

**LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY**

(A Hawaii Nonprofit Corporation)

**CONSOLIDATING AUDITED FINANCIAL STATEMENTS**  
(With Independent Auditor’s Report)

**FOR THE YEAR ENDED DECEMBER 31, 2016**  
(With comparative totals for the year ended December 31, 2015)

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Certified Public Accountants  
Member: AICPA  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Lana'i Community Health Center  
Lana'i City, Hawai'i 96763

### ***Report on the Financial Statements***

We have audited the accompanying consolidating financial statements of Lana'i Community Health Center and Subsidiary, which comprise the consolidating statements of financial position as of December 31, 2016, and the related consolidating statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Consolidating 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.

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### ***Opinion***

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Lana'i Community Health Center and Subsidiary as of December 31, 2016, and the consolidating statement of activities and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

The prior year summarized comparative information has been derived from Lana'i Community Health Center's 2015 financial statements and in our report dated April 19, 2016, we expressed an unmodified opinion on the financial statements.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on page 13, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2017 on our consideration of Lana'i Community Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lana'i Community Health Center's internal control over financial reporting and compliance.

***Carbonaro CPAs & Management Group***

March 14, 2017  
Wailuku, Hawai'i

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

**Consolidating Statements of Financial Position**

As of December 31, 2016 and 2015

**ASSETS**

	Lana'i Community Health Center	LCHC Holdings	2016 Totals	2015 Totals
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents (Note 2)	\$ 193,237	\$ 377,220	\$ 570,457	\$ 1,270,780
Certificates of Deposit (Note 11)	177,861	-	177,861	175,659
Grants Receivables (Note 2)	73,566	-	73,566	399,901
Patient Receivable (Note 2)	263,479	-	263,479	113,422
Allowance for Doubtful Accounts (Note 2)	(85,467)	-	(85,467)	(48,425)
Prepaid Expenses	44,963	-	44,963	27,042
Other Receivables (Note 2)	27,906	-	27,906	37,215
Total Current Assets	695,545	377,220	1,072,765	1,975,594
<b>PROPERTY AND EQUIPMENT (Note 2)</b>				
Land	313,000	250,000	563,000	250,000
Equipment and Furnishings	513,959	-	513,959	233,432
Vehicles	26,523	-	26,523	32,523
Software and Hardware	76,284	-	76,284	-
Facilities and Improvements	872,938	6,498,361	7,371,299	-
Construction in Progress	-	-	-	7,032,935
	1,802,704	6,748,361	8,551,065	7,548,890
Accumulated Depreciation	(75,565)	(255,500)	(331,065)	(49,643)
Net Property and Equipment	1,727,139	6,492,861	8,220,000	7,499,247
<b>OTHER ASSETS</b>				
Notes Receivable (Note 12)	5,384,200	-	5,384,200	5,384,200
Loan Costs (Net of Accumulated Amortization) (Note 13)	-	521,345	521,345	539,478
Inventory (Note 2)	32,774	-	32,774	44,550
Total Other Assets	5,416,974	521,345	5,938,319	5,968,228
<b>TOTAL ASSETS</b>	<b>\$ 7,839,658</b>	<b>\$ 7,391,426</b>	<b>\$ 15,231,084</b>	<b>\$ 15,443,069</b>
<b>LIABILITIES &amp; NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable	\$ 109,994	\$ 28,729	\$ 138,723	\$ 1,185,298
Accrued Expenses	158,429	-	158,429	106,891
Deferred Revenue (Note 5)	173,950	-	173,950	65,897
Current Portion of Long Term Debt (Note 13)	87,347	-	87,347	-
Total Current Liabilities	529,720	28,729	558,449	1,358,086
<b>NON CURRENT LIABILITIES</b>				
Long-term Debt (Note 13)	844,572	7,800,000	8,644,572	7,800,000
<b>TOTAL LIABILITIES</b>	<b>1,374,292</b>	<b>7,828,729</b>	<b>9,203,021</b>	<b>9,158,086</b>
<b>NET ASSETS (Note 3)</b>				
Unrestricted Net Assets	6,360,575	(437,303)	5,923,272	6,229,983
Temporarily Restricted Net Assets	104,791	-	104,791	55,000
Total Net Assets	6,465,366	(437,303)	6,028,063	6,284,983
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 7,839,658</b>	<b>\$ 7,391,426</b>	<b>\$ 15,231,084</b>	<b>\$ 15,443,069</b>

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY  
**Consolidating Statement of Activities and Changes in Net Assets**  
For the Year Ended December 31, 2016  
(With comparative totals for the Year Ended December 31, 2015)

	Lana'i Community Health Center			LCHC Holdings	Eliminations	2016 Totals	2015 Totals
	Unrestricted	Temporarily Restricted	Total				
<b>PUBLIC SUPPORT AND REVENUE</b>							
Federal Grant Income	\$ 1,678,886	\$ -	\$ 1,678,886	\$ -	\$ -	\$ 1,678,886	\$ 2,345,377
State and Local Grant Income	324,082	153,600	477,682	-	-	477,682	1,987,174
Clinic Revenues	1,065,820	-	1,065,820	-	-	1,065,820	914,692
Miscellaneous	103,364	-	103,364	-	-	103,364	78,714
In-kind Revenue (Note 9)	21,495	-	21,495	-	-	21,495	22,538
Contributions	8,333	-	8,333	-	-	8,333	3,426
Net Assets Released from Restrictions	103,809	(103,809)	-	-	-	-	-
Rental Income	-	-	-	58,000	(58,000)	-	-
Total Public Support and Revenue	<u>3,305,789</u>	<u>49,791</u>	<u>3,355,580</u>	<u>58,000</u>	<u>(58,000)</u>	<u>3,355,580</u>	<u>5,351,921</u>
<b>EXPENSES</b>							
Program Services	2,286,437	-	2,286,437	382,213	(58,000)	2,610,650	1,667,519
Management and General	884,498	-	884,498	-	-	884,498	625,102
Fundraising	117,352	-	117,352	-	-	117,352	83,041
Total Expenses	<u>3,288,287</u>	<u>-</u>	<u>3,288,287</u>	<u>382,213</u>	<u>(58,000)</u>	<u>3,612,500</u>	<u>2,375,662</u>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 17,502</b>	<b>\$ 49,791</b>	<b>\$ 67,293</b>	<b>\$ (324,213)</b>	<b>\$ -</b>	<b>\$ (256,920)</b>	<b>\$ 2,976,259</b>
Net Assets, Beginning of Year	<u>6,343,073</u>	<u>55,000</u>	<u>6,398,073</u>	<u>(113,090)</u>	<u>-</u>	<u>6,284,983</u>	<u>3,308,724</u>
Net Assets, End of Year	<u><u>\$ 6,360,575</u></u>	<u><u>\$ 104,791</u></u>	<u><u>\$ 6,465,366</u></u>	<u><u>\$ (437,303)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,028,063</u></u>	<u><u>\$ 6,284,983</u></u>

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

LANAI COMMUNITY HEALTH CENTER AND SUBSIDIARY  
**Consolidating Statement of Functional Expenses**  
For the Year Ended December 31, 2016  
(With comparative totals for the Year Ended December 31, 2015)

	Lana'i Community Health Center				LCHC Holdings	Eliminations	2016 Totals	2015 Totals
	Program Services	Management and General	Fundraising	Total				
Classification of Expenses:								
Salaries and Wages and Taxes	\$ 1,127,884	\$ 402,816	\$ 80,563	\$ 1,611,263	\$ -	\$ -	\$ 1,611,263	\$ 1,254,972
Professional Fees	436,145	186,920	-	623,065	-	-	623,065	356,546
Supplies	219,795	78,498	15,700	313,993	-	-	313,993	135,360
Depreciation and Amortization	49,566	17,703	3,541	70,810	234,745	-	305,555	57,143
Interest	26,103	-	-	26,103	114,620	-	140,723	94,489
Rent	74,173	26,490	5,298	105,961	-	(58,000)	47,961	42,730
Miscellaneous	47,533	20,371	-	67,904	155	-	68,059	29,208
Travel	64,467	23,024	4,605	92,096	-	-	92,096	89,555
Bad Debt	-	66,473	-	66,473	-	-	66,473	72,596
Molokai Drugs Expense	56,302	-	-	56,302	-	-	56,302	48,956
Printing, Publications and Advertising	16,249	5,803	1,161	23,213	32,693	-	55,906	21,278
Utilities	34,074	12,170	2,434	48,678	-	-	48,678	24,719
Telephone	29,590	10,568	2,114	42,272	-	-	42,272	23,326
Non-Capitalized Equipment and Fixtures	23,516	10,079	-	33,595	-	-	33,595	37,615
Membership Dues and Fees	20,644	8,847	-	29,491	-	-	29,491	26,204
Insurance	16,872	6,026	1,205	24,103	-	-	24,103	18,665
In-kind Donations (Note 9)	21,495	-	-	21,495	-	-	21,495	22,538
Recruiting	10,012	4,291	-	14,303	-	-	14,303	5,743
Postage	8,756	3,127	625	12,508	-	-	12,508	8,501
Automobile Expense	1,773	760	-	2,533	-	-	2,533	2,537
General Maintenance	1,488	532	106	2,126	-	-	2,126	2,981
	<u>\$ 2,286,437</u>	<u>\$ 884,498</u>	<u>\$ 117,352</u>	<u>\$ 3,288,287</u>	<u>\$ 382,213</u>	<u>\$ (58,000)</u>	<u>\$ 3,612,500</u>	<u>\$ 2,375,662</u>

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

**Consolidating Statements of Cash Flows**

For the Years Ended December 31, 2016 and 2015

	Lana'i Community Health Center	LCHC Holdings	2016 Totals	2015 Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash From Grants	\$ 2,590,956	\$ -	\$ 2,590,956	\$ 4,128,289
Cash From Clinic Revenue	962,114	-	962,114	858,764
Cash From Contributions and Miscellaneous	111,697	58,000	169,697	117,140
Cash Paid for Interest	(26,103)	(114,620)	(140,723)	(65,853)
Cash Paid to Employees and Vendors	(3,505,988)	(614,530)	(4,120,518)	(2,098,694)
Cash Provided (Used) by Operating Activities (Note 8)	132,676	(671,150)	(538,474)	2,939,646
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of Property and Equipment	(1,091,566)	-	(1,091,566)	(835,182)
Proceeds from Sale of Property and Equipment	-	-	-	5,384,200
Cash Used for Construction of New Facilities	-	-	-	(8,525,681)
Cash Used for Note Receivable	-	-	-	(5,384,200)
Cash Used to Purchase Certificates of Deposits	(2,202)	-	(2,202)	(2,182)
Cash Used by Investing Activities	(1,093,768)	-	(1,093,768)	(9,363,045)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from Borrowing on Long-term Debt	931,919	-	931,919	7,800,000
Loan Acquisition Costs	-	-	-	(544,012)
Cash Provided by Investing Activities	931,919	-	931,919	7,255,988
<b>Net (Decrease) Increase in Cash for the Year</b>	<b>(29,173)</b>	<b>(671,150)</b>	<b>(700,323)</b>	<b>832,589</b>
CASH BALANCE, BEGINNING OF YEAR	222,410	1,048,370	1,270,780	438,191
CASH BALANCE, END OF YEAR	<u>\$ 193,237</u>	<u>\$ 377,220</u>	<u>\$ 570,457</u>	<u>\$ 1,270,780</u>

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



# LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

## Notes to the Financial Statements December 31, 2016

### Note 1. ORGANIZATION

Lana‘i Women’s Center, Inc. (the Organization) is a nonprofit Organization incorporated under the laws of the State of Hawai‘i on November 29, 2004. In 2009 the Center legally changed its name to Lana‘i Community Health Center. The Lana‘i Community Health Center was created to take care of the community of Lana‘i with a focus on their physical, mental, emotional, intellectual and spiritual welfare by enriching and empowering their lives to help them build healthy families in a supportive community. In addition, the Lana‘i Community Health Center has become a Federally Qualified community health center.

LCHC Holdings, Inc. (Holdings) is a nonprofit organization incorporated under the laws of the State of Hawaii that was established on January 21, 2015. The Organization was created solely to hold title to real property, collect income therefrom, and remit the entire amount thereof, less expenses, to Lana‘i Community Health Center, Inc., an organization exempt from federal tax pursuant to section 501(c)(2) of the Internal Revenue Code. The Organizations major source of income is renting their facility to Lana‘i Community Health Center, Inc.

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Method of Accounting:* The Organization and Holdings uses the accrual method of accounting for financial statement reporting according to generally accepted accounting principles. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

*Basis of Financial Statement Presentation:* Lana‘i Community Health Center has conformed with ASC 958-810 “Consolidation” by consolidating the position and activities of LCHC Holdings.

*Property and Equipment:* The Organization and Holdings capitalizes all furniture and equipment with a value of \$5,000 or greater and a useful life of more than one year. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives.

*Revenue Recognition:* Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to donate due in the next year are reflected as current promises to give and are recorded at their net realizable value. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2016

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Cash and Cash Equivalents:* For the purpose of the statement of cash flows, cash is defined as demand deposits and savings accounts.

*Income Taxes:* Lana‘i Community Health Center and LCHC Holdings, Inc. are exempt from Federal income taxes under *Section 501(c)(3) and Section 501(c)(2)* of the Internal Revenue Code, respectively, and also from State of Hawaii income taxes under *Section 237-23 (b)* of the Hawaii Revised Statutes.

*Uncertain Tax Position:* The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2016, the organizations have analyzed its tax positions and believes that all are more likely than not to be sustained upon examination.

The Organization is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2013.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Inventory:* Inventories are priced using an average cost method for service and sheet metal parts. All other inventories are priced using a first-in, first-out (FIFO) basis.

*Advertising:* The Organization expenses advertising costs as they are incurred. Total advertising expense was \$20,888 and \$7,204 for the years ended December 31, 2016 and 2015, respectively.

*Grants, Patient and Other Receivables:* Grants, patient and other receivables represents revenue earned and not yet received. Management reviews the receivables and charges off accounts when they determine they are uncollectable. Management periodically reviews the receivable listing to determine the allowance for doubtful accounts based on historical collection rates, industry standards and the composition of the receivable balance. Management has determined an allowance for doubtful accounts of \$85,467 and \$48,425 at December 31, 2016 and 2015, respectively.

# LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

## Notes to the Financial Statements December 31, 2016

### Note 3. NET ASSETS

The Organization has conformed to FASB’s ASC Topic “Not-for-Profit Entities, Classifications of Net Assets”. Accordingly, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Temporarily restricted net assets represent restricted grants and funds received from foundations and donors for which the restriction had not yet been fulfilled as of fiscal year end. As of December 31, the temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Hawaii Community Foundation	\$ 98,791	\$ 50,000
Manele Koele Charitable Fund	3,000	-
Hawaii State Bar Association	3,000	-
Friends of Hawaii Charities	-	5,000
	<u>\$ 104,791</u>	<u>\$ 55,000</u>

Permanently restricted net assets represent funds received which have permanent restrictions imposed by the donor. There are no permanently restricted net assets as of December 31, 2016 or 2015.

### Note 4. CONCENTRATIONS

The Organization receives a substantial amount of its support from the U.S. Department of Health and Human Services. In 2016, Lana‘i Community Health Center received 50% of its revenues from this grantor. The discontinuance of these grants could adversely affect the operations of the Center.

### Note 5. DEFERRED REVENUE

Deferred revenue represents funds received from government and foundation contracts which were not yet earned as of year-end. The contracts allow for these funds to be used and thus, earned in the subsequent year. The deferred revenue balance was \$173,950 and \$65,897 as of December 31, 2016 and 2015, respectively.

### Note 6. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 14, 2017, the date the financial statements were available for use.

Prior to year-end, the Organization obtained a commitment from the United States Department of Agriculture for a loan that will be used to consolidate the Organization’s debt.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2016

Note 7. LINE OF CREDIT

The Organization had a \$100,000 line of credit with Bank of Hawaii for operating cash needs. The line of credit had a zero balance as of December 31, 2015 and ended in 2015 and was not renewed.

The Organization has a \$200,000 line of credit with First Hawaiian Bank. The interest rate for the line of credit is First Hawaiian Bank Prime rate plus a 2.25% floating rate. As of December 31, 2016 and 2015 the balance due was \$81 and \$-0-, respectively.

Note 8. RECONCILIATION OF CHANGES IN NET ASSETS WITH NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	Lana'i Community Health Center	LCHC Holdings	2016 Totals	2015 Totals
Change in Net Assets	\$ 67,293	\$ (324,213)	\$ (256,920)	\$ 2,976,259
Adjustments to Reconcile:				
Add back Depreciation and Amortization Expense	70,810	234,745	305,555	57,143
Add back Bad Debt	66,473	-	66,473	72,596
Change in Grants, Patient and Other Receivable	156,156	-	156,156	(301,495)
Change in Inventory	11,776	-	11,776	(22,319)
Change in Prepaid Expenses	(17,921)	-	(17,921)	4,778
Change in Accounts Payable	(381,502)	(581,682)	(963,184)	93,020
Change in Accrued Expenses	51,538	-	51,538	18,359
Change in Deferred Revenue	108,053	-	108,053	41,305
Net Cash Provided (Used) by Operating Activities	<u>\$ 132,676</u>	<u>\$ (671,150)</u>	<u>\$ (538,474)</u>	<u>\$ 2,939,646</u>

Note 9. DONATED GOODS AND SERVICES

Under FASB ASC 958-605-25-16 "Not-for-Profit Entities, Contributed Services", contributions of donated services that create or enhance non-financial assets or that require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

In-Kind Revenue recorded also represents the fair value of many donated items for fundraising and for the ongoing operations of the Organization. These tangible items donated are valued at their estimated fair market value at the time of donation. The Organization received \$21,495 and \$22,538 of donated goods for inventory and other items during the years ended December 31, 2016 and 2015, respectively.

## LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2016

### Note 10. NEW MARKET TAX CREDIT PROGRAM

LCHC Holdings, Inc. and Lana‘i Community Health Center participates in a New Markets Tax Credit (NMTC) program. NMTC programs were established as part of the Community Renewal Tax Relief Act of 2000 and the New Markets Tax Credit Extension Act of 2011 extended the program through 2016. The goal of NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in certified community development entities. The tax credit for investors equals 39% of the investment, and investors receive the tax credit over a seven year period. A Community Development Entity (CDE) is required to participate and has the primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as LCHC Holdings, Inc. to receive low-interest loans or investment capital from CDEs, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the NMTC program, LCHC Holdings, Inc. has obtained the low-interest loan described in Note 13.

### Note 11. INVESTMENTS

The Organization has conformed to *FASB’s ASC 820-10-50-1* which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This fair value hierarchy consists of three levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

Fair values of assets measured on a recurring basis are certificated of deposits totaling \$177,861 and \$175,659 at December 31, 2016 and 2015, respectively, and are measures at Level 1 inputs. There are no liabilities or other assets measured at fair value on a recurring or non-recurring basis.

### Note 12. NOTE RECEIVABLE

Lana‘i Community Health Center participates in the NMTC program described in Note 10 and has loaned \$5,384,200 to Twain Investment Fund 70, LLC. The Note Receivable has a stated interest rate is 1.000% and the loan matures on February 28, 2045. The loan calls for quarterly interest only payments beginning April 10, 2015. Beginning April 10, 2022 quarterly principle and interest payments begin unless the put/call option in Note 13 is exercised. The loan is secured by substantially all assets acquired by LCHC Holdings, Inc. from the proceeds of the loan.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2016

Note 13. LONG-TERM DEBT

LCHC Holdings, Inc. participates in the NMTC program described in Note 11 and has obtained a loan of \$7,800,000 payable to CCM Community Development 65 LLC, which is a Community Development Entity (CDE). The loan proceeds are to be used solely for the purpose of constructing Lana‘i Community Health Center’s facility. The loan has a put/call option feature that is exercisable in March 2022. The stated interest rate is 1.4683% and the loan matures on February 28, 2045. The loan calls for quarterly interest only payments beginning April 1, 2015. Beginning March 4, 2022 quarterly principal and interest payment begin unless either party exercises the put/call option. The loan is secured by substantially all assets acquired by LCHC Holdings, Inc. from the proceeds of the loan.

In connection with the loan, LCHC Holdings, Inc. also incurred loan acquisition costs of \$544,012 which have been capitalized and will be amortized over the life of the loan. Debt issuance costs are presented net of accumulated amortization of \$22,667. LCHC Holdings, Inc. was in compliance with the terms of its NMTC loan, including loan covenants, at December 31, 2016 and 2015.

During the year the Organization obtained loans, a summary for all long term debt is as follows:

First Hawaiian Bank, promissory note used to purchase furniture and equipment for new facilities, 5.25% interest, 60 payments of \$4,928.44 due monthly .	\$ 317,980
Native Capital Access Mortgage, promissory note used to purchase land and house, 5% interest only payments due annually. Principal due April 2019, loaned secured by property.	537,170
Aloha Care, Inc. for inadvertant overbillings; To be re-paid interest free over 24 months	76,769
CCM QLICI Loan A	5,464,200
CCM QLICI Loan B	<u>2,335,800</u>
Total long-term debt	<u>8,731,919</u>
Less current installments of long-term debt	<u>(87,347)</u>
Net long-term debt	<u>\$ 8,644,572</u>

Maturities of long debt is as follows:

2017	\$ 87,347
2018	78,719
2019	585,452
2020	50,878
2021	129,523
Thereafter	<u>7,800,000</u>
	<u>\$ 8,731,919</u>

Lana'i Community Health Center

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Contract Number	Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS08775	^ \$ 1,135,559
Affordable Care Act (ACA) Grants for New & Expanded Services Under the Health Center Program	93.527	H80CS08775	^ 335,323
Subtotal U.S. DHHS - Direct Funding Programs			<u>1,470,882</u>
Passed Through the State of Hawaii Department of Health:			
Family Planning Services	93.217	ASO Log 13-118	60,754
Medical Assistance Program	93.778	DHS-08-MQD-5163	<u>18,810</u>
Subtotal U.S. DHHS - Passed Through Funding Programs			<u>79,564</u>
Passed Through the Hawaii Primary Care Association:			
Strategies to Prevent Obesity, Diabetes, Heart Disease and Stroke Among Adults in Hawaii	93.757	03-0121-4018	128,440
Total U.S. Department of Health and Human Services Programs			<u>1,678,886</u>
Total expenditures of Federal Awards			<u><u>\$ 1,678,886</u></u>

^ Cluster

Lana‘i Community Health Center

Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016

Note A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Lana‘i Community Health Center under programs of the Federal government for the year ended December 31, 2016.

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 Lana‘i Community Health Center it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Lana‘i Community Health Center.

Note B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Accounting:* Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

*Indirect Cost Rate:* The Organization elected not to use the 20 percent de minimus indirect cost rate.



**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**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Lana'i Community Health Center  
Lana'i City, Hawaii 96763

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 Lana'i Community Health Center, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Lana'i Community Health Center's basic financial statements, and have issued our report thereon dated March 14, 2017.

**Internal Control over Financial Reporting**

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

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

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

## **Report on Internal Control**

**Page 2**

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carbonaro CPAs & Management Group*

March 14, 2017  
Wailuku, Hawai'i



Certified Public Accountants  
Member: AICPA  
HSCPA

**REPORT ON INTERNAL CONTROL OVER COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Lana'i Community Health Center  
Lana'i City, Hawaii 96763

**Report on Compliance for Each Major Federal Program**

We have audited Lana'i Community Health Center'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 Lana'i Community Health Center's major Federal programs for the year ended December 31, 2016. Lana'i Community Health Center's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Lana'i Community Health Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirement 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 Lana'i Community Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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## **Report on Compliance For Each Major Federal Program**

**Page 2**

### **Opinion on Each Major Federal Program**

In our opinion, Lana'i Community Health Center complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended December 31, 2016.

### **Report on Internal Control over Compliance**

Management of Lana'i Community Health Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lana'i Community Health Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Lana'i Community Health Center's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Carbonaro CPAs & Management Group*

March 14, 2017  
Wailuku, Hawai'i

LANA 'I COMMUNITY HEALTH CENTER

Schedule of Findings and Questioned Costs  
For the year ended December 31, 2016

**Section I-Summary of Auditor's Results**

Financial Statements

Type of Auditor's report issued: **Unmodified**

Internal control over financial reporting:

• Significant Deficiencies **None**

• Material Weaknesses **None**

Noncompliance which is material to the financial statements **None**

Federal Awards

Internal control over Major Programs:

• Significant Deficiencies **None**

• Material Weaknesses **None**

Type of auditor's report issued in regards to major program compliance **Unmodified**

The programs tested as major programs were:

- Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) CFDA # 93.224 \$1,135,559
- Affordable Care Act Grants for New & Expanded Services Under the Health Center Program CFDA #93.527 \$335,323

The threshold for distinguishing Type A and Type B Programs was **\$750,000**

Auditee qualified as a low-risk auditee **Yes**

**Section II- Financial Statement and Compliance Findings**

NONE NOTED

**Section III- Prior Year Audit Findings**

NONE NOTED