

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, 2017
(With comparative totals for the year ended December 31, 2016)

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Certified Public Accountants
Member: AICPA
HSCPA

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 statement of financial position as of December 31, 2017, 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, 2017, 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 2016 financial statements and in our report dated March 14, 2017. 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 10, 2018 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 10, 2018
Wailuku, Hawai‘i

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Consolidating Statements of Financial Position

As of December 31, 2017

(With comparative totals as of December 31, 2016)

ASSETS

	Lana'i Community Health Center	LCHC Holdings	2017 Totals	2016 Totals
CURRENT ASSETS				
Cash and Cash Equivalents (Note 2)	\$ 486,785	\$ 311,772	\$ 798,557	\$ 570,457
Certificates of Deposit (Note 11)	104,337	-	104,337	177,861
Grants Receivables (Note 2)	39,245	-	39,245	73,566
Patient Receivable (Note 2)	286,675	-	286,675	263,479
Allowance for Doubtful Accounts (Note 2)	(114,764)	-	(114,764)	(85,467)
Prepaid Expenses	44,783	-	44,783	44,963
Other Receivables (Note 2)	32,383	-	32,383	27,906
Total Current Assets	879,444	311,772	1,191,216	1,072,765
PROPERTY AND EQUIPMENT (Note 2)				
Land	313,000	250,000	563,000	563,000
Equipment and Furnishings	577,565	-	577,565	513,959
Vehicles	26,523	-	26,523	26,523
Software and Hardware	83,284	-	83,284	76,284
Facilities and Improvements	864,455	6,498,361	7,362,816	7,371,299
	1,864,827	6,748,361	8,613,188	8,551,065
Accumulated Depreciation	(204,760)	(472,112)	(676,872)	(331,065)
Net Property and Equipment	1,660,067	6,276,249	7,936,316	8,220,000
OTHER ASSETS				
Notes Receivable (Note 12)	5,384,200	-	5,384,200	5,384,200
Loan Costs (Net of Accumulated Amortization of \$40,801 and \$22,667, Respectively) (Note 13)	-	503,211	503,211	521,345
Inventory (Note 2)	32,600	-	32,600	32,774
Total Other Assets	5,416,800	503,211	5,920,011	5,938,319
TOTAL ASSETS	\$ 7,956,311	\$ 7,091,232	\$ 15,047,543	\$ 15,231,084
LIABILITIES & NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 93,551	\$ 28,632	\$ 122,183	\$ 138,723
Accrued Expenses	172,529	-	172,529	158,429
Deferred Revenue (Note 5)	290,204	-	290,204	173,950
Current Portion of Long Term Debt (Note 13)	848,735	-	848,735	87,347
Total Current Liabilities	1,405,019	28,632	1,433,651	558,449
NON CURRENT LIABILITIES				
Long-term Debt (Note 13)	-	7,800,000	7,800,000	8,644,572
TOTAL LIABILITIES	1,405,019	7,828,632	9,233,651	9,203,021
NET ASSETS (Note 3)				
Unrestricted Net Assets	6,383,575	(737,400)	5,646,175	5,923,272
Temporarily Restricted Net Assets	167,717	-	167,717	104,791
Total Net Assets	6,551,292	(737,400)	5,813,892	6,028,063
TOTAL LIABILITIES & NET ASSETS	\$ 7,956,311	\$ 7,091,232	\$ 15,047,543	\$ 15,231,084

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

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY
Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017
(With comparative totals for the Year Ended December 31, 2016)

	Lana'i Community Health Center			LCHC Holdings	Eliminations	2017 Totals	2016 Totals
	Unrestricted	Temporarily Restricted	Total				
PUBLIC SUPPORT AND REVENUE							
Federal Grant Income	\$ 1,855,495	\$ -	\$ 1,855,495	\$ -	\$ -	\$ 1,855,495	\$ 1,678,886
State and Local Grant Income	320,692	271,000	591,692	-	-	591,692	477,682
Clinic Revenues	1,348,584	-	1,348,584	-	-	1,348,584	1,065,820
Miscellaneous	106,694	-	106,694	-	(70,573)	36,121	49,704
In-kind Revenue (Note 9)	40,446	-	40,446	-	-	40,446	21,495
Contributions	18,504	-	18,504	-	-	18,504	8,333
Rental Income	-	-	-	66,097	(66,097)	-	-
Net Assets Released from Restrictions	208,074	(208,074)	-	-	-	-	-
Total Public Support and Revenue	<u>3,898,489</u>	<u>62,926</u>	<u>3,961,415</u>	<u>66,097</u>	<u>(136,670)</u>	<u>3,890,842</u>	<u>3,301,920</u>
EXPENSES							
Program Services	2,689,969	-	2,689,969	366,194	(136,670)	2,919,493	2,556,990
Management and General	1,045,681	-	1,045,681	-	-	1,045,681	884,498
Fundraising	139,839	-	139,839	-	-	139,839	117,352
Total Expenses	<u>3,875,489</u>	<u>-</u>	<u>3,875,489</u>	<u>366,194</u>	<u>(136,670)</u>	<u>4,105,013</u>	<u>3,558,840</u>
CHANGE IN NET ASSETS	\$ 23,000	\$ 62,926	\$ 85,926	\$ (300,097)	\$ -	\$ (214,171)	\$ (256,920)
Net Assets, Beginning of Year	6,360,575	104,791	6,465,366	(437,303)	-	6,028,063	6,284,983
Net Assets, End of Year	<u>\$ 6,383,575</u>	<u>\$ 167,717</u>	<u>\$ 6,551,292</u>	<u>\$ (737,400)</u>	<u>\$ -</u>	<u>\$ 5,813,892</u>	<u>\$ 6,028,063</u>

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

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Consolidating Statement of Functional Expenses

For the Year Ended December 31, 2017

(With comparative totals for the Year Ended December 31, 2016)

	Lana'i Community Health Center				LCHC Holdings	Eliminations	2017 Totals	2016 Totals
	Program Services	Management and General	Fundraising	Total				
Classification of Expenses:								
Salaries and Wages and Taxes	\$ 1,428,513	\$ 510,184	\$ 102,037	\$ 2,040,734	\$ -	\$ -	\$ 2,040,734	\$ 1,611,263
Professional Fees	470,649	201,707	-	672,356	-	-	672,356	623,065
Depreciation and Amortization	90,436	32,299	6,460	129,195	234,746	-	363,941	305,555
Supplies	175,018	62,506	12,501	250,025	-	-	250,025	313,993
Travel	75,334	26,905	5,381	107,620	-	-	107,620	92,096
Interest	43,674	-	-	43,674	114,430	(53,660)	104,444	87,063
Bad Debt	-	93,170	-	93,170	-	-	93,170	66,473
Miscellaneous	55,420	23,751	-	79,171	105	-	79,276	68,059
Molokai Drugs Expense	57,047	-	-	57,047	-	-	57,047	56,302
Utilities	37,610	13,433	2,687	53,730	-	-	53,730	48,678
Telephone	30,532	10,904	2,181	43,617	-	-	43,617	42,272
In-kind Donations (Note 9)	40,446	-	-	40,446	-	-	40,446	21,495
Printing, Publications and Advertising	14,078	5,028	1,006	20,112	16,913	(16,913)	20,112	55,906
Recruiting	25,865	11,085	-	36,950	-	-	36,950	14,303
Membership Dues and Fees	23,055	9,881	-	32,936	-	-	32,936	29,491
Insurance	21,867	7,810	1,562	31,239	-	-	31,239	24,103
Rent	64,711	23,111	4,622	92,444	-	(66,097)	26,347	47,961
Non-Capitalized Equipment and Fixtures	14,206	6,089	-	20,295	-	-	20,295	33,595
Postage	10,506	3,753	751	15,010	-	-	15,010	12,508
General Maintenance	9,109	3,254	651	13,014	-	-	13,014	2,126
Automobile Expense	1,893	811	-	2,704	-	-	2,704	2,533
	<u>\$ 2,689,969</u>	<u>\$ 1,045,681</u>	<u>\$ 139,839</u>	<u>\$ 3,875,489</u>	<u>\$ 366,194</u>	<u>\$ (136,670)</u>	<u>\$ 4,105,013</u>	<u>\$ 3,558,840</u>

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

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Consolidating Statements of Cash Flows

For the Year Ended December 31, 2017

(With comparative totals for the Year Ended December 31, 2016)

	Lana'i Community Health			LCHC		
	Center	Holdings	Eliminations		2017 Totals	2016 Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash From Grants	\$ 2,597,762	\$ -	\$ -		\$ 2,597,762	\$ 2,590,956
Cash From Clinic Revenue	1,350,208	-	-		1,350,208	962,114
Cash From Contributions, Rent and Miscellaneous	125,198	66,097	(136,670)		54,625	58,037
Cash Paid for Interest	(43,674)	(114,430)	53,660		(104,444)	(87,063)
Cash Paid to Employees and Vendors	(3,664,163)	(17,115)	83,010		(3,598,268)	(4,062,518)
Cash Provided (Used) by Operating Activities (Note 8)	365,331	(65,448)	-		299,883	(538,474)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of Property and Equipment	(62,123)	-	-		(62,123)	(1,091,566)
Net Redemption (Purchase) of Certificates of Deposits	73,524	-	-		73,524	(2,202)
Cash Provided (Used) by Investing Activities	11,401	-	-		11,401	(1,093,768)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from Borrowing on Long-term Debt	-	-	-		-	931,919
Payments on Long-term Debt	(83,184)	-	-		(83,184)	-
Cash Provided (Used) by Investing Activities	(83,184)	-	-		(83,184)	931,919
Net (Decrease) Increase in Cash for the Year	293,548	(65,448)	-		228,100	(700,323)
CASH BALANCE, BEGINNING OF YEAR	193,237	377,220	-		570,457	1,270,780
CASH BALANCE, END OF YEAR	\$ 486,785	\$ 311,772	\$ -		\$ 798,557	\$ 570,457

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, 2017

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, 2017

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, 2017, the organizations have analyzed its tax positions and believe 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 2014.

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 \$10,365 and \$20,888 for the years ended December 31, 2017 and 2016, 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 \$114,764 and \$85,467 at December 31, 2017 and 2016, respectively.

Reclassifications: Certain items on the December 31, 2016 Consolidating Financial Statements have been reclassified to conform to 2017 classifications. These reclassifications had no effect on Net Assets.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements December 31, 2017

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>2017</u>	<u>2016</u>
Diabetes Prevention	\$ 75,000	\$ -
BH Post-Doc Program	50,000	-
Tobacco Prevention and Control	23,257	98,791
BH Direct Services	7,957	-
Equipment and Outreach	6,034	-
One Touch Glucose Strips	5,469	-
Other Restrictions	-	6,000
	<u>\$ 167,717</u>	<u>\$ 104,791</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, 2017 or 2016.

Note 4. CONCENTRATIONS

The Organization receives a substantial amount of its support from the U.S. Department of Health and Human Services. In 2017, Lana‘i Community Health Center received 41% 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 \$290,204 and \$173,950 as of December 31, 2017 and 2016, respectively.

Note 6. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 10, 2018, the date the financial statements were available for use.

Subsequent to year end, the Organization refinanced the First Hawaiian Bank and Native Capital Access Mortgage loans (Note 13) with a loan from the United States Department of Agriculture.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements
December 31, 2017

Note 7. LINE OF CREDIT

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, 2017 and 2016 the balance due was \$-0-.

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

	Lana'i Community Health Center	LCHC Holdings	2017 Totals	2016 Totals
Change in Net Assets	\$ 85,926	\$ (300,097)	\$ (214,171)	\$ (256,920)
Adjustments to Reconcile:				
Add back Depreciation and Amortization Expense	129,195	234,746	363,941	305,555
Add back Bad Debt	93,170	-	93,170	66,473
Change in Grants, Patient and Other Receivable	(57,225)	-	(57,225)	156,156
Change in Inventory	174	-	174	11,776
Change in Prepaid Expenses	180	-	180	(17,921)
Change in Accounts Payable	(16,443)	(97)	(16,540)	(963,184)
Change in Accrued Expenses	14,100	-	14,100	51,538
Change in Deferred Revenue	116,254	-	116,254	108,053
Net Cash Provided (Used) by Operating Activities	<u>\$ 365,331</u>	<u>\$ (65,448)</u>	<u>\$ 299,883</u>	<u>\$ (538,474)</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 \$40,446 and \$21,495 of donated goods for inventory and other items during the years ended December 31, 2017 and 2016, respectively.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements December 31, 2017

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 certificates of deposits totaling \$104,337 and \$177,861 at December 31, 2017 and 2016, 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, 2017

Note 13. LONG-TERM DEBT

LCHC Holdings, Inc. participates in the NMTC program described in Note 10 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 were 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 \$40,801. LCHC Holdings, Inc. was in compliance with the terms of its NMTC loan, including loan covenants, at December 31, 2017 and 2016.

A summary for all long term debt as of December 31, 2017 is as follows:

First Hawaiian Bank (Note 6), promissory note used to purchase furniture and equipment for new facilities, 5.25% interest.	\$ 274,713
Native Capital Access Mortgage (Note 6), promissory note used to purchase land and house, 5% interest only payments due annually.	537,469
Aloha Care, Inc. for inadvertent overbillings	36,553
CCM QLICI Loan A	5,464,200
CCM QLICI Loan B	<u>2,335,800</u>
Total long-term debt	<u>8,648,735</u>
Less current installments of long-term debt	<u>(848,735)</u>
Net long-term debt	<u>\$ 7,800,000</u>

Maturities of long term debt is as follows:

2018	\$ 848,735
2019	-
2020	-
2021	-
2022	7,800,000
Thereafter	-
	<u>\$ 8,648,735</u>

Lana'i Community Health Center and Subsidiary

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Contract Number	Federal Expenditures	State Expenditures
U.S. Department of Health and Human Services				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS08775	\$ 1,585,580	\$ -
Subtotal U.S. DHHS - Direct Funding Programs			1,585,580	-
Passed Through the State of Hawaii Department of Health:				
Family Planning Services	93.217	ASO Log 13-118	46,666	33,792
Medical Assistance Program	93.778	DHS-08-MQD-5163	14,440	-
Subtotal U.S. DHHS - Passed Through State of Hawaii Department of Health			61,106	33,792
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	208,809	-
Subtotal U.S. DHHS - Passed Through Hawaii Primary Care Association			208,809	-
Total U.S. Department of Health and Human Services Programs			1,855,495	33,792
Total expenditures of Federal Awards			\$ 1,855,495	\$ 33,792

Lana'i Community Health Center and Subsidiary

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

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, 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 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 *Uniformed Guidance*, 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.

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

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, 2017, 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 10, 2018.

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

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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 10, 2018

Wailuku, Hawai'i



Certified Public Accountants
Member: AICPA
HSCPA

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

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, 2017. 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, 2017.

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 10, 2018

Wailuku, Hawai‘i

LANA 'I COMMUNITY HEALTH CENTER

Schedule of Findings and Questioned Costs
For the year ended December 31, 2017

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 **\$1,585,580**

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