

**Lincoln Community Health Center, Inc.**

**Audited Financial Statements**

**For the Fiscal Years Ended June 30, 2019 and 2018**



**Lincoln Community Health Center, Inc.**

**Audited Financial Statements**

**For the Fiscal Years Ended June 30, 2019 and 2018**

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**Lincoln Community Health Center, Inc.**  
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# S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## MEMBERS

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### **Independent Auditor's Report**

To the Board of Directors  
Lincoln Community Health Center, Inc.  
Durham, North Carolina

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

We have audited the accompanying financial statements of Lincoln Community Health Center, Inc. (a non-profit organization), which are comprised of the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 audits. 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 of 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 controls. 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 evaluation 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

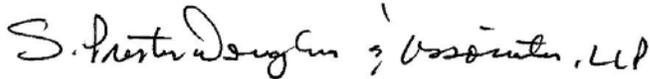
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Community Health Center, Inc. at June 30, 2019 and 2018, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying detailed schedules of functional expenses, as well as the accompanying Schedule of Expenditures of Federal Awards 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*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Requirements by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2019, on our consideration of Lincoln Community Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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* in considering Lincoln Community Health Center, Inc.'s internal control over financial reporting and compliance.



Lumberton, North Carolina  
October 11, 2019

## Lincoln Community Health Center, Inc.

### Balance Sheets June 30, 2019 and 2018

	2019	2018
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,371,588	\$ 4,245,843
Patient accounts receivable, net of estimated uncollectibles of \$940,525 and \$1,004,415 in 2019 and 2018, respectively	626,272	678,352
Other receivables:		
Medicaid/Medicare cost reimbursements	1,444,839	-
Other	891,019	643,148
Inventory	20,625	21,987
Prepaid expenses	125,252	51,089
<b>Total current assets</b>	<b>6,479,595</b>	<b>5,640,419</b>
<b>Property and equipment, net</b>	<b>3,580,819</b>	<b>3,833,333</b>
<b>Total assets</b>	<b>\$ 10,060,414</b>	<b>\$ 9,473,752</b>
<b><u>Liabilities and Net Assets</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 96,762	\$ 70,432
Accrued expenses	871,811	908,355
Current portion of capital lease obligations	-	-
<b>Total current liabilities</b>	<b>968,573</b>	<b>978,787</b>
<b>Long-term debt, including long-term capital leases</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>968,573</b>	<b>978,787</b>
<b>Net assets</b>		
Without donor restrictions:		
Undesignated	9,091,841	8,494,965
With donor restrictions	-	-
<b>Total net assets</b>	<b>9,091,841</b>	<b>8,494,965</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,060,414</b>	<b>\$ 9,473,752</b>

The accompanying notes are an integral part of these financial statements

**Lincoln Community Health Center, Inc.**  
**Statements of Operations**  
**For the Fiscal Years Ended June 30, 2019 and 2018**

	<u>For the Fiscal Year Ended June 30, 2019</u>			<u>2018</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
<b>Support and revenue</b>				
Grant support	\$ -	\$ 13,237,967	\$ 13,237,967	\$ 13,210,371
Donated medical services and facilities	10,925,510	-	10,925,510	9,429,731
Donated pharmaceuticals	641,768	-	641,768	646,746
Contracted services	153	-	153	21,007
Interest	10,340	-	10,340	5,674
Other	310,804	-	310,804	175,079
Net patient service revenue:				
Private (including sliding fee)	20,465,140	-	20,465,140	18,941,284
Medicaid	5,869,851	-	5,869,851	6,308,145
Medicare	2,211,040	-	2,211,040	2,661,740
	<u>28,546,031</u>	<u>-</u>	<u>28,546,031</u>	<u>27,911,169</u>
Less - disallowances and adjustments	(17,597,827)	-	(17,597,827)	(16,481,159)
Less - provision for bad debts	(1,114,450)	-	(1,114,450)	(1,214,720)
	<u>9,833,754</u>	<u>-</u>	<u>9,833,754</u>	<u>10,215,290</u>
Assets released from restrictions	13,237,967	(13,237,967)	-	-
<b>Total support and revenue</b>	<u>34,960,296</u>	<u>-</u>	<u>34,960,296</u>	<u>33,703,898</u>
<b>Expenses</b>				
Program services	28,083,079	-	28,083,079	25,838,049
Management and general	6,280,341	-	6,280,341	6,362,095
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total expenses</b>	<u>34,363,420</u>	<u>-</u>	<u>34,363,420</u>	<u>32,200,144</u>
<b>Increase (decrease) in net assets</b>	596,876	-	596,876	1,503,754
<b>Net assets - beginning of year</b>	<u>8,494,965</u>	<u>-</u>	<u>8,494,965</u>	<u>6,991,211</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net assets - end of year</b>	<u>\$ 9,091,841</u>	<u>\$ -</u>	<u>\$ 9,091,841</u>	<u>\$ 8,494,965</u>

The accompanying notes are an integral part of these financial statements

**Lincoln Community Health Center, Inc.**  
**Statement of Functional Expenses**  
**For the Fiscal Year Ended June 30, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 9,444,166	\$ 2,998,584	\$ 12,442,750
Payroll taxes	692,333	211,137	903,470
Retirement expenses	433,612	134,311	567,923
Fringe benefits	1,086,042	405,923	1,491,965
Contracted services - medical	3,339,259	350,934	3,690,193
Donated services and facilities	9,888,236	1,039,056	10,927,292
Donated pharmaceuticals	626,489	-	626,489
Supplies	911,780	41,671	953,451
Travel	55,543	39,462	95,005
Depreciation	75,550	316,050	391,600
Professional fees	1,150	79,029	80,179
Contracted services - other	308,635	12,168	320,803
Occupancy	204,670	6,750	211,420
Dues and subscriptions	168,299	81,645	249,944
Insurance	17,856	38,824	56,680
Telephone	464,207	46,222	510,429
Repairs and maintenance	239,179	281,909	521,088
Training and continuing education	37,495	13,602	51,097
Postage and freight	31,262	11,276	42,538
Recruiting and retention	31,417	60,637	92,054
Publications and miscellaneous supplies	20,016	14,440	34,456
Miscellaneous	5,883	36,503	42,386
Other	-	60,208	60,208
<b>Total functional expenses</b>	<b><u><u>\$ 28,083,079</u></u></b>	<b><u><u>\$ 6,280,341</u></u></b>	<b><u><u>\$ 34,363,420</u></u></b>

The accompanying notes are an integral part of these financial statements

**Lincoln Community Health Center, Inc.**  
**Statement of Functional Expenses**  
**For the Fiscal Year Ended June 30, 2018**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 8,990,707	\$ 2,910,972	\$ 11,901,679
Payroll taxes	654,327	209,329	863,656
Retirement expenses	409,692	121,152	530,844
Fringe benefits	1,047,763	396,540	1,444,303
Contracted services - medical	3,183,766	262,062	3,445,828
Donated services and facilities	8,443,432	986,016	9,429,448
Donated pharmaceuticals	646,746	-	646,746
Supplies	693,557	77,867	771,424
Travel	55,063	34,403	89,466
Depreciation	87,642	266,968	354,610
Professional fees	1,150	58,131	59,281
Contracted services - other	334,948	20,197	355,145
Occupancy	233,147	25,741	258,888
Dues and subscriptions	37,561	71,764	109,325
Insurance	81,696	(11,631)	70,065
Telephone	474,322	65,579	539,901
Repairs and maintenance	379,788	610,635	990,423
Training and continuing education	977	42,817	43,794
Postage and freight	29,548	11,120	40,668
Recruiting and retention	22,676	46,688	69,364
Publications and miscellaneous supplies	10,215	19,825	30,040
Miscellaneous	19,326	79,615	98,941
Other	-	56,305	56,305
<b>Total functional expenses</b>	<u><u>\$ 25,838,049</u></u>	<u><u>\$ 6,362,095</u></u>	<u><u>\$ 32,200,144</u></u>

The accompanying notes are an integral part of these financial statements

**Lincoln Community Health Center, Inc.**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payers	\$ 8,440,995	\$ 10,199,770
Cash received in the form of government and private financial assistance	13,132,370	13,232,924
Cash received in the form of contracted services	153	21,007
Cash paid to employees for services	(12,469,294)	(11,890,101)
Cash paid for goods and services	(9,849,733)	(9,766,105)
Interest income	10,340	5,674
	<b>(735,169)</b>	<b>1,803,169</b>
<b>Cash flows from capital and related financing activities</b>		
Investment activity	-	-
Acquisition of capital assets, net of retirements	(139,086)	(728,348)
Capital lease repayments	-	-
	<b>(139,086)</b>	<b>(728,348)</b>
<b>Net cash provided (used) by capital and related financing activities</b>		
	<b>(139,086)</b>	<b>(728,348)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(874,255)</b>	<b>1,074,821</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>4,245,843</b>	<b>3,171,022</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 3,371,588</b>	<b>\$ 4,245,843</b>
<b>Reconciliation of increase (decrease) in net assets to net cash provided (used) by operating activities:</b>		
<b>Increase (decrease) in unrestricted net assets</b>	<b>\$ 596,876</b>	<b>\$ 1,503,754</b>
<b>Adjustments to reconcile excess change in net assets to cash provided (used) by operating activities -</b>		
Depreciation	391,600	354,610
Changes in assets and liabilities -		
Net (increase) decrease in receivables, inventory, and prepaids	(1,713,431)	(122,546)
Net increase (decrease) in payables and accrued expenses	(10,214)	67,351
	<b>(1,332,045)</b>	<b>299,415</b>
<b>Total adjustments</b>		
	<b>(1,332,045)</b>	<b>299,415</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ (735,169)</b>	<b>\$ 1,803,169</b>
<b>Non-cash investing and financing activities</b>		
Capital asset acquisitions via capital lease	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements

**Lincoln Community Health Center, Inc.**  
**Notes to Financial Statements**  
**June 30, 2019 and 2018**

**NOTE A – Description of the Organization and Summary of Significant Accounting Policies**

**Organizaiton**

Lincoln Community Health Center, Inc. (the “Center”), located in Durham, North Carolina, is a not-for-profit TJC accredited primary care facility. The Center provides outpatient services for residents of Durham County. The Center was incorporated in North Carolina in May, 1972 and is affiliated with Durham County Hospital Corporation (the “Corporation”), Durham Regional Hospital (the “Hospital”), and Duke University Health System (the “System”).

**Basic Program**

The Center is a comprehensive healthcare facility designed for the healthcare consumer who wishes to enter a continuity-of-care system that includes, but is not limited to, prevention and maintenance of healthcare, management of chronic diseases, and hospitalization. At the Center, quality medical care is offered through a comprehensive array of services emphasizing healthcare and disease prevention.

The clinical staff includes pediatricians, internists, specialty physicians, mid-level practitioners, nurses, family health workers, patient care assistants, nutritionists, pharmacists, dental hygienists, certified clinical social workers and laboratory, pharmacy and x-ray technicians.

**Affiliation**

Effective July, 1988, the Center, the Corporation, the Hospital, and the System entered into an affiliation resulting in the execution of a support agreement (the “Agreement”). The Agreement obligates the System to provide certain health care services and annual grant awards of \$2,100,000 to the Center for twenty years. The System has the option to extend the agreement through September 30, 2031.

Under the terms of the Agreement and over the term of the affiliation, the Corporation is responsible for the following:

- To maintain and repair the physical plant of the Center at the level of repair required, allowing the Center to fulfill its healthcare mission.
- To provide contributed services and discounts from gross charges or reasonable costs for certain clinical ancillary services. Clinical services are inclusive of laboratory, x-ray, pharmacy and other miscellaneous ancillary services provided to patients. Other services including maintenance, environmental and security services are provided at no charge. These services are provided primarily through the Hospital, which the System operates and subleases, from the Corporation.
- To maintain, to the extent permitted under applicable law, its status and responsibility as the primary grant recipient, or any such similar position, with regard to annual grants to the Center under Section 330 of the Public Health Service Act.

Under the terms of the Agreement and over the term of the affiliation, the System is responsible for the following:

- Under the terms of the second amendment to the Agreement, beginning July 1, 2009, the System will contribute \$2,850,000. Beginning on July 2010, and continuing each year throughout the remainder of the Agreement, the amount shall be adjusted for inflation using the Consumer Price Index (CPI).
- The System, through a designated representative, in an advisory capacity, provides guidance in the strategic and planning budgetary process, but has no effective control over the Center’s strategic and budgetary planning or the right to approve or disapprove such plans.

**See independent auditor’s report**

**Lincoln Community Health Center, Inc.**  
**Notes to Financial Statements (continued)**  
**June 30, 2019 and 2018**

**NOTE A – Description of the Organization and Summary of Significant Accounting Policies (continued)**

**Affiliation (continued)**

In December, 1998, the Center amended its Articles of Incorporation, By-laws, and other applicable corporate documents to provide that one (1) seat on the Center’s Board of Directors be filled by an individual nominated by the Corporation and one (1) seat on the Center’s Board of Directors be filled by an individual nominated by the system as required by the Agreement.

**Contributed Services**

The Corporation contributes the use of the facility occupied by the Center. The Corporation subleases the facility from Durham County. The Center recognizes the estimated fair value, as determined by the Corporation, of the facility as contributed services and the use of the facilities, revenue and correspondingly, records a facility expense to the appropriate department category based on square footage. The Center leases the land on which the facility is located from Durham County for a nominal annual fee of \$1.

The Center receives ancillary services from the Hospital at discounts, cost or no charge. The estimated fair values of the donated and/or discounted services are recorded as contributed service revenue and charged to the appropriate department expense category.

**Basis of Accounting Presentation**

Lincoln Community Health Center, Inc. (the “Center”) prepares its financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP). Accordingly, income is recognized when earned and expenses when incurred. The Center reports information regarding its balance sheet and operations according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Center, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources be maintained in perpetuity.

**Cash and Cash Equivalents**

For the purposes of the Statements of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

**Lincoln Community Health Center, Inc.**  
**Notes to Financial Statements (continued)**  
**June 30, 2019 and 2018**

**Inventory**

The Center capitalizes inventories of medical supplies. Purchased inventory is stated at cost and donated inventory is stated at fair market value based on the donor's wholesale prices.

**Net Patient Service Revenue/Accounts Receivable**

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. Accounts receivable are stated at unpaid balances, less an allowance for uncollectible accounts using the allowance method.

**Property and Equipment**

The cost of property and equipment is depreciated by the straight-line method for financial reporting purposes. The estimated useful lives used in the depreciation calculation are as follows:

Furniture and equipment	5-10 years
Leasehold improvements	35 years

Property acquired is considered owned by the Center. However, the United States Government has a reversionary interest in property purchased with Federal funds or acquired through government appropriations; therefore, its disposition as well as ownership of any proceeds there from is subject to Federal regulations. The Center capitalizes all non-expendable property expenditures of \$1,000 or more. Expenditures for maintenance, repairs, renewals, and improvements, which do not materially extend the useful lives of the assets, are treated as charges to revenue in the period in which they are incurred.

**Capital Leases**

Capital lease obligations are recorded at the present value of the future minimum payments discounted at the interest rate implicit in the lease(s). A corresponding amount is capitalized as the value of the asset and depreciated over its estimated useful life, ranging from three to fifteen years.

**Grants**

The Center recognizes Federal and state grant awards to the extent that allowable grant expenditures have been incurred. Federal and state grants received prior to incurring allowable grant expenditures are recorded as deferred grant revenue. Deferred grant revenue balance at the grant program ending date is refundable to the Federal or state government or may be carried over to the subsequent grant period at the discretion of the government. Federal, state and local government grants comprise approximately 38% and 39% for 2019 and 2018, respectively, of total revenue and support.

**Third-Party Contractual Adjustments**

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on interim/final adjustments.

**See independent auditor's report.**

**Lincoln Community Health Center, Inc.**  
**Notes to Financial Statements (continued)**  
**June 30, 2019 and 2018**

**NOTE A – Description of the Organization and Summary of Significant Accounting Policies (continued)**

**Donated Pharmaceuticals**

The Center participates in a program, sponsored by a drug company, which provides pharmaceuticals to indigent patients. The inventory of donated pharmaceuticals is replenished periodically by the donor upon receipt of documentation of amounts dispersed and is valued at donor's wholesale prices. The inventory and dispensing of same are completely controlled by the System. The total contributions received during the years ended June 30, 2019 and June 30, 2018 are \$641,768 and \$646,746, respectively. The amounts reflected in inventory for the years ended June 30, 2019 and 2018 are \$1,005 and \$2,787, respectively.

**Advertising costs**

Advertising costs consist primarily of advertisement of employment opportunities and services offered by the Center and are expensed as incurred.

**Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Operations. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly definable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time records, direct salaries, and square footage. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide for the overall support and direction of the Center.

**Funds on Deposit**

Financial instruments that potentially subject Lincoln Community Health Center, Inc. to concentrations of credit risk consist principally of cash deposits. Lincoln Community Health Center, Inc. generally limits its exposure to credit risk from balances on deposit in financial institutions in excess of the FDIC-insured limit. The FDIC insurance coverage is limited to \$250,000 per financial institutions. Of the bank balance, the Corporation exceeded the aforementioned limit by \$2,867,787 and \$3,783,603, for the fiscal years ended June 30, 2019 and 2018, respectively.

**Income Taxes**

The Corporation is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and, therefore, no provision for Federal or state income taxes has been made in the accompanying financial statements. However, income from certain activities not directly related to the Center's tax-exempt purpose could be subject to taxation as unrelated business income. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(3) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Center's open audit periods are the fiscal years ended June 30, 2017 through June 30, 2019.

**Lincoln Community Health Center, Inc.**  
**Notes to Financial Statements (continued)**  
**June 30, 2019 and 2018**

**NOTE A – Description of the Organization and Summary of Significant Accounting Policies (continued)**

**Management Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at June 30, 2019 and 2018, and revenue and expenses during the fiscal years then ended. Actual results could differ from those estimates.

**Reclassifications**

Certain financial nomenclature and prior year amounts have been reclassified to conform to current year financial statement format.

**NOTE B – Property and Equipment**

Property and equipment, net at June 30, 2019 and 2018 consists of the following:

	<b>2019</b>	<b>2018</b>
Leasehold improvements and construction in progress	\$ 4,706,241	\$ 2,357,594
Medical equipment	563,202	544,560
Equipment - computer related	2,690,948	2,690,948
Office equipment	1,111,191	1,111,191
Other equipment	1,402,307	1,402,307
Construction in progress	-	2,228,203
Subtotal	10,473,889	10,334,803
Less - accumulated depreciation	6,893,070	6,501,470
Property and equipment, net	\$ 3,580,819	\$ 3,833,333

Depreciation expense reflected in the financial statements for the years ended June 30, 2019 and 2018 was \$391,600 and \$354,610, respectively.

**NOTE C – Operating leases**

Rent expense for the years ended June 30, 2019 and 2018 was \$82,548 and \$128,324, respectively. Annual rental commitments under operating leases are outlined immediately below:

2020	\$ 82,548
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**See independent auditor's report**

**Lincoln Community Health Center, Inc.**  
**Notes to Financial Statements (continued)**  
**June 30, 2019 and 2018**

**NOTE D – Capital leases**

There were no outstanding capital leases as of and for the years ended June 30, 2019 and 2018.

**NOTE E – Insurance Coverage**

The Center has been deemed eligible under the Federally Supported Health Center Assistance Acts of 1992 and 1995. Thus, all providers are covered by the provisions of the Federal Tort Claims Act.

**NOTE F – Grant Revenue**

Grant revenue consists of the following:

	<b>2019</b>	<b>2018</b>
Direct and passed-through federal awards	\$ 9,309,613	\$ 9,193,491
Durham County Hospital Corporation and Duke Regional Hospital	2,912,411	2,851,697
Duke University Hospital System	500,000	529,050
State Government and others	515,943	636,133
Total	\$ 13,237,967	\$ 13,210,371

**NOTE G – Retirement Plan**

The Center maintains a defined contribution pension plan for substantially all employees. Under the plan, annuities are purchased for participants. The Center contributes 4% of the employee's salary to the Plan. The Center provides a match of 50% of the employee's contribution up to a maximum of 3%. Employees may also contribute certain amounts to a 403(b) plan as specified with the Plan document. Total contributions to the Plans by the Center were \$567,923 and \$530,844 for years ended June 30, 2019 and 2018, respectively.

**Lincoln Community Health Center, Inc.**  
**Notes to Financial Statements (continued)**  
**June 30, 2019 and 2018**

**NOTE H – Concentrations of Credit Risk**

Lincoln Community Health Center, Inc. is obligated to pay, within certain limits, earned and accumulated employee vacation pay. Management has implemented certain limitations with regards to accumulated vacation pay. Therefore, under guidelines established under SFAS No. 43, 100% of accumulated vacation was accrued for the years ended June 30, 2019 and 2018, and is reflected on the balance sheet as accrued expenses in the amounts of \$524,553 and \$477,976, respectively.

**NOTE I – Commitments and Contingencies**

Financial awards from Federal, state and local governmental entities are subject to special compliance requirement audits. No provision has been made in the financial statements for any liability that may arise from such an audit. Also, no provision has been made in the financial statements for any potential disallowance resulting from noncompliance because the amount, if any, cannot be determined at this date.

**NOTE J – Change in Accounting Principle**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU 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 Center has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

**NOTE K – Subsequent Events**

Subsequent events were evaluated through October 11, 2019 which is the date the financial statements were available to be issued.



## **SUPPLEMENTARY INFORMATION**

**Lincoln Community Health Center, Inc.**  
**Detailed Schedule of Functional Expenses**  
**For the Fiscal Year Ended June 30, 2019**

	<u>Community Health Center</u>	<u>WIC</u>	<u>General and Admin.</u>	<u>Total</u>
Salaries and wages	\$ 8,561,026	\$ 883,140	\$ 2,998,584	\$ 12,442,750
Payroll taxes	628,893	63,440	211,137	903,470
Retirement expenses	390,295	43,317	134,311	567,923
Fringe benefits	920,927	165,115	405,923	1,491,965
Contracted services - medical	3,274,669	64,590	350,934	3,690,193
Donated services and facilities	9,888,236	-	1,039,056	10,927,292
Donated pharmaceuticals	626,489	-	-	626,489
Supplies	872,307	39,473	41,671	953,451
Travel	48,005	7,538	39,462	95,005
Depreciation	74,570	980	316,050	391,600
Professional fees	690	460	79,029	80,179
Contracted services - other	293,520	15,115	12,168	320,803
Occupancy	134,844	69,826	6,750	211,420
Dues and subscriptions	166,025	2,274	81,645	249,944
Insurance	17,856	-	38,824	56,680
Telephone	421,121	43,086	46,222	510,429
Repairs and maintenance	221,240	17,939	281,909	521,088
Training and continuing education	31,260	6,235	13,602	51,097
Postage and freight	27,905	3,357	11,276	42,538
Recruiting and retention	30,239	1,178	60,637	92,054
Publications and miscellaneous supplies	19,303	713	14,440	34,456
Miscellaneous	5,523	360	36,503	42,386
Other	-	-	60,208	60,208
<b>Total functional expenses</b>	<b><u><u>\$ 26,654,943</u></u></b>	<b><u><u>\$ 1,428,136</u></u></b>	<b><u><u>\$ 6,280,341</u></u></b>	<b><u><u>\$ 34,363,420</u></u></b>

See independent auditor's report

**Lincoln Community Health Center, Inc.**  
**Detailed Schedule of Functional Expenses**  
**For the Fiscal Year Ended June 30, 2018**

	<b>Community Health Center</b>	<b>WIC</b>	<b>General and Admin.</b>	<b>Total</b>
Salaries and wages	\$ 8,160,661	\$ 830,046	\$ 2,910,972	\$ 11,901,679
Payroll taxes	592,806	61,521	209,329	863,656
Retirement expenses	368,512	41,180	121,152	530,844
Fringe benefits	893,559	154,204	396,540	1,444,303
Contracted services - medical	3,135,321	48,445	262,062	3,445,828
Donated services and facilities	8,443,432	-	986,016	9,429,448
Donated pharmaceuticals	646,746	-	-	646,746
Supplies	653,099	40,458	77,867	771,424
Travel	50,001	5,062	34,403	89,466
Depreciation	86,662	980	266,968	354,610
Professional fees	690	460	58,131	59,281
Contracted services - other	317,150	17,798	20,197	355,145
Occupancy	158,295	74,852	25,741	258,888
Dues and subscriptions	37,029	532	71,764	109,325
Insurance	55,798	25,898	(11,631)	70,065
Telephone	428,024	46,298	65,579	539,901
Repairs and maintenance	375,623	4,165	610,635	990,423
Training and continuing education	215	762	42,817	43,794
Postage and freight	23,844	5,704	11,120	40,668
Recruiting and retention	21,819	857	46,688	69,364
Publications and miscellaneous supplies	9,717	498	19,825	30,040
Miscellaneous	18,670	656	79,615	98,941
Other	-	-	56,305	56,305
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total functional expenses</b>	<b>\$ 24,477,673</b>	<b>\$ 1,360,376</b>	<b>\$ 6,362,095</b>	<b>\$ 32,200,144</b>

See independent auditor's report

## **COMPLIANCE SECTION**

# S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## MEMBERS

American Institute of CPAs  
N. C. Association of CPAs

### **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  
Lincoln Community Health Center, Inc.  
Durham, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying basic financial statements of Lincoln Community Health Center, Inc., as of and for the fiscal year then ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Lincoln Community Health Center, Inc.'s basic financial statements, and have issued our report thereon dated October 11, 2019.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lincoln Community Health Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lincoln Community Health Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 over financial reporting 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 material weaknesses. However, material weaknesses may exist that have not been identified.

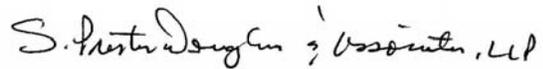
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln 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*.

Lincoln Community Health Center, Inc.  
Durham, North Carolina  
Page Two

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 of 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.



Lumberton, North Carolina  
October 11, 2019

# S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## MEMBERS

American Institute of CPAs  
N. C. Association of CPAs

### **Report on Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance; In Accordance with OMB Uniform Guidance. Independent Auditor's Report**

To the Board of Directors  
Lincoln Community Health Center, Inc.  
Durham, North Carolina

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

We have audited Lincoln Community Health Center, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Lincoln Community Health Center, Inc.'s major federal programs for the year ended June 30, 2019. Lincoln Community Health Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with 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 the 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 requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lincoln 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 on compliance for each major federal program. However, our audit does not provide a legal determination on Lincoln Community Health Center, Inc.'s compliance.

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

In our opinion, Lincoln Community Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Lincoln Community Health Center, Inc.  
Durham, North Carolina  
Page Two

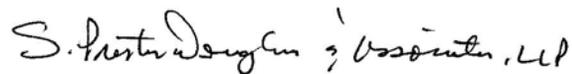
### **Report on Internal Control over Compliance**

Management of Lincoln Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Lincoln Community Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB 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 the 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 a 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. 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 OMB Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Lumberton, North Carolina  
October 11, 2019

**Lincoln Community Health Center, Inc.  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2019**

<b>Section I. Summary of Auditor's Results</b>
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**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes <u>  X  </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes <u>  X  </u> none reported
• Noncompliance material to financial statements	_____ yes <u>  X  </u> no

***Federal Awards***

Type of auditor's report issued on compliance for major federal programs:	Unmodified
Internal control over major federal programs:	
• Material weakness(es) identified?	_____ yes <u>  X  </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes <u>  X  </u> none reported
• Noncompliance material to federal awards	_____ yes <u>  X  </u> no
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ yes <u>  X  </u> no

Identification of major federal programs:

**CFDA Numbers**

93.224

10.557

**Names of Federal Program or Cluster**

Community Health Centers and Health Care for the Homeless

Special Supplemental Nutrition Program for Women, Infants, and Children

Dollar Threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

  X   yes    \_\_\_\_\_ no

**Lincoln Community Health Center, Inc.**  
**Schedule of Findings and Questioned Costs (continued)**  
**For the Fiscal Year Ended June 30, 2019**

**Section II. Financial Statement Findings**

None reported

**Section III. Federal Award Findings and Questioned Costs**

None reported

**Lincoln Community Health Center, Inc.**  
**Corrective Action Plan**  
**For the Fiscal Year Ended June 30, 2019**

**Section II. Financial Statement Findings**

None reported

**Section III. Federal Award Findings and Questioned Costs**

None reported

**Lincoln Community Health Center, Inc.**  
**Prior Year Findings**  
**For the Fiscal Year Ended June 30, 2019**

There were no prior year findings

**Lincoln Community Health Center, Inc.**  
**Schedule of Expenditures of Federal and State Award**  
**For the Fiscal Year Ended June 30, 2019**

Grantor/Pass - through/ Grant/Program Title	Federal CFDA Number	Award number/Stat Pass-through Grantor's Number	Federal (Direct Pass- through) Expenditures	State Expenditures
<b>Federal Grants:</b>				
<b>Cash Assistance:</b>				
Major Programs				
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Community Health Centers	93.224	H80CS00477-18/19	\$ 6,850,972	\$ -
Health Care for the Homeless	93.224	H80CS00477-18/19	209,141	-
Total Consolidated Health Center Cluster -			<u>7,060,113</u>	
 <u>U.S. Department of Agriculture</u>				
Passed through North Carolina Department of Health and Human Services/Division of Public Health				
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	29427/31015	<u>1,450,498</u>	
Total Major Programs			8,510,611	
Other federal assistance				
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
Outpatient Early Intervention with Respect to HIV disease	93.918	H76HA00093-25/26	527,883	-
Passed through Wake County, North Carolina HIV Care Formula Grants	93.917		142,089	-
Passed through NC Dept of Health & Human Svcs Breast and Cervical Cancer Control Program	93.945		129,030	-
<b>State Grants:</b>				
<b>Cash Assistance:</b>				
<u>N.C. Department of Health and Human Services</u>				
Community Health Grant	N/A	30858	-	96,404
Total federal and State awards			<u>\$ 9,309,613</u>	<u>\$ 96,404</u>

Notes to the Schedule of Expenditures of federal and State Awards:

The schedule of expenditures of federal and State awards includes the federal and State grant activity of Lincoln Community Health Center, Inc. and is presented on the modified accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Lincoln Community Health Center, Inc., has elected not to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.