

COASTAL FAMILY HEALTH CENTER, INC.

FINANCIAL REPORT

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Coastal Family Health Center, Inc.
Biloxi, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Coastal Family Health Center, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

To the Board of Directors of
Coastal Family Health Center, Inc.

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 Coastal Family Health Center, Inc. as of December 31, 2019 and 2018, and the changes in its net assets 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 Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

To the Board of Directors of
Coastal Family Health Center, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2020 on our consideration of Coastal Family Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of Coastal Family Health Center, Inc.'s internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Coastal Family Health Center, Inc.'s internal control over financial reporting and compliance.

Smith, Dukes & Buchanan, L.L.P.

Mobile, Alabama
July 28, 2020

FINANCIAL STATEMENTS

COASTAL FAMILY HEALTH CENTER, INC

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,241,015	\$ 3,455,780
Certificates of deposit	1,500,915	1,481,931
Accounts receivable, net of allowance for doubtful accounts of \$1,939,648 in 2019 and \$1,645,167 in 2018	1,415,610	1,605,613
Prepaid expenses	150,814	95,164
Inventory	<u>57,840</u>	<u>63,542</u>
TOTAL CURRENT ASSETS	7,366,194	6,702,030
NONCURRENT ASSETS		
Property and equipment, net of accumulated depreciation of \$9,975,213 in 2019 and \$9,126,746 in 2018	9,554,968	9,736,128
Other assets	<u>41,823</u>	<u>38,079</u>
TOTAL NONCURRENT ASSETS	<u>9,596,791</u>	<u>9,774,207</u>
TOTAL ASSETS	<u>\$ 16,962,985</u>	<u>\$ 16,476,237</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 409,323	\$ 384,585
Accrued payroll	807,958	677,828
Accrued and withheld payroll taxes	198,080	78,526
Deferred revenue	75,894	167,656
Current portion of capital lease	<u>19,102</u>	<u>18,221</u>
TOTAL CURRENT LIABILITIES	1,510,357	1,326,816
LONG-TERM LIABILITIES		
Capital lease, less current portion	<u>61,165</u>	<u>80,267</u>
TOTAL LONG-TERM LIABILITIES	61,165	80,267
NET ASSETS		
Without donor restrictions	<u>15,391,463</u>	<u>15,069,154</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,962,985</u>	<u>\$ 16,476,237</u>

The Notes to Financial Statements are an integral part of these statements.

COASTAL FAMILY HEALTH CENTER, INC.

**STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019 and 2018**

Change in net assets without donor restrictions:

	2019	2018
REVENUES		
Federal grant funds	\$ 9,513,991	\$ 9,152,421
Other grants and contributions	656,330	318,165
Third party reimbursements:		
Governmental (includes Medicare cost settlements of \$12,534 in 2019 and \$89,926 in 2018)	4,245,333	3,445,438
Insurance (includes incentive of \$46,647 in 2019 and \$1,362 in 2018)	2,307,960	1,965,594
Net patient service revenue	1,779,543	2,270,743
340B Drug Pricing Program	1,548,803	540,564
Pharmacy	1,195,708	612,523
Interest income	25,842	12,763
Donations	41,637	98,308
Other income	640,600	32,579
TOTAL REVENUES	21,955,747	18,449,098
EXPENSES		
Program services:		
Community healthcare services	18,611,399	15,515,915
Support services:		
Management and general	3,022,039	2,543,519
TOTAL EXPENSES	21,633,438	18,059,434
Change in net assets without donor restrictions	322,309	389,664
NET ASSETS, BEGINNING OF YEAR	15,069,154	14,679,490
NET ASSETS, END OF YEAR	\$ 15,391,463	\$ 15,069,154

The Notes to Financial Statements are an integral part of these statements.

COASTAL FAMILY HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Community Healthcare Services	Management and General	Total
Personnel	\$ 12,730,195	\$ 2,327,399	\$ 15,057,594
Contracted services	1,649,831	29,218	1,679,049
Supplies	1,562,672	41,814	1,604,486
Rent and maintenance of facilities and equipment	939,882	173,585	1,113,467
Utilities	266,803	17,606	284,409
Medical education, dues, and publications	144,010	96,359	240,369
Advertising and marketing	55,642	9,285	64,927
Postage	36,461	19,462	55,923
Other	453,643	226,734	680,377
Total expenses before depreciation	17,839,139	2,941,462	20,780,601
Depreciation	772,260	80,577	852,837
Total expenses after depreciation	<u>\$ 18,611,399</u>	<u>\$ 3,022,039</u>	<u>\$ 21,633,438</u>

The Notes to Financial Statements are an integral part of these statements.

COASTAL FAMILY HEALTH CENTER, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018**

	Community Healthcare Services	Management and General	Total
Personnel	\$ 10,768,234	\$ 1,855,086	\$ 12,623,320
Contracted services	1,226,165	16,057	1,242,222
Supplies	1,079,699	39,838	1,119,537
Rent and maintenance of facilities and equipment	814,564	160,377	974,941
Utilities	226,997	16,863	243,860
Medical education, dues, and publications	227,991	-	227,991
Advertising and marketing	42,693	-	42,693
Postage	24,673	11,291	35,964
Other	314,386	378,585	692,971
	<hr/>	<hr/>	<hr/>
Total expenses before depreciation	14,725,402	2,478,097	17,203,499
Depreciation	790,513	65,422	855,935
	<hr/>	<hr/>	<hr/>
Total expenses after depreciation	<u>\$ 15,515,915</u>	<u>\$ 2,543,519</u>	<u>\$ 18,059,434</u>

The Notes to Financial Statements are an integral part of these statements.

COASTAL FAMILY HEALTH CENTER, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 322,309	\$ 389,664
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	852,837	855,935
Loss on disposal of fixed assets	-	36,161
(Increase) decrease in:		
Accounts receivable	190,003	72,507
Due from Greene Area Medical Extenders, Inc.	-	11,393
Prepaid expenses	(55,650)	(49,828)
Inventory	5,702	156,687
Other assets	(3,744)	-
Increase (decrease) in:		
Accounts payable	24,738	(398,224)
Accrued salaries	130,130	5,109
Deferred revenue	(91,762)	(7,344)
Retirement plan contribution payable	-	(11,479)
Other accrued liabilities	119,554	14,928
Net cash provided by operating activities	1,494,117	1,075,509
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(18,984)	(306,636)
Acquisition of property & equipment	(671,677)	(133,714)
Net proceeds from disposal of fixed assets	-	88,606
Net cash used in investing activities	(690,661)	(351,744)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(18,221)	(1,472)
Net cash used in financing activities	(18,221)	(1,472)
NET INCREASE IN CASH	785,235	722,293
CASH AT BEGINNING OF YEAR	3,455,780	2,733,487
CASH AT END OF YEAR	\$ 4,241,015	\$ 3,455,780
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired via capital lease	\$ -	\$ 99,960

The Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS

Coastal Family Health Center, Inc. (the Center) is a nonprofit organization, created in October 1978, which provides community healthcare services in southern Mississippi through the operation of eleven health centers, two pharmacies, nine school clinics, one mobile medical/dental unit, and one administrative building. The operations of this program are funded primarily through Federal funds and patient fees.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. As such, revenues are recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Financial Statement Presentation

The Center reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. As of December 31, 2019 and 2018, the Center had no net assets with donor restrictions.

Use of Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

In presenting the statements of cash flows, the Center considers cash equivalents to be all short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturities that they present insignificant risks of changes in value due to interest rate fluctuation.

Inventory

The Center maintains a pharmacy inventory which is valued at cost. Cost is determined by a method which closely approximates the first-in, first-out method.

Accounts Receivable

Receivables from patients, insurance companies, and third-party reimbursement agencies are recorded at patient service rates. Certain third-party insurance accounts are based on allowable charges and/or predetermined rates (Medicare and Medicaid), which generally are provided for these contractual adjustments and doubtful accounts using the reserve method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Materials and Services

The Center records donated space contributions at the fair market rental value of such property. The Center records donated personnel services based on the number of hours of service donated at rates equivalent to that which would be paid for the same services.

Property and Equipment

Property and equipment are stated at historical cost on the financial statements. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Items with a useful life in excess of one year and a cost of \$5,000 or more are capitalized.

Third-Party Reimbursements

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. For example, services rendered to Medicare program beneficiaries are reimbursed under the Prospective Payment System which was implemented January 1, 2001 and which provides cost reimbursements based on a historical average cost rate. This rate is indexed for inflation on an annual basis.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amount from patients.

Functional Allocation of Expenses

The cost of providing various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited based on their respective salary and fringe benefit costs.

Fair Value of Financial Instruments

The carrying amounts reported in the statement of financial position for financial instruments (i.e. cash, investments, accounts payable and accrued liabilities) approximate their fair market value.

Reclassifications

For comparability, certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. The guidance was effective for the Center during the year ending December 31, 2019 and did not materially impact the Center's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2019. The Center is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 one year, making it effective for annual reporting periods beginning after December 15, 2021. The Center is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available to meet cash needs for general expenditures within one year of the balance sheet date are as follows:

Cash	\$ 4,241,015
Certificates of deposit	1,500,915
Accounts receivable	1,415,610
	<u>\$ 7,157,540</u>

The Center is substantially supported by patient service revenues, third-party reimbursements, and Federal and other grants and contributions. As part of its liquidity management plan, the Center closely monitors its cash flows from operations. The Center maintains sufficient cash and cash equivalents on hand to cover unexpected liquidity needs.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2019 and 2018:

	2019	2018
Operating & payroll checking accounts	\$ 3,219,332	\$ 2,440,686
Money market & savings accounts	1,021,683	1,015,094
Total cash and cash equivalents	<u>\$ 4,241,015</u>	<u>\$ 3,455,780</u>

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2019 and 2018:

	2019	2018
Patient fees	\$ 1,481,793	\$ 1,116,562
Insurance	713,753	539,268
Medicare	324,164	257,903
Medicaid	223,737	454,922
340B Drug Pricing Program pharmacies	453,921	389,787
WIC reimbursements	76,078	52,512
Other	10,644	248,680
Mississippi Qualified Health Center	22,078	50,906
Mississippi Health Safe Net	10,542	140,240
Mississippi State Department of Health	32,308	-
Tulane University	6,240	-
Total accounts receivable	<u>\$ 3,355,258</u>	<u>\$ 3,250,780</u>

Receivables for patients, insurance companies, and third-party reimbursement agencies are recorded at patient service rates. Certain third-party insurance accounts are based on allowable charges and/or predetermined rates. For example, services rendered to Medicare program beneficiaries are reimbursed under a Prospective Payment System which provides cost reimbursements based on a historical average cost rate which is indexed for inflation on an annual basis.

The Center maintains an allowance for doubtful accounts at a level considered by management to be adequate to absorb uncollectible accounts receivable. At December 31, 2019 and 2018, the allowance amounted to \$1,939,648 and \$1,645,167, respectively. Accounts are written off against the allowance account as they are deemed uncollectible.

NOTE 6 – PROPERTY AND EQUIPMENT

The components of property and equipment and the estimated useful lives of those components at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Land and buildings (20-40 years)	\$ 13,094,204	\$ 12,934,376
Leasehold improvements (30 years)	840,618	519,041
Furniture and fixtures (5-20 years)	4,940,975	4,919,123
Equipment software (5 years)	186,499	72,002
Motor vehicles (6 years)	318,079	299,422
Construction in progress	30,896	-
Intangible assets (5 years)	<u>118,910</u>	<u>118,910</u>
	19,530,181	18,862,874
Less: accumulated depreciation	<u>9,975,213</u>	<u>9,126,746</u>
Total property and equipment, net	<u>\$ 9,554,968</u>	<u>\$ 9,736,128</u>

The property and equipment of the Center include assets purchased with federal financial assistance. Although these assets were purchased in the name of the Center, disposition of these items may require prior approval of the grantor agency.

During 2016, the Center acquired EHR software provider licenses and subscriptions, which are intangible assets subject to amortization (included in depreciation expense). These intangible assets are valued at \$73,460 as of December 31, 2019.

Depreciation expense for the years ending December 31, 2019 and 2018 totaled \$852,837 and \$855,935, respectively.

NOTE 7 – INCOME TAXES

The Center qualifies as a tax-exempt center under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for Federal or State income taxes has been made in the accompanying financial statements.

The Center believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE 8 – OTHER GRANTS AND CONTRIBUTIONS

In addition to the Federal grant funds received from the Department of Health and Human Services, the Center received the following grants or contributions during the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
State of Mississippi:		
Mississippi Qualified Health Center	\$ 143,654	\$ 143,021
CYSHCN	96,730	-
Other	25,276	19,032
BD, Direct Relief, and the National Association of Community Health Centers	75,000	102,957
Mississippi Public Health Institute:		
REACH	112,548	-
Tulane University	-	15,166
American Cancer Society	73,287	1,713
William Randolph Hearst Foundation	100,000	-
MGM Resorts	15,000	-
Gilead Sciences	14,835	36,276
	<u> </u>	<u> </u>
Total other grants and contributions	<u>\$ 656,330</u>	<u>\$ 318,165</u>

Monies received through these additional grant agreements qualify as matching funds for purposes of the federal grant requirement.

NOTE 9 – RETIREMENT PLAN

In August 1997, the Center adopted a non-contributory employee profit sharing retirement plan covering all employees who have completed their 90 day probationary period. (This plan replaced the previous individual salary reduction contracts which the Center had with certain eligible employees.) The Plan is administered by AIG Variable Annuity Life Insurance Company (VALIC). Under this plan, the Center contributes 5% of each eligible employee's gross wages. Employees become vested in their accounts based on a graduated scale which provides for 100% vesting after four years. Retirement benefits are generally made in one lump sum. The Center's total retirement contributions during 2019 and 2018 were \$475,883 and \$244,324, respectively.

Effective January 1, 2012, the Plan was amended to a 401k safe harbor plan which eliminates the four year vesting schedule (i.e. 100% immediate vesting) and provides for 100% employer matching contributions on discretionary employee deferrals up to 5%. Also, hardship withdrawals and loans of employer matching contributions are no longer allowed (although hardship withdrawals and loans of employee deferred amounts are still allowed).

NOTE 10 – DEFERRED COMPENSATION PLAN

Prior to January 1, 2012, employees of the Center could also participate in a salary reduction plan under Section 403(b) of the Internal Revenue Code whereby employee elective payroll withholdings are invested in VALIC contracts. No employer contributions were made to this plan and employee contributions were generally limited by IRS regulations. Effective January 1, 2012 and in conjunction with the conversion to a 401(k) safe harbor retirement plan as noted above, this plan was frozen and no further employee contributions can be made to these contracts.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

The Center grants credit without collateral to its patients, most of whom are local residents and some of whom are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Patients (self-pay)	44%	34%
Insurance	21%	17%
Medicare	10%	8%
Medicaid	7%	14%
340B drug program	14%	12%
Other	4%	15%
Total	<u>100%</u>	<u>100%</u>

NOTE 12 – CAPITAL LEASE

During 2018 the Center began leasing a Fibroscan ultrasound machine under a capital lease agreement. The terms of the capital lease call for monthly payments of \$1,874 for 60 months, including interest at an imputed rate of 4.733%. The capital lease agreement for the ultrasound machine expires in 2023. Depreciation of the equipment charged to expense was \$19,992 and \$1,666 for the year ended December 31, 2019 and 2018, respectively.

The following is a summary of the equipment held under the capital lease included in furniture and fixtures as of December 31, 2019:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 99,960	\$ 99,960
Less: accumulated depreciation	(21,658)	(1,666)
	<u>\$ 78,302</u>	<u>98,294</u>

NOTE 12 – CAPITAL LEASE (continued)

Minimum future lease payments are as follows:

2020	\$ 22,488
2021	22,488
2022	22,488
2023	20,614
2024	-
Thereafter	<u>-</u>
Total lease payments	88,078
Less: amount representing interest	<u>(7,811)</u>
Present value of lease payments	80,267
Less: current maturity	<u>(19,102)</u>
Long term capital lease payable	<u><u>\$ 61,165</u></u>

NOTE 13 – OPERATING LEASE

On March 15, 2019, the Center entered into an operating lease agreement for the lease of the new Lucedale clinic site. The future minimum rental payments under the operating lease as of December 31, 2019 and for the next five years and in the aggregate are as follows:

2020	\$ 54,000
2021	54,000
2022	54,000
2023	54,000
2024	31,500
Thereafter	-
	<u><u>\$ 247,500</u></u>

Total rent expense incurred for the year ended December 31, 2019 was \$31,500.

NOTE 14 – CONCENTRATIONS OF CASH

The Center maintains cash balances at various financial institutions. As of December 31, 2019, the Federal Depository Insurance Corporation (FDIC) provides insurance for all accounts up to \$250,000 at each institution. As of December 31, 2019 and 2018, the Board had excess of federal deposit insured limits in the amounts of \$3,889,828 and \$3,166,302, respectively.

NOTE 15 – CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by Grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the Center. The amount of disallowed claims and/or audit adjustments is uncertain and cannot be reasonably estimated at this time. However, the amount of such items is not expected to represent a material liability to the Center as of December 31, 2019.

NOTE 16 – SUBSEQUENT EVENTS

On March 25, 2020, the Center purchased a commercial building in Leakesville, Mississippi for \$630,000 in a cash transaction. The Center plans to use the building as a future clinic site and is currently seeking financing to fund improvements to building.

On March 11, 2020 the Novel Coronavirus Disease, COVID-19, was declared a pandemic by the World Health Organization. On March 13, 2020, a national emergency was declared in the United States concerning the COVID-19 Outbreak. As a result of the continued spread of the COVID-19 coronavirus, economic uncertainties have arisen which could have a negative effect on the Center's financial position and revenue streams, including patient service revenue and contributions. However, specific impacts are not readily determinable as of the date of these financial statements.

Since March 2020, Coastal Family Health Center, Inc. has received approximately \$2.2 million of incremental grant funds from the Department of Health and Human Services as part of the agency's various efforts to sustain health center operations and expand capabilities to combat the spread of COVID-19. Additionally, the Center received approximately \$957,000 in coronavirus-related aid from the Centers for Medicare & Medicaid Services.

Also during 2020, the Center received loan proceeds of approximately \$2.6 million under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses and not-for-profit entities for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, and maintaining its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24 week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Center intends to use the proceeds for purposes consistent with the PPP. While the Center currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause the Center to be ineligible for forgiveness of the loan, in whole or in part.

Management has evaluated subsequent events through July 28, 2020, the date at which the financial statements were available to be issued. No subsequent events, other than the aforementioned, have occurred through that date that would have a material impact on the financial statements.

SUPPLEMENTAL INFORMATION



**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**

Independent Auditor's Report

To the Board of Directors of
Coastal Family Health Center, Inc.
Biloxi, Mississippi

We have audited 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, the financial statements of Coastal Family Health Center, Inc., which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated July 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Coastal Family 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 Coastal Family Health Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Coastal Family Health Center, Inc.'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.

To the Board of Directors of
Coastal Family Health Center, Inc.

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Dukes & Buchanan, L.L.P.

Mobile, Alabama
July 28, 2020



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Board of Directors of
Coastal Family Health Center, Inc.
Biloxi, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Coastal Family 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 Coastal Family Health Center, Inc.'s major federal programs for the year ended December 31, 2019. Coastal Family 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Coastal Family Health Center, Inc.'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* (CFR) 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 Coastal Family Health Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

To the Board of Directors of
Coastal Family Health Center, Inc.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Coastal Family Health Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Coastal Family 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 December 31, 2019.

Report on Internal Control over Compliance

Management of Coastal Family 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 of compliance, we considered Coastal Family Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Coastal Family Health Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

To the Board of Directors of
Coastal Family Health Center, Inc.

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.

Smith, Dukes & Buchanan, L.L.P.

Mobile, Alabama
July 28, 2020

COASTAL FAMILY HEALTH CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2019**

<u>Federal Grantor/Pass through Grantor/Program Title</u>	<u>Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Health Center Program Cluster:			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care Centers)		93.224	\$ 8,508,806
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White)		93.918	563,867
Passed through the State of Mississippi State Department of Health:			
WIC - Nutritional Guidance		10.557	273,391
Viral Hepatitis Prevention and Control	NU51PS005119-03-00	93.270	68,351
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Smoke	1 NU58DP006546-01-00 5 NU58DP006546-02-00	93.426	39,636 5,073
Passed through the Administrators of the Tulane Educational Fund d/b/a Tulane University:			
Cardiovascular Diseases Research	TUL-HSC-555942-17/18	93.837	<u>54,867</u>
Total Expenditures of Federal Awards			<u><u>\$ 9,513,991</u></u>

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this statement.

COASTAL FAMILY HEALTH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Coastal Family Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of Title 2 U.S. Code of Regulations (CFR) 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.

NOTE 2 – INDIRECT COST RATE

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

COASTAL FAMILY HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2019

Section I – Summary of Auditor’s Results

1. The auditor’s report expresses an unmodified opinion on the financial statements of Coastal Family Health Center, Inc.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Coastal Family Health Center, Inc. were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor’s report on compliance for the major federal award programs for Coastal Family Health Center, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major federal award program for Coastal Family Health Center, Inc.
7. The programs tested as major programs included: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care Centers), CFDA 93.224.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Coastal Family Health Center, Inc. qualified as a low-risk auditee.

Section II – Findings – Financial Statements Audit

NONE

Section III – Findings and Questioned Costs – Major Federal Award Programs Audit

NONE