signed and dated consent form.

Views of Responsible

Officials and Planned

Corrective Actions:

The agency has added this issue to staff orientation training to ensure that all staff will be trained in proper procedures for acquiring consent for treatment. Additionally, all front desk staff at both clinic and school based locations will check their daily sign in sheets and make a notation on the sign in sheets that they verified the electronic health record and that the proper consent was filed in the chart for each patient seen. Agency management has added emphasis on the procedures for signed consent forms. Lastly, the Risk Management Officer will conduct quarterly internal audits to ensure that processes are being followed and will make recommendations to management and/or the Board of Directors for remediation steps if staff are not in compliance. When a new front desk employee is hired, the Risk Management Officer will conduct an internal audit on their work after one month of employment.

We conducted research with our electronic health record company to add an electronic signature via a signature pad. This technology has not been perfected at this time. We will continue to explore this avenue.

3. FINDINGS AND QUESTIONED COSTS

No items were noted

LINCOLN COUNTY PRIMARY CARE CENTER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

FINDING 2016-01: Internal Controls – Credit Card Purchases

Condition:

This finding was a material weakness stating there was a lack of oversight during the processing of credit card charges.

Recommendation:

The auditor recommended following the revised internal control policies as stated in the Credit Card Usage policy dated March 8, 2016. In summary, all receipts should be turned in timely and management receipts should be approved by the governing board.

Current Status:

Corrective action was taken in December 2016. No similar findings were noted in the 2017 audit.

FINDING 2016-02: Internal Controls – Accounts Receivable

Condition:

This finding was a significant deficiency stating there was a lack of controls in place to verify every encounter is supported by a signed and dated consent form.

Recommendation:

The auditor recommended implementing internal control policies that would allow for proper monitoring of the database system to determine all encounters are supported by a signed and dated consent form.

Current Status:

Corrective action was taken in December 2016. No similar findings were noted in the 2017 audit related to consent forms that were missing signatures. However, during our testing, we found encounters that were not supported by consent forms. See item 2017-01 in the 2017 Schedule of Findings and Questioned Costs.