

COASTAL FAMILY HEALTH CENTER, INC.
(PIN: N480)
(EIN: 64-0592416)

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

Coastal Family Health Center, Inc.

Table of Contents

For the Years Ended December 31, 2012 and 2011

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to the Financial Statements	6
Supplementary Information	
Schedule of Expenditures of Federal Awards	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14
Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	16
Schedule of Findings and Questioned Costs	18
Schedule of Prior Audit Findings	19

S. W. CHIEPALICH
CERTIFIED PUBLIC ACCOUNTANT, P.C.

5905 Airport Boulevard
Second Floor
P.O. Box 850335
Mobile, Alabama 36685

PH: (251) 344-7042

FAX: (251) 344-7055

March 27, 2013

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of Coastal Family Health Center, Inc., (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities 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 which are 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

My responsibility is to express an opinion on these financial statements based upon my audits. I conducted my audits in accordance with auditing standards which are 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 I 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 judgement, 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. An audit also includes evaluation 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Opinions

In my 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, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles which are generally accepted in the United States of America.

Other Matters

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 which are generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 27, 2013 on my consideration of Coastal Family Health Center, Inc.'s internal control over financial reporting and on my 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 my 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 Coastal Family Health Center, Inc.'s internal control over financial reporting and compliance.



S. W. Chiepalich
Certified Public Accountant

COASTAL FAMILY HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash (Note 3)	\$ 1,322,540	\$ 851,642
Investments (Note 3)	1,751,323	1,418,913
Accounts receivable, net of allowance for doubtful accounts of \$2,424,761 in 2012 and \$5,415,443 in 2011 (Note 4)	1,363,558	1,814,383
Due from Greene Area Medical Extenders	318,140	244,271
Inventory	34,933	36,318
Prepaid expenses	72,828	56,644
Total current assets	4,863,322	4,422,171
PROPERTY & EQUIPMENT (Note 5)	10,180,855	9,394,866
OTHER ASSETS (Security & equip. deposits)	3,215	3,215
TOTAL ASSETS	\$15,047,392	\$13,820,252
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 457,521	\$ 176,448
Accrued salaries	257,638	249,060
Deferred revenue	298,651	293,649
Retirement plan contribution payable (Note 11)	42,161	70,300
Accrued and withheld payroll taxes	110,067	120,713
Total current liabilities	1,166,038	910,170
NET ASSETS		
Section 330(d) reserve	3,203,826	3,203,826
Undesignated	10,677,528	9,706,256
TOTAL NET ASSETS	13,881,354	12,910,082
 TOTAL LIABILITIES & NET ASSETS	 \$15,047,392	 \$13,820,252

See independent auditor's report and the notes to the financial statements.

REVENUES	<u>2012</u>	<u>2011</u>
Federal grant funds	\$ 7,604,584	\$ 7,784,710
Other grants & contributions (Note 10)	1,517,082	1,249,849
Third party reimbursements		
Governmental (includes Medicare cost settlements of \$28,845 in 2012 & \$56,975 in 2011)	2,759,449	2,777,444
Insurance	464,339	648,966
Net patient service revenue	1,703,514	1,629,148
Donations		
Services	75,129	68,522
Cash	19,056	13,690
Interest income	3,085	4,723
Other income	<u>11,364</u>	<u>15,980</u>
 Total revenues	 <u>14,157,602</u>	 <u>14,193,032</u>
 EXPENSES		
Program services		
Personnel (including fringe benefits)	7,733,202	7,934,220
Contracted services (lab, contract physician, case mgt. etc.)	1,161,552	1,114,764
Supplies (medical, dental, lab, optometry, prescriptions, etc.)	799,537	1,042,079
Depreciation	543,232	582,621
State-wide electronic health records network	215,772	919,017
Rent & maintenance of facilities and equipment	345,372	405,124
Clinic utilities (incl. clinic telephone)	137,600	149,100
Medical education, dues & publs.	91,587	86,049
Other (printed materials, patient transportation, auto, property & liability insurance, travel, answering service, etc.)	<u>238,705</u>	<u>247,407</u>
Total program service expenses	<u>11,266,559</u>	<u>12,480,381</u>
Supporting services		
Management and general		
Personnel (including fringe benefits)	1,061,721	974,756
Rent & maintenance of facilities & equip. (custodial, (data lines, hardware & software maint., etc.)	274,894	258,018
Depreciation	77,590	91,194
Supplies	39,939	32,285
Utilities	21,665	22,537
Postage	11,066	9,183
Other (dues & publs., licenses, education, travel, recruitment, insurance, audit, consultants, etc.)	<u>274,182</u>	<u>213,249</u>
Total management & general expenses	<u>1,761,057</u>	<u>1,601,222</u>
 Total expenses	 <u>13,027,616</u>	 <u>14,081,603</u>
 Income from operations	 1,129,986	 111,429
Other income and (expenses)		
Refundable federal grant proceeds	(266,402)	-
Gain on sale of D'Iberville property	107,688	-
Loss on sale of mobile unit	<u>-</u>	<u>(27,476)</u>
 INCREASE IN NET ASSETS	 971,272	 83,953
 NET ASSETS - BEGINNING OF YEAR	 <u>12,910,082</u>	 <u>12,826,129</u>
 NET ASSETS - END OF YEAR	 <u>\$13,881,354</u>	 <u>\$12,910,082</u>

See independent auditor's report and the notes to the financial statements.

COASTAL FAMILY HEALTH CENTER, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS PROVIDED BY		
OPERATING ACTIVITIES		
Increase in net assets	\$ 971,272	\$ 83,953
Adjustments to reconcile increase in net assets to cash provided by operating activities		
Depreciation	620,821	673,815
(Gain) loss on disposal of fixed assets	(112,687)	27,476
Changes in current assets & liabilities		
Accounts receivable	450,825	111,075
Due from Greene Area Medical Extenders, Inc.	(73,869)	89,844
Prepaid expenses	(16,184)	31,964
Inventory	1,385	1,553
Other assets	-	500
Accounts payable	281,073	(88,085)
Accrued salaries	8,578	(126,459)
Deferred revenue	5,002	267,936
Retirement plan contribution payable	(28,139)	(138,682)
Other accrued liabilities	(10,646)	(2,438)
Net cash flows provided by operating activities	<u>2,097,431</u>	<u>932,452</u>
CASH FLOWS PROVIDED BY		
INVESTING ACTIVITIES		
Proceeds from sale of fixed assets	134,009	13,000
Acquisition of property & equipment	(1,428,132)	(440,009)
Net cash flows provided (used) by investing activities	<u>(1,294,123)</u>	<u>(427,009)</u>
INCREASE (DEC.) IN CASH & CASH EQUIVALENTS	803,308	505,443
CASH - BEGINNING OF YEAR	<u>2,270,555</u>	<u>1,765,112</u>
CASH - END OF YEAR	<u>\$3,073,863</u>	<u>\$2,270,555</u>

See independent auditor's report and the notes to the financial statements.

COASTAL FAMILY HEALTH CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1 ORGANIZATION

Coastal Family Health Center, Inc. is a nonprofit organization, created in October 1978, which provides community health care services in southern Mississippi through the operation of six clinics, one mobile medical 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.

Statement of Financial Accounting Standards No. 117 (SFAS #117)

Statement of Financial Accounting Standards No. 117, (which is entitled "Financial Statements of Not-for-Profit Organizations" and which was codified into the SFAS Codification effective July 1, 2009), was adopted by the Center for external financial reporting purposes effective January 1, 1995. Such statement mandates significant changes in the format, terminology, and presentation of financial statements for most not-for-profit organizations. Specifically, SFAS #117 requires, among other things, that assets, liabilities, net assets, revenues, and expenses be segregated into three categories: unrestricted, temporarily restricted, and permanently restricted. Furthermore, expenses are to be allocated between program service expenses and supporting service expenses.

Unrestricted funds represent funds which are available to be used for the general purpose for which the Center was created; that is, to provide primary health care services. Restricted resources represent contributions of cash which are received with specific donor stipulations that limit the use of the donated cash. However, the restrictions associated with the resources which the Center receives are generally met within the year that the resources are received. Therefore, as permitted by generally accepted accounting principles, such resources are reported as unrestricted in the accompanying statements of activities.

As of December 31, 2012 and 2011, the Center had no material restricted resources on hand.

Inventory

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

COASTAL FAMILY HEALTH CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Materials and Services

Donated Space - The Center records donated space contributions at the fair market rental value of such property.

Donated Services - 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 acquisitions greater than \$1,000 are capitalized at cost at the date of acquisition. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis. (See Note 5).

Net Assets

Net assets includes a caption entitled "Section 330(d) reserve". This caption represents a regulatory reserve which was created in connection with the Center's Community Health Center grant. The balance of this reserve represents unrestricted funds.

Use of 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 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.

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 Medicaid 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.

Cost Allocation

The Center allocates certain common costs among its various programs and activities in order to achieve a fair and objective cost-sharing by all programs and activities. The following costs are accumulated and allocated among activities on the basis indicated:

**COASTAL FAMILY HEALTH CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated absences such as vacations, sick leave, and holidays, are allocated based on the ratio of total compensated absence costs by each employee class to total wages by employee class applied to the actual wage cost within each activity. Compensated absences totaled \$1,043,867 in 2012 and \$932,148 in 2011 and the average allocation rate for all employee classes was 12.8% in 2012 and 11.3% in 2011.

Fringe benefits such as employee health insurance, retirement, and social security taxes are allocated among activities using the same methodology as compensated absences. Fringe benefits totaled \$1,581,772 in 2012 and \$1,658,139 in 2011 and were allocated at the rate of 21.5% in 2012 and 22.1% in 2011.

Indirect costs such as general administrative expenses are allocated to activities based on their respective salary and fringe benefit costs. Indirect costs totaled \$1,765,477 in 2012 and \$1,548,600 in 2011 and were allocated at the rate of 19.4% of wage and fringe benefit costs in 2012 and 16.8% in 2011.

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 2011 amounts may have been reclassified to conform with the financial statement presentation used in 2012.

NOTE 3 CASH AND INVESTMENTS

Cash and investments consisted of the following at December 31, 2012 and 2011:

	2012	2011
Operating & payroll checking accts.	\$1,322,540	\$ 851,642
Investments (money market, savings & certificate of deposit accounts)	1,751,323	1,418,913
Total cash and investments	\$3,073,863	\$2,270,555

The Center places its cash and investments with credit-worthy, high quality financial institutions. Management continually monitors each depository institution for continued financial stability. During 2008, the FDIC insurance limit was increased from \$100,000 to \$250,000 (unlimited for non-interest-bearing transaction accounts). As of December 31, 2012 and 2011, the aggregate amount of uninsured deposits was only \$2,889 and \$-0- respectively. However, effective January 1, 2013, the unlimited insurance coverage for non-interest-bearing transaction accounts was discontinued, creating uninsured deposits of approximately \$1,100,000.

COASTAL FAMILY HEALTH CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Patient fees	\$1,828,686	\$4,492,367
Insurance	639,548	757,432
Medicaid	393,940	205,880
Children's Health Fund	282,000	-
Medicare	251,854	789,386
Affordable Care Act	211,999	25,678
FEMA	91,295	434,393
American Recovery & Reinvestment Act	25,647	311,025
March of Dimes	25,000	12,500
WIC reimbursements	20,580	35,760
MS Qualified Health Center grant	9,847	35,486
CHATS	7,922	-
MS Department of Mental Health	-	79,919
Americares Foundation	-	50,000
Total Accounts Receivable	<u>\$3,788,318</u>	<u>\$7,229,826</u>

Coastal Family Health Center, Inc. maintains an allowance for doubtful accounts at a level considered by management to be adequate to absorb uncollectible accounts receivable. At December 31, 2012, the allowance amounted to \$2,424,761. At December 31, 2011, the allowance was \$5,415,443.

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Land and buildings (20-40 yrs)	\$10,356,716	\$10,378,037
Leasehold improvements (30 yrs)	85,910	85,910
Furniture and fixtures (5-20 yrs)	1,971,996	1,992,108
Motor vehicles (6 years)	452,772	452,772
Construction in progress	1,515,833	97,654
	14,383,227	13,006,481
Less accumulated depreciation	<u>4,202,372</u>	<u>3,611,615</u>
Net property and equipment	<u>\$10,180,855</u>	<u>\$ 9,394,866</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.

Depreciation recorded in 2012 and 2011 totalled \$620,821 and \$673,815, respectively.

COASTAL FAMILY HEALTH CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 6 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 are 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, 2012.

The Center is vigorously defending a claim involving a network data security breach which occurred in 2011. Although the claim is in the discovery stage, management believes an adverse outcome from this claim is reasonably possible, although the amount or range of loss is not susceptible to reasonable estimation at the present time.

NOTE 7 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 payor agreements. The mix of receivables from patients and third-party payors at December 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Patients (self-pay)	48%	62%
Other	18%	14%
Insurance	17%	10%
Medicaid	10%	3%
Medicare	<u>7%</u>	<u>11%</u>
Total	<u>100%</u>	<u>100%</u>

NOTE 8 TAXES

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

**COASTAL FAMILY HEALTH CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 9 MANAGEMENT AGREEMENT WITH GREENE AREA MEDICAL EXTENDERS, INC.

In May 2010, the Center renewed an agreement with Greene Area Medical Extenders, Inc. (Greene) to provide all management functions to Greene for an additional five years. Greene is a tax-exempt entity which provides community health care services in Greene County, Mississippi. In exchange for such management services (and in contemplation of formally merging with Greene in the future) Greene has transferred title to its main office building to the Center. The acquisition of this building is properly included in the accompanying financial statements at its estimated fair market value at the time of the transfer.

As part of its management services, Coastal maintains most of the accounting records for Greene and pays its payroll and other operating costs. Greene reimburses Coastal for such costs on a periodic basis.

NOTE 10 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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
W.K. Kellogg Fd. mobile unit health services	\$ 736,546	\$ 391,813
Children's Health Fd - mobile unit operations and children's counseling	282,000	263,000
St. of MS (Mississippi Qualified Health Center)	179,795	179,795
Americares grant for mental health services	-	150,000
MS Dept. of Mental Health-mental health services	98,079	90,944
Gulf Coast Community Foundation-oil spill recovery	91,737	-
March of Dimes:		
Mobile unit operating subsidy	50,000	50,000
Centering Pregnancy program	14,000	-
Research Triangle Institute - CHATS (Childrens Health After The Storm)	22,225	-
Sisters of Mercy System of St. Louis Mississippi Health Advocacy program	15,000	-
Other	10,700	2,667
MS Primary Health Care Assn.		
Tobacco cessation	10,000	-
Children's Health Ins. Program (CHIP) outreach	-	42,840
Primary care grant	-	24,206
Louisiana Public Health Institute	7,000	-
Americares grant for improved patient care	-	22,000
Moorehouse Sch. of Med.-electronic health records	-	20,000
Robert Wood Johnson grant for mental health	-	12,584
	<u> </u>	<u> </u>
Total other grants and contributions	<u>\$1,517,082</u>	<u>\$1,249,849</u>

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

COASTAL FAMILY HEALTH CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 11 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 2012 and 2011 were \$206,483 and \$259,561, 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 are no longer allowed but loans of employee deferred amounts are allowed.

NOTE 12 DEFERRED COMPENSATION PLAN

Prior to January 1, 2012, employees of the Center could also participate in a salary reduction plan under Section 403b 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 to \$16,500 in 2011. Effective January 1, 2012 and in conjunction with the conversion to a 401K safe harbor retirement plan as noted above, this plan was frozen and no further employee contributions can be made to these contracts.

NOTE 13 SUBSEQUENT EVENTS EVALUATION

Subsequent events have been evaluated for potential recognition or disclosure through March 27, 2013, the approximate date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

COASTAL FAMILY HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
DECEMBER 31, 2012

Grantor Agency	Program Title	CFDA Number	Expenditures
Direct:			
<u>U.S. Department of Health & Human Services</u>			
	Consolidated Health Centers	93.224	<u>5,211,962</u>
	Affordable Care Act Capital Development	93.526	<u>1,353,423</u>
	Affordable Care Act Health Center Control Networks	93.527	<u>9,672</u>
	ARRA (American Recovery & Reinvestment Act) Health Information Technology Award #H2LCS18145	93.703	257,404
	Capital Improvement Award #C81CS13424	93.703	<u>13,940</u>
	ARRA sub-total		<u>271,344</u>
	Ryan White Outpatient Early Intervention Services	93.918	<u>614,018</u>
	Direct Sub-total		<u>7,460,419</u>
Indirect: <u>Passed through the State of Mississippi</u>			
Department of Health	WIC - Nutritional Guidance	10.557	135,816
	Community Development Block Grant	14.218	<u>8,349</u>
	Indirect Sub-total		<u>144,165</u>
	Total Federal Awards		<u>\$7,604,584</u>

NOTE:
The organization uses the accrual basis of accounting in the preparation of this Schedule.

S. W. CHIEPALICH
CERTIFIED PUBLIC ACCOUNTANT, P.C.

5905 Airport Boulevard
Second Floor
P.O. Box 850335
Mobile, Alabama 36685

PH: (251) 344-7042

FAX: (251) 344-7055

**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

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

I have audited, in accordance with auditing standards which are 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. (the Organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued my report thereon dated March 27, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization'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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

My 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 my audit, I did not identify any deficiencies in internal control that I 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 Organization's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 27, 2013


Certified Public Accountant

S. W. CHIEPALICH
CERTIFIED PUBLIC ACCOUNTANT, P.C.

5905 Airport Boulevard
Second Floor
P.O. Box 850335
Mobile, Alabama 36685

PH: (251) 344-7042

FAX: (251) 344-7055

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

I have audited Coastal Family Health Center, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization'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

My responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards which are 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 Organization's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In my opinion, the Organization 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, 2012.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Organization'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 OMB Circular A-1133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Organization'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 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountant

March 27, 2013

COASTAL FAMILY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weaknesses identified? yes no

Significant deficiencies identified that
are not considered material weaknesses? yes none reported

Noncompliance material to financial
statements noted? yes no

Federal Awards

Internal control over major programs:
Material weaknesses identified? yes no

Significant deficiencies identified that
are not considered material weaknesses? yes none reported

Type of auditor's report issued on
compliance for major programs: Unqualified

Any audit findings disclosed that are
required to be reported by Sec. 510(a)
of OMB Circular A-133? yes no

Identification of major programs:
Department of Health & Human Services
1.) CFDA #93.224 Consolidated Health Centers
2.) CFDA #93.526 Affordable Care Act - Capital Development

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS & QUESTIONED COSTS

None.

COASTAL FAMILY HEALTH CENTER, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

DEPARTMENT OF HEALTH & HUMAN SERVICES

Finding No. 1

Condition:

The finding related to non-compliance with the organization's accounts receivable write off policy.

Current Status:

The finding has been resolved through the hiring of an Accounts Receivable Supervisor who has implemented a proper monthly accounts receivable write off procedure.

S. W. CHIEPALICH
CERTIFIED PUBLIC ACCOUNTANT, P.C.

5905 Airport Boulevard
Second Floor
P.O. Box 850335
Mobile, Alabama 36685

PH: (251) 344-7042

FAX: (251) 344-7055

March 27, 2013

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

Several high-profile cases of improper financial reporting in the last decade have occurred with both public companies (Enron, Worldcom, HealthSouth, etc.) as well as non-profit organizations (United Way, American Red Cross, the Nature Conservancy). These and other cases led to the passage of the Sarbanes-Oxley Act of 2002 and the most comprehensive overall of auditing standards in over 30 years. These revised auditing standards (the Standards) which are now generally accepted in the U.S. were incorporated into Coastal Family Health Center, Inc.'s (the Center's) 2012 audit and reflect a heightened responsibility to communicate certain matters to the Board. This letter, which is formatted into three specific sections (control deficiencies, other required communications, and management representations) is designed to meet this communication responsibility and include the representations that management is required to make in a financial statement audit.

Control Deficiencies

The Standards require that I consider the Center's internal control over financial reporting when planning and performing the Center's audit. This consideration is necessary merely to properly design the audit and is not of sufficient detail to render an overall opinion on the effectiveness of the Center's internal control. Therefore, this limited consideration of internal control would not necessarily identify all deficiencies in internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees to timely prevent or detect, in the normal course of business, financial statement misstatements. A control deficiency can be either a "significant deficiency" or a "material weakness", as defined below, depending on the severity of the control deficiency (with material weaknesses being the more severe). I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses.

"Significant deficiency" - one or more control deficiencies that diminishes the Center's ability to initiate, process, and report financial transactions (in accordance with generally accepted accounting principles) to the extent that makes it more than remotely possible that a significant financial statement misstatement could occur due to error or fraud and not be prevented or detected by the Center's internal control.

"Material weakness" - one or more significant deficiencies that makes it more than remotely possible that a material financial statement misstatement could occur due to error or fraud and not be prevented or detected by the Center's internal control.

Other Required Communications

The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards - The auditor's responsibility is to render an opinion about whether the internally-prepared financial statements are fairly presented, in all material respects, with U.S. generally accepted accounting principles. This responsibility does not relieve management of its responsibility regarding the financial statements.

Scope and Timing of the Audit - The audit was performed in accordance with the planned scope and timing, which was consistent with prior audits.

Qualitative Aspects of Accounting Practices - Although the auditor can advise management about the appropriateness of accounting policies and their application, management retains ultimate responsibility for their selection and use. The significant accounting policies used by the Center are described in Note 1 to the audited financial statements and no new accounting policies were adopted during 2012. There were no transactions entered into by the Center during 2012 for which there is a lack of authoritative guidance and there are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

The use of estimates in the preparation of financial statements is discussed in the notes to the audited financial statements, as well as the estimate for doubtful accounts which was established. I evaluated the factors and assumptions used to develop the allowance and determined that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit - None.

Corrected and Uncorrected Financial Statement Misstatements - All significant misstatements noted during the audit have been reported to management in the form of "Adjusting Journal Entries", which were reviewed and approved by management and properly recorded in the Center's accounting records.

Disagreements with Management - None.

Management Consultations with Other Independent Accountants (i.e. second opinions) - To my knowledge, there were no consultations with other accountants.

Other Miscellaneous Items:- The following items do not represent material misstatements in the financial statements, material weaknesses in internal control, or material noncompliance with major federal programs. They are merely additional items noted during the course of the audit that are presented for your consideration to improve financial operations or correct isolated exceptions. Therefore, a written action plan should not be necessary.

- 1.) Effective January 1, 2013, the unlimited FDIC insurance for non-interest-bearing transaction accounts was discontinued. As a result, the Center has approximately \$1,100,000 in uninsured deposits which the Center may want to diversify into other financial institutions in order to bring all deposits within the current FDIC insurance limits.
- 2.) Certain insurance policies are paid on an installment plan, which incurs an installment fee (albeit small) and possibly some imbedded interest. The Center has adequate funds to pay its insurance premiums in full on the anniversary date of the respective policies. Doing so will not only avoid the installment fee but also eliminate the administrative burden of processing monthly installment payments.
- 3.) As noted in the prior year audit, the Merrill Lynch account, which has \$200,000 in it is inactive and is paying virtually no interest. Therefore, consideration should be given to investing these funds in a certificate of deposit.

Also, the Center has a four other CD's (each of at least \$100,000) which are earning only one tenth of one percent which could be safely invested at higher rates.

- 4.) The Center's clinics continue to need improvement in their encounter billing procedures. During a random sample of encounters, several exceptions were noted in connection with the identification of the appropriate responsible party to bill, determination of the appropriate sliding fee discount, or the verification of the patient's stated income.

Other minor findings:

- a.) Check number 52389 for \$5,655 for Gulfport dental supplies was coded to Biloxi dental in error.
- b.) Check number 53704 for \$3,820 for legal fees related to a Biloxi clinic matter was incorrectly coded to an indirect cost pool which effectively charged about \$550 to Greene Area Medical Extenders.
- c.) Updating of signature authority is needed at two financial institutions (AIG and Bancorp South) is needed to added the CEO.

The above information is intended solely for the use of the Center's Board and management and should not be used by anyone else.

S.W. Chiepalich
Certified Public Accountant

.....

Management Representations

In connection with the audit of the Center's 2011 and 2012 financial statements, management confirms, to the best of its knowledge and belief, the following representations made the auditor during the audit.

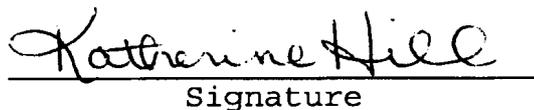
1. We (i.e. management) are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies and internal controls and for preventing and detecting fraud.
2. We have made available to you all:
 - a) Financial records and related data;
 - b) Minutes of the meetings of the Board and committees of the Board, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no:
 - a) Fraud (intentional misstatements or omissions of amounts or disclosures in financial statements or misappropriations of assets) involving management or employees who have significant roles in the system of internal accounting control.
 - b) Fraud involving other employees that could have a material effect on the financial statements.
 - c) Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements, and there are no undisclosed assets or liabilities.

5. The following have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
 - b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - c) Arrangements to repurchase assets previously sold.
6. We have not adopted any plans nor do we have present intentions that could materially affect the carrying value or classification of assets or liabilities in the financial statements.
7. We have disclosed to you all pending or threatened litigation, claims, or assessment that are required to be accrued or disclosed in the financial statements in accordance with professional standards, and any consultations with lawyers concerning such litigation, claims, or assessments.
8. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the company vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements. We understand that concentrations include individual or group concentrations of customers, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, or operating areas or markets. We further understand that severe impact means a significant financially disruptive effect on the normal functioning of the company.
9. There are no:
 - a) Violations or possible violations of laws or regulations whose effects are regarded as significant enough to be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
 - c) Reservations or designations of net assets that were not properly authorized and approved.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

11. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule, if any, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
12. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.
13. With respect to federal financial assistance programs:
 - a) We have identified in the schedule of federal financial assistance all assistance provided by federal agencies in the form of grants, contracts, loans guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.
 - b) We have identified the requirements governing political activity, civil rights, cash management, federal financial reports, allowable costs/cost principles, drug-free work-place, and administrative requirements over federal financial assistance.
 - c) We have identified the requirements governing types of services allowed or not allowed; eligibility; matching, level of effort, or earmarking; reporting; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to major federal financial assistance programs, which are identified in the schedule of findings and questioned costs.
 - d) We have complied with reporting requirements in connection with federal financial assistance and information presented in federal financial reports and claims for advances and reimbursements is supported by the accounting records from which the basic financial statements were prepared.
 - e) We have identified and disclosed to you all amounts questioned, as well as known violations of requirements that, if not complied with, could have a material effect on a major federal financial assistance program, and all civil rights complaints filed against us or investigations completed or in progress of which we are aware.
14. The Center is an exempt organization under Section 501(c)3 of the Internal Revenue Code. Any activities of which we are aware that would jeopardize this tax status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

We acknowledge receipt of this letter and affirm the management representations contained herein.


Signature


Signature