

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

FINANCIAL REPORT

March 31, 2019

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McCANNON • ROGERS • DRISCOLL
& ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

BENJAMIN P. ALBRIGHT, III, CPA
RANDY G. BOYD, CPA

PARTNERS:

STEPHEN B. DRISCOLL, CPA

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The C.W. Williams Community Health Center, Inc.
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The C.W. Williams Community Health Center, Inc. (a nonprofit organization) (the Organization), which comprise the statement of financial position as of March 31, 2019, and the related 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 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The C.W. Williams Community Health Center, Inc. as of March 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note A, the Organization adopted the Financial Accounting Standards Board's Accounting Standards update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958-205) – *Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended March 31, 2019. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019 on our consideration of The C.W. Williams Community Health 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering The C.W. Williams Community Health Center, Inc.'s internal control over financial reporting and compliance.

McLannan, Rogers, Driscoll & Associates, L.L.P.

Gastonia, North Carolina
November 21, 2019

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

STATEMENT OF FINANCIAL POSITION
March 31, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 1,398,145
Patient receivables, net	300,328
Grant receivables	557,570
Prepaid expenses	3,597
Inventory	76,901
Other receivables	<u>138</u>

Total current assets 2,336,679

PROPERTY AND EQUIPMENT, NET 520,168

Total assets \$ 2,856,847

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 109,811
Accrued expenses	181,111
Medicaid cost report settlement	165,000
Current portion of other liabilities	650,575
Current portion of capital lease obligations	2,444
Current portion of long-term debt	<u>50,521</u>

Total current liabilities 1,159,462

LONG-TERM LIABILITIES

Other liabilities, less current portion	28,161
Long-term debt, less current portion	<u>605,671</u>

Total long-term liabilities 633,832

NET ASSETS

Without donor restrictions	527,804
With donor restrictions	<u>535,749</u>

Total net assets 1,063,553

Total liabilities and net assets \$ 2,856,847

See notes to financial statements.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUES, AND OTHER			
Support:			
Federal grants	\$ 1,937,019	\$ -	\$ 1,937,019
State and local grants	454,070	600,000	1,054,070
Contributions	34,928	-	34,928
Other grants	22,275	25,000	47,275
Total support	2,448,292	625,000	3,073,292
Revenue:			
Patient fees	1,634,999	-	1,634,999
Other income	2,876	-	2,876
Total revenue	1,637,875	-	1,637,875
Other income	5,025	-	5,025
Net assets released from restrictions	89,251	(89,251)	-
Total support, revenue, and other income	4,180,443	535,749	4,716,192
OPERATING EXPENSES			
Health care services	3,560,191	-	3,560,191
Supporting services	529,289	-	529,289
Total expenses	4,089,480	-	4,089,480
Change in net assets	90,963	535,749	626,712
Net assets, beginning of year	436,841	-	436,841
Net assets, end of year	\$ 527,804	\$ 535,749	\$ 1,063,553

See notes to financial statements.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended March 31, 2019

	Health Care Services	Supporting Services	Total Expenses
Personnel costs:			
Salaries	\$ 2,079,938	\$ 249,141	\$ 2,329,079
Payroll taxes	197,622	25,053	222,675
Employee benefits	91,127	11,008	102,135
Total personnel costs	2,368,686	285,203	2,653,889
Other expenses:			
Accounting and professional fees	37,047	9,374	46,421
Bank and other service charges	-	3,482	3,482
Building maintenance	31,714	-	31,714
Contamination and waste removal	6,616	-	6,616
Consultants	79,358	-	79,358
Continuing education	-	2,487	2,487
Dues, publications, and conferences	1,052	10,878	11,930
Equipment rental	14,284	3,071	17,355
Equipment maintenance	101,575	457	102,032
Insurance	-	31,759	31,759
Interest expense	26,615	33,077	59,692
Legal fees	-	1,100	1,100
Marketing	-	97,548	97,548
Patient services	83,883	-	83,883
Postage	1,240	219	1,459
Office expense	10,853	1,915	12,768
Occupancy	42,318	25,050	67,368
Clinical supplies	511,055	23	511,078
Telephone	22,113	-	22,113
Taxes and licenses	-	8,026	8,026
Bad debts, net	160,000	-	160,000
Travel	-	15,444	15,444
Other	5,123	176	5,299
Total other expenses	1,134,846	244,086	1,378,932
Depreciation	56,659	-	56,659
Total expenses	\$ 3,560,191	\$ 529,289	\$ 4,089,480

See notes to financial statements.

THE C. W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended March 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 626,712
Adjustments to reconcile change in net assets to net cash from operating activities	
Change in allowance for doubtful accounts	(59,541)
Depreciation	56,659
(Increase) decrease in operating assets:	
Patient receivables	142,218
Medicaid cost report settlement receivable	122,126
Grant receivables	(232,403)
Prepaid expenses	5,637
Inventory	(12,519)
Increase (decrease) in operating liabilities	
Accounts payable	36,844
Accrued expenses	62,116
Medicaid cost report settlement payable	165,000
Other payables	(163,199)
Net cash provided by operating activities	<u>749,650</u>

NET CASH FLOWS USED IN INVESTING ACTIVITIES

Purchases of property and equipment	<u>(89,251)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on long-term debt	(49,825)
Principal payments on capital lease obligations	<u>(8,297)</u>
Net cash used in financing activities	<u>(58,122)</u>

Net increase in cash	602,277
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Cash:

Beginning of year	<u>795,868</u>
End of year	<u>\$ 1,398,145</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	<u>\$ 60,475</u>
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See notes to financial statements.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

Note A - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The C.W. Williams Community Health Center, Inc. (the Organization), formerly Metrolina Comprehensive Health Center, Inc., was incorporated under the laws of the State of North Carolina as a nonprofit organization whose purpose is to provide primary medical care to the medically unserved and underserved population of Charlotte, North Carolina. The primary care operation is funded by patient service revenues and governmental and private grants.

A summary of the Organization's significant accounting policies follows:

New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board (FASB) issued (ASU) 2016-14, Not-for-Profit Entities Accounting Standards Codification (ASC) (Topic 958-205) - *Presentation of Financial Statements of Not-for-Profit Entities* effective January 1, 2018. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues, expenses, and gains and losses are classified on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions consist of net assets which can be both undesignated and designated in nature. Undesignated net assets without donor restrictions are those currently available for use in the day-to-day operations of the Organization and those resources invested in property and equipment. From time-to-time the Board of Directors may designate certain amounts to meet specific objectives of the Organization. No designated net assets without donor restrictions existed at March 31, 2019.

Net assets with donor restrictions consist of net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the net assets are received, the amounts are reported as net assets without donor restrictions. At March 31, 2019, net assets with donor restrictions consist of cash of \$210,749 and grant receivables of \$325,000 to be used for capital improvements (\$510,749) and pharmacogenetics screening (\$25,000). During the year ended March 31, 2019, the Organization spent \$89,251 for capital improvements related to these restrictions. Subsequent to year end and prior to issuance of these financial statements, the Organization has spent \$204,945 on capital improvements related to these net assets with donor restrictions.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note A - Nature of Activities and Summary of Significant Accounting Policies - Continued

Revenue Recognition

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include contract rates, reimbursed costs, and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in restricted net assets with donor restrictions depending on the nature of the restrictions. When a time and/or purpose restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Patient Receivables, Net

Patient receivables are recorded at net realizable value consisting of the carrying amount less the allowances for contractual adjustments and doubtful accounts. Credit is extended to customers after an evaluation of the customer's financial condition, and generally collateral is not required. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the patient receivables portfolio. Accounts are considered past due after thirty days and all receivables over 365 days old are considered uncollectible and are written off.

The Organization's policy is to not charge interest on patient account balances that are outstanding at the end of the month.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note A - Nature of Activities and Summary of Significant Accounting Policies - Continued

Grant Receivables

A significant portion of the Organization's revenue is obtained through grants from various federal, city, state and private agencies. The Organization recognizes this revenue either on a prorated basis over the term of the grant or to the extent of expenses incurred. The method of revenue recognition is determined based on the terms of the grant.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both as a result of the Center's noncompliance with the terms of the grant.

The allowance for doubtful accounts for grant receivables has been evaluated and determined to be immaterial to the financial statements.

Inventory

Inventory consists of pharmaceutical items purchased by the Organization, as well as various items donated during the year. The inventory is valued at the lower of cost (first-in, first-out basis) or market.

Property and Equipment, Net

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 4-50 years. The Organization capitalizes assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of a year.

Additions are charged to the property accounts while maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts, and any profit or loss on disposition is credited or charged to earnings.

Donations of property and equipment are recorded as support at their estimated fair market value. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Under the terms of grants, the Organization may be prohibited from liquidating certain property and equipment acquired with grant monies.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note A - Nature of Activities and Summary of Significant Accounting Policies - Continued

Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Advertising Costs

The Organization expenses advertising costs as they are incurred. Advertising costs were \$67,018 for the year ended March 31, 2019.

Income Tax Status

The Organization is organized under Section 501(c)(3) of the Internal Revenue Code as a nonprofit, tax-exempt organization. In addition, the State of North Carolina has granted the Organization tax-exempt status.

The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of March 31, 2019. The Organization has tax years ended March 31, 2016, 2017 and 2018 subject to examination by the Internal Revenue Service.

Functional Allocation of Expenses

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel costs	Time and effort
Accounting and professional fees	Direct allocation
Dues, publications, and conferences	Direct allocation
Equipment rental	Direct allocation
Equipment maintenance	Direct allocation
Interest expense	Direct allocation
Postage	Direct allocation
Office expense	Direct allocation
Occupancy	Space usage
Clinical supplies	Direct allocation
Other	Direct allocation

Subsequent Events

The Organization has evaluated subsequent events through November 21, 2019, the date on which the financial statements were available to be issued.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note B - Concentrations of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist primarily of cash and accounts receivable. The Organization's bank accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Periodically, the Organization may have cash balances in excess of FDIC insured limits. The cash balances are maintained at financial institutions with high credit-quality ratings and the Organization believes no significant risk of loss exists with respect to those balances.

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix of net patient receivables from patients and third party payers at March 31, 2019 was as follows:

Medicare/Medicaid	40%
Private Insurance	29%
Sliding Scale	4%
Self-Pay	27%
	<u>100%</u>

Note C - Patient Receivables, Net

Patient receivables are composed of the following at March 31, 2019:

Patients:	
Medicare/Medicaid	\$ 212,216
Patients	<u>318,562</u>
Total due	530,778
Less allowance for doubtful accounts:	
Medicare/Medicaid	(113,665)
Patients	<u>(116,780)</u>
	<u>(230,450)</u>
Total receivables	<u>\$ 300,328</u>

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note D - Property and Equipment

Property and equipment are composed of the following:

	<u>March 31, 2018</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>March 31, 2019</u>
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Building	1,551,751	33,335	-	1,585,086
Equipment	1,246,850	34,591	-	1,281,441
Construction in progress	-	<u>21,325</u>	-	<u>\$ 21,325</u>
	2,808,601	89,251	-	2,897,852
Accumulated depreciation	<u>2,321,025</u>	<u>56,659</u>	-	<u>2,377,684</u>
Net property and equipment	<u>\$ 487,576</u>	<u>\$ 32,592</u>	<u>\$ -</u>	<u>\$ 520,168</u>

Depreciation expense for the year ended March 31, 2019 was \$56,659.

Note E - Long-Term Debt

Long-term debt at March 31, 2019 consists of the following:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Note payable to Bank in monthly installments of \$5,700 including interest at 5.25%. All remaining principal and interest due November 2020. Real estate pledged as collateral.	\$ 35,129	\$ 605,671	\$ 640,800
Note payable to Bank in monthly installments of \$1,555 including interest at 5.25%. All principal and interest due December 2019.	<u>15,392</u>	-	<u>15,392</u>
	<u>\$ 50,521</u>	<u>\$ 605,671</u>	<u>\$ 656,192</u>

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note E - Long-Term Debt - Continued

The annual aggregate maturities required on long-term debt at March 31, 2019 are as follows:

	<u>Amount</u>
2020	\$ 50,521
2021	<u>605,761</u>
Total	<u>\$ 656,192</u>

Note F - Capital Leases

The Company entered into two non-cancelable leases which qualify as capital leases.

The amounts capitalized under these lease arrangement are included in equipment on the statement of financial position at March 31, 2019 as follows:

Equipment	\$ 14,664
Less accumulated depreciation	<u>9,462</u>
Net book value	<u>\$ 5,202</u>

The present values of future minimum capital lease payments as of March 31, 2019 are as follows:

Year ending March 31,

2020	\$ 2,445
Less amount representing interest	<u>1</u>
Present value of future payments	2,444
Current portion	<u>2,444</u>
Long-term portion	<u>\$ -</u>

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note G - Other Liabilities

On May 27, 2015 the Organization filed a Plan of Reorganization under Chapter 11 of the Federal Bankruptcy Code. The Plan was amended on September 4, 2015 and a hearing on the Debtor's Disclosure Statement and Confirmation of the Plan of Reorganization was held on October 14, 2015 and approved on December 3, 2015. As of March 31, 2019, the Organization is complying with the provisions of the approved plan and is currently making all required payments per the Plan.

The following is a repayment schedule of the bankruptcy liabilities recorded under other liabilities.

<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
\$ 711,710	\$ 28,161	\$ 739,871

The annual aggregate payments required on the bankruptcy debt at March 31, 2019 are as follows:

Year ending March 31,

2020	\$ 711,710
2021	5,517
2022	5,189
2023	5,400
2024	5,621
Thereafter	<u>6,434</u>
Total	\$ <u>739,871</u>

On January 24, 2018, the Organization received a Final Decree signed by the Bankruptcy judge indicating that the estate had been fully administered and that the bankruptcy case was officially closed. Effective January 24, 2018, the Organization is no longer under the supervision of the Bankruptcy Court.

Note H - Contingencies

The Organization is subject to legal proceedings and claims that arise in the course of providing health care services. The Organization maintains malpractice insurance coverage for claims made during the term of the policy. In the opinion of management, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2019

Note H - Contingencies - Continued

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services billed.

Note I - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position sheet date, comprise the following at March 31, 2019:

Cash	\$ 1,187,396
Patient receivables, net	300,328
Grant receivables	232,570
Other receivables	<u>138</u>
	<u>\$ 1,720,432</u>

The Organization generally uses these assets for programs and day-to-day operations.

As part the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations that become due.

Note J - Major Grants

Three governmental agencies provided funding to the Organization of \$2,991,089 or 63% of total revenues and support and revenue for the year ended March 31, 2019.

Note K - Inventory

Inventory consists of supplies and pharmaceutical items purchased by the Organization, as was as various items donated by a national pharmaceutical company during the year. The inventory is valued at the lower of cost (first-in, first-out basis) or market. The value of donated items received was approximately \$170,000 for the year ended March 31, 2019.