

Carolina Family Health Centers, Inc.

Financial Statements

Years Ended June 30, 2019 and 2018



Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	3
Statements of Operations and Changes in Net Assets.....	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Compliance Reports:	
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 <i>Government Auditing Standards</i>	14
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	16
Supplemental Schedules:	
Schedule of Expenditures of Federal and State Awards	18
Note to Schedule of Expenditures of Federal and State Awards.....	19
Schedule of Findings and Questioned Costs	20



Independent Auditors' Report

Finance Committee
Carolina Family Health Centers, Inc.
Wilson, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Carolina Family Health Centers, Inc. (a not-for-profit organization) (the "Center"), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations and changes in net assets 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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



Other Matters - Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis 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*, and is not a required part of the basic 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 Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2019 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Raleigh, North Carolina
August 30, 2019**

Carolina Family Health Centers, Inc.
Balance Sheets
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,220,463	\$ 1,261,266
Assets limited as to use under loan agreement	123,312	234,132
Short-term investments	10,725,870	7,283,838
Patient accounts receivable, net of allowance for estimated uncollectible accounts of approximately \$1,159,000 and \$1,100,000 in 2019 and 2018, respectively	1,128,753	900,119
Estimated third-party payor settlements	1,281,168	469,974
Other receivables	188,618	172,865
Prepaid expenses and supplies	349,547	311,075
Inventory	<u>256,979</u>	<u>206,017</u>
Total current assets	15,274,710	10,839,286
Property and equipment, net	<u>10,581,644</u>	<u>10,583,850</u>
Total assets	<u>\$ 25,856,354</u>	<u>\$ 21,423,136</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current installments of long-term debt	\$ 81,103	\$ 161,638
Accounts payable	498,692	575,358
Accrued expenses	1,154,092	1,107,680
Deferred revenue	<u>265,341</u>	<u>342,107</u>
Total current liabilities	1,999,228	2,186,783
Long-term debt, less current installments	<u>2,729,203</u>	<u>3,245,615</u>
Net assets:		
Net assets without donor restrictions	<u>21,127,923</u>	<u>15,990,738</u>
Total liabilities and net assets	<u>\$ 25,856,354</u>	<u>\$ 21,423,136</u>

Carolina Family Health Centers, Inc.
Statements of Operations and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue (net of contractual allowances and sliding fee scale adjustments)	\$ 20,349,440	\$ 19,549,473
Less provision for bad debts	<u>(58,595)</u>	<u>(38,610)</u>
Net patient service revenue less provision for bad debts	20,290,845	19,510,863
Grant revenue	7,590,032	7,402,314
Miscellaneous income	451,965	465,756
Investment income	<u>182,943</u>	<u>70,462</u>
Total unrestricted revenues, gains and other support	<u>28,515,785</u>	<u>27,449,395</u>
Expenses:		
Salaries and wages	10,556,891	10,006,509
Employee benefits	2,141,758	2,122,579
Contract services	1,746,245	1,505,779
Professional fees	132,113	100,612
Supplies	6,941,031	6,866,017
Facility	791,671	1,001,181
Travel	204,137	157,330
Utilities	139,399	131,547
Insurance	59,584	49,706
Telephone	230,121	279,215
Dues and subscriptions	39,690	52,060
Depreciation	497,653	613,023
Other	339,007	358,476
Loss from disposal of equipment	<u>-</u>	<u>53,604</u>
Total expenses	<u>23,819,300</u>	<u>23,297,638</u>
Operating income	4,696,485	4,151,757
Grants and contributions for purchase of property and and equipment	<u>440,700</u>	<u>709,300</u>
Change in net assets	5,137,185	4,861,057
Net assets, beginning of year	<u>15,990,738</u>	<u>11,129,681</u>
Net assets, end of year	<u>\$ 21,127,923</u>	<u>\$ 15,990,738</u>

See accompanying notes to the financial statements.

Carolina Family Health Centers, Inc.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,137,185	\$ 4,861,057
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	58,595	38,610
Depreciation	497,653	613,023
Loss on disposal of equipment	-	53,604
Grants and contributions for purchase of property and equipment	(440,700)	(709,300)
Change in assets and liabilities:		
Patient accounts receivable	(287,229)	182,364
Estimated third-party payor settlements	(811,194)	(392,103)
Other receivables	(15,753)	725,489
Prepaid expenses and supplies	(38,472)	(199,278)
Inventory	(50,962)	10,657
Accounts payable	98,872	276,449
Accrued expenses	46,412	79,067
Deferred revenue	(76,766)	49,793
Net cash provided by operating activities	<u>4,117,641</u>	<u>5,589,432</u>
Cash flows from investing activities:		
Net change in short-term investments	(3,442,032)	(3,435,979)
Net increase (decrease) in restricted funds under loan agreement	110,820	(31,523)
Purchase of property and equipment	(670,985)	(2,234,598)
Net cash used by investing activities	<u>(4,002,197)</u>	<u>(5,702,100)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(596,947)	(315,446)
Grants and contributions received for purchases of property and equipment	440,700	709,300
Net cash provided (used) by financing activities	<u>(156,247)</u>	<u>393,854</u>
Net increase (decrease) in cash and cash equivalents	(40,803)	281,186
Cash and cash equivalents, beginning of year	<u>1,261,266</u>	<u>980,080</u>
Cash and cash equivalents, end of year	<u>\$ 1,220,463</u>	<u>\$ 1,261,266</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 116,326</u>	<u>\$ 113,539</u>
Property and equipment additions in accounts payable	<u>\$ -</u>	<u>\$ 175,538</u>

See accompanying notes to the financial statements.

Notes to Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Organization and Basic Program

Carolina Family Health Centers, Inc., (the “Center”) a federally qualified community health center, is a not-for-profit tax-exempt organization under Internal Revenue Code 501(c)(3). The Center opened in Wilson, North Carolina in August 1994 and now operates additional sites in rural Nash and Edgecombe counties, North Carolina. In addition to basic primary care, the practice provides dental service, health education including special diabetes and HIV/AIDS programs, behavioral health, medication assistance, pharmacy services and laboratory services.

Use of Estimates

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

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Center considers all short-term investments having a maturity at the date of purchase of three months or less to be cash equivalents. Throughout the year, the Center had bank balances in financial institutions that exceeded federal depository insurance limits.

Restricted Funds Under Loan Agreement

Restricted funds under loan agreement includes reserve funds required under the Center’s U.S. Department of Agriculture (“USDA”) Rural Development Loan. The reserve can be established in a single deposit equal to one year’s debt service or in annual deposits equal to ten percent of the annual payment until the reserve has an amount equal to one year’s debt service. The minimum amount required to be reserved at June 30, 2019 and 2018 is \$123,312. Any restricted funds above this amount will be used for annual debt service. Details regarding this loan are included at Note 4.

Short-Term Investments

Short-term investments include certificates of deposit which are recorded at historical cost. Investment income is included in the period earned in the change in net assets without donor restrictions unless the income is restricted by donor or law.

Property and Equipment

Property and equipment acquisitions are recorded at cost and donated property and equipment is recorded at fair market value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets, ranging from 3 to 39 years, and is computed using the straight-line method.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value.

Carolina Family Health Centers, Inc.
Notes to Financial Statements

Deferred Revenue

Deferred revenue includes revenue received from various government agencies and a charitable trust that has yet to be expended by the Center for the purpose stated within the agreements between the Center and the government agency and charitable trust as well as revenue received from various patients that have yet to receive dental services.

Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include fee for service, reimbursed costs, discounted charges and per visit payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

Sliding Fee Discount Program

The Center provides care to patients who meet certain criteria, based on official poverty guidelines issued by the Department of Health and Human Services, under its sliding fee discount program policy. This program reduces the amount that uninsured or under-insured patients must pay for services provided by the Center. These amounts are deducted from the gross charges in arriving at net patient service revenue. The amount of charges foregone for services and supplies furnished under the Center's sliding fee discount program aggregated approximately \$6,433,000 and \$4,943,000 for 2019 and 2018, respectively.

Use of Electronic Health Records ("EHR")

The Center recognizes revenues for incentives earned under the Medicaid program in the period in which it is reasonably assured that it will comply with the applicable EHR meaningful use requirements. The maximum incentive payment amount that can be received under the Medicaid program is \$63,750 per provider across 6 years of program participation. The EHR funding received is subject to Centers for Medicare & Medicaid Services audit. The Center did not recognize any EHR revenue during the years ended June 30, 2019 and 2018, respectively.

Patient Accounts Receivable, Net

Patient accounts receivable are reported at estimated net realizable amounts from patients and responsible third-party payors. Amounts owed to the Center are reported net of estimated allowances for uncollectible accounts. Specific patient balances are written off at the time they are determined to be uncollectible. The process for estimating the ultimate collection of patient receivables involves significant assumptions and judgments. In this regard, the Center has implemented a standardized approach to estimate and review the collectability of its receivables based on patient accounts receivable aging trends. Historical collection and payer reimbursement experience are an integral part of the estimation process related to determining allowances for uncollectible accounts. In addition, the Center assesses the current state of its billing functions in order to identify any reserve estimates, which involve judgment. Revisions to reserve estimates are recorded as adjustments to the provision for bad debt. The Center believes that its collection and reserves processes, along with the monitoring of its billing processes, help to reduce the risk associated with material revisions to reserve estimates resulting from adverse changes in collection, reimbursement experience and billing functions.

Operating Income

The statements of operations and changes in net assets includes operating income. Changes in net assets that are excluded from operating income, consistent with industry practice, are contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

The Center is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Center has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2019.

Recent Accounting Pronouncement

During fiscal year 2019, the Center adopted Accounting Standard Update (“ASU”) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity of available resources, and the lack of consistency in the type of information provided about expenses and investment return. The fiscal year 2018 financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources and analysis of expenses by functional and natural categories. These disclosures have been presented for 2019 as allowed by ASU No. 2016-14. The retrospective application resulted in unrestricted net assets of \$15,990,738 being reported as net assets without donor restrictions as of June 30, 2018.

Subsequent Events

The Center evaluated the effect subsequent events would have on the financial statements through August 30, 2019, which is the date the financial statements were available to be issued.

2. Net Patient Service Revenue and Patients Accounts Receivable

Net patient service revenue and accounts receivable are recorded when patient services are performed and are estimated at net realizable amounts due from third-party payors and patients. For amounts due from third-party payors, net patient service revenue and accounts receivable are recorded based on contractual or regulated discounted reimbursement rates for services rendered. For amounts due from patients, net patient service revenue and accounts receivable are recorded based on current policy.

The use of estimates in determining net patient service revenue for third-party payors is very common for health care providers, since, with increasing frequency, even non-cost-based governmental programs have become subject to retrospective adjustments. Often such adjustments are not known for a considerable period of time after the related services are rendered. The lengthy period of time between rendering services and reaching final settlement, compounded further by the complexities and ambiguities of governmental reimbursement regulations, makes it difficult to estimate the net patient service revenue associated with these programs. This situation has been compounded by the frequency of changes in federal program guidelines.

A summary of the payment arrangements with major third-party payors follows:

- ***Medicare*** – Services rendered to Medicare program beneficiaries are reimbursed in accordance with Federally Qualified Health Center Regulations as published in CMS-Pub. 27. A retrospective cost based reimbursement methodology is used for care visit services paid through a fiscal intermediary. Reimbursable other ancillary services are paid on a fee for services basis and are administered by an insurance carrier. The Center’s Medicare cost reports have been desk reviewed by the fiscal intermediary through June 30, 2018.
- ***Medicaid*** – Services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicaid fiscal intermediary. The Center’s Medicaid cost reports have been desk reviewed by the North Carolina Medicaid program through June 30, 2018.

Carolina Family Health Centers, Inc.
Notes to Financial Statements

Revenue from the Medicare program accounted for approximately 8% and 7% of the Center's net patient service revenue for the years ended 2019 and 2018 respectively. Revenue from the Medicaid program accounted for approximately 15% and 16% of the Center's net patient service revenue for the years ended 2019 and 2018 respectively.

Under the Medicare and Medicaid programs, the Center is entitled to reimbursements for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue. Final determination of amounts due from Medicare and Medicaid programs is subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustment, if any, that may result from such reviews. Net patient service revenue was increased by approximately \$179,000 and \$955,000 for the years ended 2019 and 2018, respectively, as a result of changes in estimates associated with settlements and other revisions to prior years for third-party payor settlement accounts.

For uninsured and underinsured patients that do not qualify for financial assistance, the Center recognizes revenue on the basis of its standard rates, discounted according to policy, for services rendered. Historical experience has shown a significant proportion of the Center's uninsured patients, in addition to a growing proportion of the Center's insured patients, will be unable or unwilling to pay for their responsible amounts for the services provided. In order to estimate the net realizable value of the revenues and accounts receivable associated with third-party payers and uninsured patients, management regularly analyzes collection history. Based on these historical collection analyses, the Center records a provision for bad debts and an allowance for estimated uncollectible accounts for third-party and uninsured patient accounts receivable balances for which the patient is responsible.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Center believes that they are in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Patient service revenue, net of contractual allowances and sliding fee scale adjustments (but before the provision for bad debts), is composed of the following amounts for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Medicare and Medicaid programs	\$ 5,306,965	\$ 5,543,745
Other third-party payors	12,738,507	11,777,810
Self-pay	<u>2,303,968</u>	<u>2,227,918</u>
Patient service revenue (net of contractual allowances and sliding fee scale adjustments)	<u>\$ 20,349,440</u>	<u>\$ 19,549,473</u>

Carolina Family Health Centers, Inc.
Notes to Financial Statements

3. Property and Equipment

A summary of property and equipment at June 30 follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 400,457	\$ 400,457
Buildings and building improvements	11,702,192	11,480,723
Equipment	1,959,478	1,772,781
Furniture and fixtures	4,731	5,311
	<u>14,066,858</u>	<u>13,659,272</u>
Less accumulated depreciation	<u>(3,485,214)</u>	<u>(3,075,422)</u>
Property and equipment, net	<u>\$ 10,581,644</u>	<u>\$ 10,583,850</u>

4. Long-Term Debt

A summary of long-term debt at June 30 follows:

	<u>2019</u>	<u>2018</u>
Mortgage payable with a financial institution, monthly payments of \$8,735, including interest at 3.45%.The mortgage payable was paid in full during fiscal year 2019	\$ -	\$ 518,816
Mortgage payable to the USDA, annual payments of \$123,312, including interest at 4.125%, payable over 30 years, maturing May 2038, secured by deed of trust.	1,542,459	1,599,780
Mortgage payable to the USDA, annual payments of \$64,302 of principal and interest at 3.375%, payable over 40 years with final payment due April 2052, secured by deed of trust.	<u>1,267,847</u>	<u>1,288,657</u>
	<u>2,810,306</u>	<u>3,407,253</u>
Less current installments	<u>(81,103)</u>	<u>(161,638)</u>
	<u>\$ 2,729,203</u>	<u>\$ 3,245,615</u>

Scheduled principal payments on long-term debt are as follows:

Year ending June 30,

2020	\$ 81,103
2021	84,286
2022	87,596
2023	91,037
2024	94,613
Thereafter	<u>2,371,671</u>
	<u>\$ 2,810,306</u>

The Center has a line of credit agreement with a local bank, which allows borrowing up to \$150,000 with interest at prime. There was no outstanding balance under the line of credit agreement at June 30, 2019 and 2018. The line of credit is available through September 2019.

5. Medical Malpractice Claims

The Center is insured under Section 224(a) of the Public Health Act, 42 U.S.C. 233 (L) as amended by the Federally Supported Health Centers Assistance Act of 1995. Section 224(a) provides liability protection under the Federal Tort Claims Act for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. The coverage is comparable to an occurrence policy and has no monetary cap.

6. Retirement Plan

The Center maintains a 401(k) plan for all full-time employees. Employees can contribute the maximum allowed by federal law and the Center provides a matching contribution of 100% of the first 3% and 50% of the next 2% of each employee's base compensation. Total contributions to the plan were approximately \$280,000 in 2019 and \$269,000 in 2018.

7. Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are local residents and are partially insured under third-party payor agreements. The mix of receivables from patients and third-party payors follows at June 30:

	<u>2019</u>	<u>2018</u>
Medicare	39%	39%
Medicaid	8%	12%
Private insurance	22%	19%
Patients	<u>31%</u>	<u>30%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

8. Operating Leases

The Center is obligated under non-cancelable operating leases for certain administrative facilities and equipment. Total rent and lease expense for 2019 and 2018 was approximately \$103,000 and \$108,000, respectively.

The Center has minimum lease obligations as follows for the year ending June 30:

2020	\$ 15,261
2021	<u>6,532</u>
Total	<u><u>\$ 21,793</u></u>

Carolina Family Health Centers, Inc.
Notes to Financial Statements

9. Schedule of Expenses by Natural Classification and Function

The Center provides general health, dental and pharmaceutical services to residents within its geographic location. The following is a schedule of expenses by both natural classification and function for the year ended June 30, 2019:

	Program Services			Supporting Services	Total
	Medical	Dental	Pharmacy	Administrative & General	
Salary & Wages	\$ 5,250,050	\$ 881,403	\$ 2,033,261	\$ 2,392,177	\$ 10,556,891
Fringe Benefits	892,991	150,424	317,436	780,907	2,141,758
Contract Services	1,066,876	263,511	78,778	472,891	1,882,056
Facility Expenses	276,743	33,661	56,519	72,184	439,107
Travel	118,976	10,337	15,256	59,568	204,137
Communications	70,096	13,066	14,202	187,573	284,937
Supplies	392,344	105,390	156,122	185,185	839,041
Pharmaceuticals	277,076	128	5,824,786	-	6,101,990
Insurance	666	-	222	58,696	59,584
Continuing Education	35,099	6,255	10,916	17,170	69,440
Equipment	125,387	21,044	126,140	215,692	488,263
Miscellaneous	121,843	3,011	2,392	127,197	254,443
Depreciation	<u>231,527</u>	<u>131,736</u>	<u>74,054</u>	<u>60,336</u>	<u>497,653</u>
Total expense	<u>\$ 8,859,674</u>	<u>\$ 1,619,966</u>	<u>\$ 8,710,084</u>	<u>\$ 4,629,576</u>	<u>\$ 23,819,300</u>

10. Liquidity and availability

As part of its liquidity management, the Center has a policy to structure its financial assets to be available as its general expenses, liabilities, and other obligations come due. In addition, the Community invests cash in excess of daily operating funds in short-term investments such as certified deposits.

The following schedule reflects the Center's financial assets to meet cash needs for general expenses within one year. The financial assets were derived from the total assets on the balance sheets by excluding the assets that are unavailable for general expenses in the next 12 months. The Center seeks to maintain sufficient liquid assets to cover at least three months of operating and capital expenses. As of June 30, 2019 the company had enough liquid assets to cover 5.3 months of expenses.

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following:

<u>Asset Categories</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,220,463
Short-term investments	10,725,870
Patient accounts receivable	1,128,753
Estimated third-party payor settlements	1,281,168
Other receivables	<u>188,618</u>
	<u>\$ 14,544,872</u>

11. Contingencies

The Center has received proceeds from several federal and state grants. These amounts are subject to additional audit procedures in accordance with federal and state regulations. Certain costs charged to the grants may be questioned as not being appropriate expenses under the grant agreements. Any questioned costs could result in the refund of grant monies to grantor agencies. Management expects such amounts, if any, to be immaterial.

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*

Finance Committee
Carolina Family Health Centers, Inc.
Wilson, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Carolina Family Health Centers, Inc. (the "Center") (a nonprofit organization), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center'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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

**Raleigh, North Carolina
August 30, 2019**

Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by The Uniform Guidance

Finance Committee
Carolina Family Health Centers, Inc.
Wilson, North Carolina

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for 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; 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 Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Programs

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

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 programs on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal programs 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 programs that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Dixon Hughes Goodman LLP

**Raleigh, North Carolina
August 30, 2019**

Carolina Family Health Centers, Inc.
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2019

<u>Grantor/ Program or Cluster Title</u>	<u>Federal CFDA/ Contract Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
<i>Federal Awards:</i>			
U.S. Department of Health and Human Services:			
Direct Awards:			
Health Centers Cluster:			
Health Center Program	93.224		\$ 1,993,134
Grants for new and expanded services, under the Health Center Program	93.527		<u>4,140,762</u>
Total Health Centers Cluster			<u>6,133,896</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		690,471
Large Capital Community Health Grant (September 30, 2015 – April 30, 2020)	93.526		290,700
Passed through North Carolina Department of Health and Human Services:			
<u>Division of Public Health</u>			
HIV Care Formula Grant (Ryan White Part B) (April 1, 2016 – March 31, 2020)	93.917	35375 / 36475	396,728
NC Breast and Cervical Cancer Control Program (June 1, 2017 – May 31, 2020)	93.898	35989	29,835
Wisewoman (April 1, 2018 – September 29, 2019)	93.436	38733	275
State Health Insurance Assistance Program (July 1, 2018 – June 30, 2019)	93.324		<u>6,268</u>
Total Department of Health and Human Services			<u>433,106</u>
U.S. Department of Housing and Urban Development:			
Passed through North Carolina Department of Health and Human Services:			
Housing Opportunities for Persons with AIDs (October 1, 2016 - September 30, 2019)	14.241	34724 / 35628	<u>157,309</u>
Total Federal Awards			<u>7,705,482</u>
<i>State Awards:</i>			
North Carolina Department of Health and Human Services:			
<u>Office of Rural Health and Community Care</u>			
Medication Assistance Program Grants - (August 1, 2015 – July 31, 2019)	36194 / 36194		33,801
Appropriate Care/Appropriate Place (July 1, 2017 – June 30, 2018)	37505		147,108
Wilson Medical Center Site (July 1, 2017 – June 30, 2018)	37460		126,129
<u>Division of Public Health</u>			
NC Breast and Cervical Cancer Control Program (June 1, 2017 – May 31, 2018)	37439/39092		<u>24,480</u>
Total State Awards			<u>331,518</u>
Total Federal and State Awards			<u>\$ 8,037,000</u>

The accompanying notes are an integral part of this schedule.

Carolina Family Health Centers, Inc.
Notes to Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state grant activity of Carolina Family Health Centers, Inc. (the "Center"). The information in the 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* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position and statements of operations and changes in net assets or cash flows of the Center.

2. Summary of Significant Accounting Policies

Expenditures reported in the accompanying Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

3. Indirect Cost Rate

The Center has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**Carolina Family Health Centers, Inc.
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2019**

Section I--Summary of Auditors' Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency identified that is not considered to be a material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency identified that is not considered to be a material weaknesses? _____ yes X none reported

Noncompliance material to federal awards _____ yes X no

Type of auditors' report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

Health Centers Cluster:

93.224	Health Center Program
93.527	Grants for new and expanded services, under the Health Center Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II—Financial Statement Findings

No Matters are reportable.

Section III—Federal Award Findings and Questioned Costs

No matters are reportable.