

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

CHARLOTTE, NORTH CAROLINA

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
MARCH 31, 2012 AND 2011**

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The C.W. Williams Community Health Center, Inc.

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We have audited the accompanying statements of financial position of The C.W. Williams Community Health Center, Inc. as of March 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of The C.W. Williams Community Health Center, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our 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. at March 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012 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, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of The C.W. Williams Community Health Center, Inc. as a whole. The accompanying schedule of expenditures of federal and State awards is presented for additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and various governmental agencies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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 statement 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 and State awards is fairly stated in all material respects in relation to the financial statements as a whole.

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

December 31, 2012

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2012 AND 2011

ASSETS	2012	2011
Current Assets		
Cash	\$ 178,874	\$ 448,494
Restricted Cash	-	49,188
Due from Medicare/Medicaid intermediaries, net of contractual disallowances of \$162,604 and \$0	155,510	290,386
Patient accounts receivable, net allowance for doubtful accounts of \$185,921 and \$0	134,300	231,262
Cost settlement receivable - Medicare/Medicaid	98,798	537,816
Accounts Receivable - other	19,063	4,879
Grant receivable	-	10,640
Prepaid expenses	11,754	2,185
Inventory	6,824	6,824
Total current assets	605,123	1,581,674
Property and Equipment		
Land	10,000	10,000
Building	1,502,475	1,502,372
Equipment	1,171,061	1,148,157
Total property and equipment	2,683,536	2,660,529
Accumulated depreciation	(2,261,821)	(2,128,905)
Total property and equipment - net	421,715	531,624
Other Assets		
Deposits	18,358	18,358
Total assets	\$ 1,045,196	\$ 2,131,656
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 314,832	\$ 2,393,626
Deferred revenue	945,444	121,444
Accrued payroll and employee benefits	105,931	148,418
Accrued interest	620	620
Current portion of note payable	204,000	-
Total current liabilities	1,570,827	2,664,108
Long Term Liabilities		
Note payable - Presbyterian settlement	765,000	-
Total liabilities	2,335,827	2,664,108
Net Assets		
Unrestricted assets	(1,290,631)	(581,640)
Temporarily restricted assets	-	49,188
Total net assets	(1,290,631)	(532,452)
Total liabilities and net assets	\$ 1,045,196	\$ 2,131,656

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED MARCH 31, 2012 AND 2011

	2012		2011		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
SUPPORT:					
Department of Health and Human Services	\$ 1,172,466	-	\$ 1,172,466	\$ -	\$ 1,412,616
Contributions	-	29,620	29,620	20,782	20,782
In-kind contributions	357,598	-	357,598	-	508,121
Other grants	403,777	355,319	759,096	309,191	309,191
Net assets released from restrictions					
Restrictions satisfied by expenditures	434,127	(434,127)	-	(347,609)	-
Total support	2,367,968	(49,188)	2,318,780	(17,636)	2,250,710
REVENUE:					
Gross patient fees	5,534,232	-	5,534,232	-	5,386,635
Less: Charge adjustments	(2,878,437)	-	(2,878,437)	-	(2,476,859)
Less: Bad debts	(425,233)	-	(425,233)	-	-
Net fees	2,230,562	-	2,230,562	-	2,909,776
Service revenue	13,965	-	13,965	-	-
Investment return	321	-	321	-	499
Miscellaneous income	30,352	-	30,352	-	4,226
Total revenue	2,275,200	-	2,275,200	-	2,914,501
Total support and revenue	4,643,168	(49,188)	4,593,980	(17,636)	5,165,211
FUNCTIONAL EXPENSES:					
Program expenses	4,210,144	-	4,210,144	-	4,013,504
Management and general expenses	1,142,015	-	1,142,015	-	1,407,822
Total functional expenses	5,352,159	-	5,352,159	-	5,421,326
Increase (decrease) in net assets	(708,991)	(49,188)	(758,179)	(17,636)	(256,115)
Net assets, beginning of year	(581,640)	49,188	(532,452)	66,824	(276,337)
Net assets, end of year	<u>\$ (1,290,631)</u>	<u>-</u>	<u>\$ (1,290,631)</u>	<u>\$ 49,188</u>	<u>\$ (532,452)</u>

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED MARCH 31, 2012 AND 2011

	2012		2011	
	Management and General	Program Services	Management and General	Program Services
	Total	Total	Total	Total
Personnel Costs:				
Salaries	\$ 317,648	\$ 2,175,298	\$ 773,838	\$ 1,027,404
Contract staff physicians-Presbyterian	-	-	-	49,932
Contract staff physicians-other	-	59,205	-	952,844
Payroll taxes and employee benefits	127,204	275,632	153,482	142,277
Total personnel	444,852	2,510,135	927,320	2,172,457
Other expenses:				
Accounting and professional fees	49,846	29,494	20,573	30,092
Bank and other service charges	13,147	3,616	14,136	-
Building maintenance	-	20,978	59,620	89,474
Consultants	110,213	95,198	80,008	258,313
Dues, publications and conferences	48,319	29,231	84,761	25,860
Employee retention, relocation	2,663	10,088	1,604	-
Equipment rental and maintenance	96,272	87,777	60,881	10,373
Insurance	16,272	-	3,447	28,756
Interest expense	751	117	254	-
Legal fees	72,074	-	6,229	-
Claim settlement	90,000	-	-	-
Marketing	65,764	410	4,557	35,594
Business meetings	216	540	216	47
Patient services	735	197,149	3,773	105,551
Pharmaceutical cost of goods sold	-	456,449	-	637,619
Postage	7,725	1,768	10,456	324
Printing	4,198	3,164	4,195	2,414
Occupancy	8,593	320,706	20,422	347,435
Supplies	30,275	147,006	33,427	110,435
Telephone	24,059	51,717	19,264	45,113
Temporary help	9,703	116,170	-	1,720
Travel-Board	-	-	1,364	-
Travel-staff	16,938	17,264	5,732	3,656
Other	1,487	6,164	16,989	2,290
Total other expenses	669,250	1,595,006	451,908	1,735,066
Depreciation	27,913	105,003	28,594	105,981
Total expenses	\$ 1,142,015	\$ 4,210,144	\$ 1,407,822	\$ 4,013,504
		2,264,256	2,172,457	3,099,777
		132,916	79,340	50,665
		5,352,159	16,763	14,136
		\$ 5,352,159	20,978	149,094
		\$ 2,492,946	205,411	338,321
		75,776	77,550	110,621
		125,873	12,751	1,604
		34,202	184,049	10,373
		7,651	16,272	28,756
		1,595,006	868	254
		2,264,256	72,074	6,229
		132,916	90,000	-
		\$ 5,352,159	66,174	40,151
		\$ 4,210,144	756	263
		\$ 1,407,822	197,884	109,324
		\$ 4,013,504	456,449	637,619
		451,908	9,493	10,780
		28,594	7,362	6,609
		1,407,822	329,299	367,857
		\$ 4,013,504	177,281	143,862
		\$ 1,407,822	75,776	64,377
		\$ 4,013,504	125,873	1,720
		\$ 4,013,504	1,364	1,364
		\$ 4,013,504	5,732	3,656
		\$ 4,013,504	16,989	2,290
		\$ 4,013,504	451,908	1,735,066
		\$ 4,013,504	28,594	105,981
		\$ 4,013,504	\$ 1,407,822	\$ 4,013,504
		\$ 4,013,504	\$ 4,013,504	\$ 4,013,504

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (758,179)	\$ (256,115)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	132,916	134,575
(Increase) decrease in		
Due from Medicare/Medicaid intermediaries	134,876	(90,776)
Patient accounts receivable	96,962	74,853
Cost settlement receivable	439,018	(193,835)
Accounts receivable - other	(14,184)	14,174
Grant receivable	10,640	226,917
Prepaid expenses	(9,569)	8,236
Inventory	-	30,891
Deposits	-	(9,662)
Increase (decrease) in		
Accounts payable	(2,078,794)	422,836
Deferred revenue	824,000	-
Accrued payroll and employee benefits	(42,487)	36,687
	(1,264,801)	398,781
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases and disposals of property and equipment, net	(23,007)	(251,091)
	(23,007)	(251,091)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	969,000	-
	969,000	-
NET INCREASE (DECREASE) IN CASH	(318,808)	147,690
CASH, BEGINNING OF YEAR	497,682	349,992
CASH, ENDING OF YEAR	\$ 178,874	\$ 497,682
Cash	\$ 178,874	\$ 448,494
Restricted Cash	-	49,188
Total Cash	\$ 178,874	\$ 497,682
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 868	\$ 254

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

Note 1 – 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., is a non-profit corporation organized under the laws of the State of North Carolina for the purpose of providing medical services to the medically unserved and underserved population of Charlotte, North Carolina. The Organization is supported primarily by grants and fees for medical services. Government grant funding was approximately 33 percent and 28 percent of total Organization support in 2012 and 2011, respectively.

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

Promises to Give

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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a time and/or purpose restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

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

Malpractice Insurance

The Organization purchases professional and general liability insurance to cover malpractice claims. A provision for estimated malpractice claims has not been recorded since the Organization has not had any resolved or unresolved claims.

Property and Equipment

Property and equipment represents the Organization's investment fixed assets. Some property and equipment was purchased with grant funds and are returnable to the Department of Health and Human Services. Building and building improvements are depreciated over twenty-five years. Furniture and equipment is depreciated over seven to ten years.

In accordance with Financial Accounting Standards Board (FASB) ASC 360-10 the Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended March 31, 2012 and 2011.

Accounts Receivable and Bad Debts

Accounts receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of medicines and pharmaceuticals that are carried at cost for items purchased and at the wholesale catalogue price for donated items.

Basis of Presentation

The Organization conforms to FASB ASC 958, *Not-for-Profit Entities*. Under FASB ASC 958, 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. Furthermore, information is required to segregate program service expenses from management and general expenses.

Contributions

The Organization complies with FASB ASC 958-605. In conformity with FASB ASC 958-605, contributions received, if any, are recorded as unrestricted, temporarily or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities.

Tax Exempt Status

The Organization is exempt from federal and State income taxes pursuant to the provisions of Section 501(c)(3) of the U.S. Internal Revenue Code. Effective April 1, 2009, the Organization implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of the date of the independent auditors' report, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Income tax returns from 2009 through 2011 are open for examination by tax authorities.

Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Services to indigent patients are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Organization's charity care policy aggregated approximately \$1,908,059 during the year ended March 31, 2012.

Advertising and Marketing

The Organization expenses advertising and marketing costs as incurred. Advertising and marketing costs were incurred to promote the health services. Advertising and marketing costs were \$66,174 and \$40,151 at March 31, 2012 and 2011, respectively.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

Note 2 – Grants and Contracts

Department of Health and Human Services

The Organization was awarded \$1,019,216 in federal funds for the grant year of April 1, 2011 through March 31, 2012 through the Community Health Centers program and \$870,390 for the grant year of April 1, 2010 through March 31, 2011. Total funds expended for the years ended March 31, 2012 and 2011 were \$1,019,216 and \$870,390, respectively. The funds were received by the Organization on an advance basis. The funds were used to develop, implement, and evaluate a family centered, culturally sensitive and easily accessible model demonstration project for women, children, and families. The project serves to improve and expand access to health and social services including clinical research. Funds were originally promised for grant years 2002 to 2005 in the amount of \$770,584 per year. The grant was extended through 2012.

Department of Health and Human Services (IDS) Grant

On March 28, 2009, the Organization was awarded a one time Increased Demand for Services (IDS) grant through the American Recovery and Reinvestment Act (ARRA), in the amount of \$226,651. The IDS grant funding will be provided under a 2-year project period. The grant will be used to fund three new positions over the total grant period. On September 18, 2009, the grant was increased \$1,000 to \$227,651. For the years ended March 31, 2012 and March 31, 2011, \$9,233 and \$180,714 of the funding were spent, respectively.

Department of Health and Human Services (CIP) Grant

On June 25, 2009, the Organization was awarded a one time Capital Improvement Program (CIP) grant through the American Recovery and Reinvestment Act (ARRA), in the amount of \$651,310. The CIP grant funding will be provided under a 2-year project period. The grant will be used to fund renovations and repairs over the total grant period. For the years ended March 31, 2012 and March 31, 2011, \$27,350 and \$361,872 of the funding were spent, respectively.

Susan G. Komen Breast Cancer Foundation

For the years ended March 31, 2012 and 2011, the Susan G. Komen Breast Cancer Foundation awarded the Organization grants in the amount of \$30,548 and \$30,624, respectively. The funds were to be advanced in two equal installments and were to be used to provide mammogram screening for the underserved. As of March 31, 2012 all funds have been expended.

Mecklenburg County Homeless Grant

The Organization was awarded a grant from Mecklenburg County in the amount of \$390,000 for the grant year July 1, 2011 through June 30, 2012 and \$302,594 for the grant year July 1, 2010 through June 30, 2011. The funds are to be used to provide clinical care to the homeless. The Organization has incurred expenses and recorded revenue related to the grants in the amount of \$362,989 and \$263,582 for the years ended March 31, 2012 and 2011, respectively. \$121,444 of this grant has been deferred as of March 31, 2012.

Ryan White Part D

In August 2011, the Organization received a Ryan White Program Part D grant in the amount of \$200,000. The period of the grant is from August 1, 2011 to July 31, 2012. The funds are to be used for the purpose of providing family-centered care involving outpatient and ambulatory care for women, infants, children, and youth with HIV/AIDS. The Organization has incurred expenses and recorded revenue related to the grant in the amount of \$116,667 during the year ended March 31, 2012.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

Note 3 – Restricted Cash

At March 31, 2012 and 2011, the Organization's restricted cash consisted of \$0 and \$49,188, respectively. Cash is restricted for the following purposes:

	<u>2012</u>		<u>2011</u>
Levine Foundation	\$ -		\$ 33,924
R.J. Motley Golf Tournament	-		994
Patient Assistance Fund	-		2,012
Metrolina Aids Project	-		401
Susan G. Komen	-		6,667
Mecklenburg County Homeless Grant	-		1,401
Homeless - Donations	-		966
Scholarship Fund	-		(300)
Diabetic Program	-		2,048
Health Fair	-		1,075
	<u>\$ -</u>		<u>\$ 49,188</u>

Note 4 – Property and Equipment

At March 31, 2012, property and equipment consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Property not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Property and equipment being depreciated:				
Building	1,502,372	103	-	1,502,475
Equipment	1,148,157	22,904	-	1,171,061
Total property and equipment being depreciated	<u>2,650,529</u>	<u>23,007</u>	<u>-</u>	<u>2,673,536</u>
Less accumulated depreciation for:				
Building	1,124,779	54,022	-	1,178,801
Equipment	1,004,126	78,894	-	1,083,020
Total accumulated depreciation	<u>2,128,905</u>	<u>\$ 132,916</u>	<u>\$ -</u>	<u>2,261,821</u>
Total property and equipment being depreciated, net	<u>521,624</u>			<u>411,715</u>
Property and equipment, net	<u>\$ 531,624</u>			<u>\$ 421,715</u>

Depreciation expense was \$132,916 and \$134,575 at March 31, 2012 and 2011, respectively.

Note 5 – Operating leases

The Organization has entered into an agreement for the lease of a satellite office effective March 1, 2011 and ending February 28, 2014. The agreement provides for an increase in annual rent equal to 2% of the base rent in effect during the immediately preceding lease year. Rental expense under the terms of this agreement was \$93,275 and \$7,760 for the years ended March 31, 2012 and 2011, respectively. The Organization is obligated to pay \$95,141 and \$88,809 under the terms of this agreement during the years ended March 31, 2013 and 2014, respectively.

The Organization has a sixty month lease beginning October 1, 2008 for copiers. Payments are \$734 per month and are included in equipment rental expense. The final payment for this lease is due October 1, 2013. Rental expense under the terms of this agreement was \$8,808 and \$8,808 for the years ended March 31, 2012 and 2011, respectively. The Organization is obligated to pay \$8,808 and \$4,404 under the terms of this agreement during the years ended March 31, 2013 and 2014, respectively.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

The Organization has entered into an agreement for the provision of IT support beginning June 1, 2010 and ending May 1, 2013. Expense under the terms of this agreement was \$71,570 for the year ended March 31, 2012. The Organization is obligated to pay \$75 per hour for services as needed with a minimum of 40 hours per month.

The Organization has entered into an agreement for the lease of a bladder scanner effective April 1, 2012 and ending March 31, 2012. The Organization is obligated to pay \$16,495 under the terms of this agreement during the year ended March 31, 2012.

The Organization has entered into an agreement with consultants who will evaluate and treat HIV positive patients enrolled in the Ryan White Part D program effective January 1, 2012 through July 31, 2012. The Organization is obligated to pay \$5,000 per month from February 2012 until July 2012.

Note 6 – Physicians’ and Medical Directors’ Contracts

During August 1999, the Organization entered into an agreement with Presbyterian Regional Healthcare Corp. (Presbyterian) that required Presbyterian to provide physicians to the Organization. The agreement provided for an initial term of two years and was automatically renewed for three successive one year periods. The Fifth Amendment to the original agreement was renewed as of March 1, 2006, and the contract was terminated in December 2011. Charges for the years ended March 31, 2012 and 2011 totaled \$0 and \$984,095, respectively. At March 31, 2011, the Organization owed \$2,349,319 to Presbyterian. Upon termination of the agreement, the Organization and Presbyterian entered into a new agreement for the repayment of the outstanding balance as discussed in Note 7.

The Organization has entered into contracts with a physician and a medical director. Expenses recognized under the terms of these agreements totaled \$188,461 for the year ended March 31, 2012. The Organization is obligated to pay \$178,043 under the terms of these agreements during the year ended March 31, 2012. Agreements may be terminated with at least a 90 day written notice.

Note 7 – Settlement Agreement

Effective December 31, 2011, the Organization entered into a settlement agreement for amounts owed under the physicians’ contract as discussed in Note 6. The professional services agreement was terminated on December 31, 2011, and the Organization has agreed to pay \$1,170,000 to liquidate all billed and unpaid charges for services rendered under that agreement. The liquidating payment is payable as follows: \$150,000 due December 31, 2011 and \$1,020,000 due in sixty equal monthly installments of \$17,000. The Organization has made all payments required under the terms of the agreement during the year ended March 31, 2012. The balance of the agreement is \$969,000 at March 31, 2012. The Organization is obligated to pay \$204,000 per year during the years ended March 31, 2012 through 2016 and \$153,000 during the year ended March 31, 2017.

In addition, the contractor has agreed to make annual community benefits grants totaling \$1,030,000 through forgiveness of \$206,000 each year for five years beginning in the same calendar year as the year in which the Organization makes its first payment under the agreement specified above. The Organization recognized \$206,000 as revenue during the year ended March 31, 2012 according to the terms of this agreement. At March 31, 2012, the remaining balance to be forgiven in future years is recorded as deferred revenue in the amount of \$824,000.

Note 8 – Employee Benefit Plan

The Organization has a tax-deferred annuity plan covering all full-time employees after one year of service. Effective on their date of hire, participants can contribute any amount of their salary provided that they do not contribute more than the maximum permitted by law. The Organization will make an employer base contribution of 4 percent of the employee’s gross salary, whether or not the participant is making contributions, after the first year of employment. Effective July 2008, The Organization suspended its

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011

(4%) contribution to the plan as part of their financial recovery. Employees remain able to contribute to their own plan.

The expense for the years ended March 31, 2012 and 2011 was \$0 and \$0, respectively.

Note 9 – Concentration of Credit Risk

The Organization maintains its cash balances in three banks. The interest-bearing deposit balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and non-interest-bearing deposit balances are fully insured. As of March 31, 2012 and 2011, the uninsured portion of the cash balances held at the banks was \$0 and \$0, respectively.

The Organization grants credit to its patients, many of whom are insured under third-party agreements. The mix of receivables at March 31, 2012 and 2011 was as follows:

	2012	2011
Medicare	17%	9%
Medicaid	37%	44%
Other Third Party Payors	46%	47%
	100%	100%

Note 10 – Donated Services and Materials

The Organization receives donated medicines, from a pharmaceutical company, to assist the Organization in providing affordable medicines to patients. Donated medicines are valued at wholesale catalogue price. As of March 31, 2012 and 2011, \$357,598 and \$508,121 has been recognized in the accompanying statements of activities because the criteria for recognition of donated services under FASB ASC 958 have been satisfied, respectively.

During 2012 and 2011, the Organization received other donated goods and services valued at \$0 and \$94, respectively.

Note 11 – Subsequent Events

The Organization has evaluated subsequent events from the date of the balance sheets through the date the report is available to be issued which is the date of the independent auditors' report. The Organization has not evaluated subsequent events after that date. There were no subsequent events during this period that require disclosure.

Note 12 – Risk Management

The Organization is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; and natural disasters. During the year ended March 31, 2012, the Organization carried insurance through various commercial carriers to cover all risks of losses. The Organization has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

Note 13 – Claim Settlement

In August 2011, litigation rising out of a commercial lease dispute was threatened, and damages sought from the Organization totaled \$781,112. Negotiations progressed from May 2012 until settlement of the claim in October 2012 in the amount of \$90,000. This amount has been accrued as payable at March 31, 2012.

**THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MARCH 31, 2012**

GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY OR PASS-THROUGH NUMBER	FEDERAL EXPENDITURES
Federal Awards			
U.S. Department of Health and Human Services:			
Community Health Centers	93.224	N/A	\$ 1,019,216
ARRA - Grants to Health Center Programs			
Capital Improvement Program	93.703	N/A	27,350
Increased Demand for Services	93.703	N/A	9,233
Total ARRA - Grants to Health Center Programs			<u>36,583</u>
Grants for Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		<u>116,667</u>
Total Federal Awards			<u><u>\$ 1,172,466</u></u>

Note: The accompanying schedule of expenditures of federal awards includes the federal grant activity of The C.W. Williams Community Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations". Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the basic financial statements.

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**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of Directors
The C.W. Williams Community Health Center, Inc.

We have audited the accompanying financial statements of The C.W. Williams Community Health Center, Inc. (the Health Center) as of and for the year ended March 31, 2012, which collectively comprise the Health Center's basic financial statements and have issued our report thereon dated December 31, 2012. 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 of America.

Internal Control Over Financial Reporting

The management of The C.W. Williams Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The C.W. Williams Community Health Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The C.W. Williams Community Health Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

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 combination of significant 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The C.W. Williams Community Health Center, Inc.'s financial statements are free of 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.

We noted certain matters that we reported to management of The C.W. Williams Community Health Center, Inc., in a separate letter dated December 31, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

December 31, 2012

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**Independent Auditors' Report on Compliance with Requirements That Could Have a
Direct and Material Effect on a Federal Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

To the Board of Directors
The C.W. Williams Community Health Center, Inc.

Compliance

We have audited the compliance of The C.W. Williams Community Health Center, Inc. (the Health Center) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012. The C.W. Williams Community Health Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of The C.W. Williams Community Health Center, Inc.'s management. Our responsibility is to express an opinion on The C.W. Williams Community Health Center, Inc.'s compliance based on our audit.

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 of America; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The C.W. Williams Community Health Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The C.W. Williams Community Health Center, Inc.'s compliance with those requirements.

In our opinion, The C.W. Williams Community Health Center, Inc. complied in all material respects with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012.

Internal Control Over Compliance

The management of The C.W. Williams Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The C.W. Williams Community Health Center, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over compliance.

A deficiency in internal control over compliance 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 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 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.

Our consideration of internal control over compliance was for the limited purpose in the first paragraph of this section and was not designed to identify all deficiencies in the entity's internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of The C.W. Williams Community Health Center, Inc., in a separate letter dated December 31, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

December 31, 2012

**THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2012**

SECTION I. -- SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	___ yes	___ <u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	___ yes	___ <u>X</u> none reported
Noncompliance material to financial statements noted	___ yes	___ <u>X</u> no

Federal Awards

Type of auditors' report issued on compliance for major federal programs: Unqualified

Internal control over major federal programs:

Material weakness(es) identified?	___ yes	___ <u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	___ yes	___ <u>X</u> none reported
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	___ yes	___ <u>X</u> no

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA Number</u>
Community Health Centers	93.224
Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$ 300,000</u>

Auditee qualified as low-risk auditee?	___ yes	___ <u>X</u> no
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**THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MARCH 31, 2012**

SECTION II. -- FINANCIAL STATEMENT FINDINGS

No Findings Reported.

SECTION III. -- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No Findings Reported.

THE C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
CORRECTIVE ACTION PLAN
YEAR ENDED MARCH 31, 2012

SECTION II. -- FINANCIAL STATEMENT FINDINGS

No Findings Reported.

SECTION III. -- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No Findings Reported.

**The C.W. WILLIAMS COMMUNITY HEALTH CENTER, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED MARCH 31, 2012**

11-1 Three sliding scale applications selected for audit testing could not be located. This finding has been corrected.

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

In planning and performing our audit of the financial statements of The C.W. Williams Community Health Center, Inc. as of and for the year ended March 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered The C.W. Williams Community Health Center, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated December 31, 2012, on the financial statements of The C.W. Williams Community Health Center, Inc.

- We recommend the Health Center perform a physical inventory of its fixed assets and update related subsidiary ledgers.
- We recommend the Health Center conduct physical inventory counts at year end for pharmaceutical items and other medical supplies.
- We recommend the Health Center review its accounting period cut-off procedures and adopt procedures to ensure reversing journal entries are made in the correct accounting period.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Health Center personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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December 31, 2012