

East Arkansas Family Health Center, Inc.

Independent Auditor's Reports and Financial Statements

November 30, 2019

East Arkansas Family Health Center, Inc.
November 30, 2019

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Independent Auditor's Report

Board of Directors
East Arkansas Family Health Center, Inc.
West Memphis, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of East Arkansas Family Health Center, Inc. (the Center), which comprise the balance sheet as of November 30, 2019, and the related statements of operations and changes in net assets and cash flows for the year 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. 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 East Arkansas Family Health Center, Inc. as of November 30, 2019, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 14* to the financial statements, in 2019, the Center adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of state awards, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated June 9, 2020, on our consideration of the Center's internal control over financial reporting and 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 the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
June 9, 2020

East Arkansas Family Health Center, Inc.
Balance Sheet
November 30, 2019

Assets

Current Assets

Cash	\$ 2,690,681
Patient accounts receivable, net of allowance of \$872,974	770,780
FQHC cost settlement receivable	1,836,082
Inventories	<u>81,853</u>
Total current assets	<u>5,379,396</u>

Property and Equipment, at Cost

Land	280,613
Buildings	12,371,429
Equipment	<u>3,691,209</u>
	16,343,251
Less accumulated depreciation	<u>4,790,216</u>
	<u>11,553,035</u>

Total assets	<u><u>\$ 16,932,431</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	199,399
Accrued expenses	<u>576,405</u>
Total current liabilities	<u>775,804</u>

Net Assets Without Donor Restrictions	<u>16,156,627</u>
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Total liabilities and net assets	<u><u>\$ 16,932,431</u></u>
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East Arkansas Family Health Center, Inc.
Statement of Operations and Changes in Net Assets
Year Ended November 30, 2019

Revenues, Gains and Other Support Without Donor Restriction

Patient service revenue (net of contractual discounts and allowances)	\$ 11,064,857
Provision for uncollectible accounts	<u>(207,165)</u>
Net patient service revenue less provision for uncollectible accounts	10,857,692
Grants	5,195,031
Pharmacy revenue	7,823,829
Interest	1,585
Net assets released from restrictions	<u>170,001</u>

**Total Revenues, Gains, and Other Support
Without Donor Restriction**

24,048,138

Expenses

Personnel	11,571,414
Fringe benefits	2,348,155
Travel	231,739
Professional fees	201,825
Supplies	886,430
Pharmacy inventory consumed	1,712,917
Purchased services	249,294
Dues and memberships	143,297
Contracted and supplemental	667,940
Insurance	136,909
Building and equipment rental	79,449
Telephone	216,393
Repairs and maintenance	320,541
Depreciation	879,439
Utilities	179,927
Interest	90,354
Other	<u>180,234</u>

Total expenses

20,096,257

**Excess of Revenues over Expenses and Change in
Net Assets Without Donor Restriction**

3,951,881

Net Assets with Donor Restriction

Net assets released from restriction	<u>(170,001)</u>
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Decrease in net assets with donor restriction

(170,001)

Change in Net Assets

3,781,880

Net Assets, Beginning of Year

12,374,747

Net Assets, End of Year

\$ 16,156,627

East Arkansas Family Health Center, Inc.
Statement of Cash Flows
Year Ended November 30, 2019

Operating Activities	
Change in net assets	\$ 3,781,880
Items not requiring operating cash flow	
Depreciation	879,439
Provision for uncollectible accounts	207,165
Changes in	
Patient accounts receivable	(452,450)
FQHC cost settlement receivable	(111,197)
Inventories	100,572
Accounts payable	20,242
Accrued expenses	40,043
	<u>4,465,694</u>
Net cash provided by operating activities	<u>4,465,694</u>
Investing Activities	
Purchase of property and equipment	<u>(335,128)</u>
Net cash used in investing activities	<u>(335,128)</u>
Financing Activities	
Principal payments on bank loans	<u>(2,286,293)</u>
Net cash used in financing activities	<u>(2,286,293)</u>
Increase in Cash	1,844,273
Cash, Beginning of Year	<u>846,408</u>
Cash, End of Year	<u><u>\$ 2,690,681</u></u>
Supplemental Cash Flows Information	
Interest paid	\$ 90,354

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

East Arkansas Family Health Center, Inc. (the Center) was organized for nonprofit purposes to promote the general health of the community. Through its clinics in West Memphis, Lepanto, Blytheville, Helena, Trumann, Marion, Marvell and Earle, Arkansas, the Center provides care for persons suffering from illness or disabilities and carries on health-related educational activities.

The Center's primary sources of funds for operations are grants from the U.S. Department of Health and Human Services, the acceptance of which requires compliance with prescribed grant conditions and other special requirements, including the receipt of certain amounts of revenues from other sources including charges to patients for services. Under the terms of the federal grant agreements, the Center is subject to the uniform administrative requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Accordingly, policies and procedures are designed to be in compliance with the provisions of the Uniform Guidance.

Use of Estimates

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

Cash Deposits

At November 30, 2019, the Center's cash accounts exceeded federally insured limits by approximately \$1,920,000.

Inventories

Inventories consist of pharmaceuticals. Cost of the pharmaceuticals are determined using the first-in, first-out method and are stated at the lower of cost or net realizable value.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), the Center records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts increased to \$872,974 (up from \$665,809) at November 30, 2019. The increase resulted from an increase in the gross patient accounts receivable and due to the aging of these receivables.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. All assets with a useful life over one year and cost above \$1,000 are capitalized. Property acquired with federal grant funds is considered owned by the Center while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased with federal and state grant funds, as well as any proceeds from its sale, are subject to federal regulations.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	5–30 years
Equipment	3–10 years

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The Center evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount, the cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended November 30, 2019.

Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

340B Revenue

The Center participates in the 340B Drug Discount Pricing Program, which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Center earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Center has an in-house pharmacy and a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Center. Reported 340B revenue consists of the in-house pharmacy sales and reimbursements from the network of participating pharmacies, net of the initial purchase price of the drugs.

The 340B revenue is included in pharmacy revenue on the statement of operations and changes in net assets and totaled \$998,726 for the year ended November 30, 2019. The drug replenishment costs are included in supplies on the statement of operations and changes in net assets and totaled \$559,713. The net 340B revenue from this program is used in furtherance of the Center's mission.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Professional Liability Claims

The Center recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 7*.

Compensated Absences

Employees receive 8 to 16 hours of accrued leave per month, depending on the employee's years of service to the Center. Hours accrued are available to be taken as accrued after completion of a three-month probationary period. Unused hours may be paid upon termination or resignation. The amount of accrued leave at November 30, 2019, was \$313,507 and is included as a component of accrued expenses on the balance sheet.

Government Grants

Support funded by grants is recognized as the Center performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Center is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

Net Assets with Donor Restriction

Net assets with donor restriction are those whose use by the Center has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held and expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction are met in the period the gift is received are reported as revenue and net assets without donor restrictions.

Excess of Revenues over Expenses

The statement of operations and changes in net assets includes excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Note 2: Net Patient Service Revenue

The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for the sliding fee program, the Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Center's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for bad debts is presented on the statement of operations and changes in net assets as a component of net patient service revenue.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

The Center is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. These payment arrangements include:

Medicare – Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare’s Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of the Center’s actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid – Covered FQHC services rendered to Medicaid program beneficiaries are paid initially based on a prospective reimbursement methodology. Throughout the year, the Center is reimbursed a set encounter rate for all services provided under the plan. After submission of an annual cost report and review by Arkansas Medicaid, a final settlement is received if the actual costs per encounter exceed the set rate.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance centers and preferred provider centers. The basis for payment to the Center under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the year ended November 30, 2019, was:

Medicare	\$ 1,959,766
Medicaid	6,282,454
Other	<u>2,822,637</u>
Total	<u>\$ 11,064,857</u>

The 2019 net patient service revenue increased approximately \$1,600,000 due to an increase in the previously estimated final settlements for the FQHC cost report receivable.

East Arkansas Family Health Center, Inc.
Notes to Financial Statements
November 30, 2019

Note 3: Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors as of November 30, 2019, was:

Medicare	33%
Medicaid	16%
Other third-party payors	18%
Patients	33%
	100%

Note 4: Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the schedule below. The schedule presents the natural classification detail of expenses by function. Certain costs have been allocated among the program and administration categories based on the allocation of personnel expenses and other methods.

	Clinical	Dental	Total Health Program Services	Administration	Total
Personnel	\$ 6,479,992	\$ 1,735,712	\$ 8,215,704	\$ 3,355,710	\$ 11,571,414
Fringe benefits	1,314,967	352,223	1,667,190	680,965	2,348,155
Travel	129,774	34,761	164,535	67,204	231,739
Professional fees	113,022	30,274	143,296	58,529	201,825
Supplies	496,401	132,965	629,366	257,064	886,430
Pharmacy inventory consumed	1,712,917	-	1,712,917	-	1,712,917
Purchased services	115,466	133,828	249,294	-	249,294
Dues and memberships	80,246	21,495	101,741	41,556	143,297
Contracted and supplemental	236,520	-	236,520	431,420	667,940
Insurance	76,669	20,536	97,205	39,704	136,909
Building and equipment rental	44,491	11,917	56,408	23,041	79,449
Telephone	121,180	32,459	153,639	62,754	216,393
Repairs and maintenance	179,503	48,081	227,584	92,957	320,541
Depreciation	492,486	131,916	624,402	255,037	879,439
Utilities	100,759	26,989	127,748	52,179	179,927
Interest	50,598	13,553	64,151	26,203	90,354
Other	100,931	27,035	127,966	52,268	180,234
Total expenses	\$ 11,845,922	\$ 2,753,744	\$ 14,599,666	\$ 5,496,591	\$ 20,096,257

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Note 5: Note Payable to Bank

At November 30, 2018, the Center had a \$2,286,293 loan with a bank. The loan was due on demand and had a fixed interest rate of 4.75%. It was paid in full during the year.

Note 6: Line of Credit

The Center had a \$250,000 revolving line of credit with a bank that expired in December 2019. At November 30, 2019, there were no borrowings against this line. The line was collateralized by real estate. Interest accrued at 4.5% and was payable monthly.

Note 7: Professional Liability Claims

The U.S. Department of Health and Human Services has deemed the Center and its participating providers covered under the *Federal Torts Claims Act* (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Based upon the Center's claims experience, no accrual has been made for the Center's portion of medical malpractice cost for the year ended November 30, 2019. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future medical claim.

Note 8: Pension Plan

The Center has a defined-contribution plan covering substantially all employees. From year to year, the board of directors determines whether to make any contributions into the plan. The Center will match 100% of the employees' contribution up to 3%, and will match 50% of the employees' contribution from 3% to 5%. For the year ended November 30, 2019, the Center contributed \$202,429 to the plan.

East Arkansas Family Health Center, Inc.
Notes to Financial Statements
November 30, 2019

Note 9: Net Assets with Donor Restrictions

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Helena clinic operations	\$ 136,570
Healthy Eating for Life Project	<u>33,431</u>
	<u>\$ 170,001</u>

Note 10: Grant Commitments

The Center receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Center are prepared on the accrual basis, all earned portions of the grants not yet received as of November 30, 2019, are recorded as receivables, of which there were none at November 30, 2019.

Following are the grant commitments that extend beyond November 30, 2019:

Grant	Term	Grant Amount	Earned as of November 30, 2019	Funding Available
Health Center Program (CFDA 93.224)	4/1/19 – 3/31/20	\$ 1,357,724	\$ 779,509	\$ 578,215
Affordable Care Act Grants for New and Expanded Services under the Health Center Program (CFDA 93.527)	4/1/19 – 3/31/20	3,884,310	2,244,613	1,639,697
		\$ 5,242,034	\$ 3,024,123	\$ 2,217,911

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Note 11: Liquidity and Availability

The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment of its available funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Center operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statement of cash flows, which identifies the sources and uses of the Center's cash and shows positive cash generated by operations for the fiscal year ended November 30, 2019. The Center's financial assets available within one year of the balance sheet date for general expenditure are:

Financial assets at year-end	
Cash	\$ 2,690,681
Patient accounts receivable, net	770,780
FQHC cost settlement receivable	<u>1,836,082</u>
Total financial assets	<u>\$ 5,297,543</u>

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowance for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Economic Dependency

The Center is economically dependent upon revenue provided by the U.S. Department of Health and Human Services. During the fiscal year ended November 30, 2019, approximately 22% of the Center's total revenue, gains and other support was provided by this source.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

FQHC Cost Settlement Receivable

Certain patient services are paid based on a cost reimbursement methodology. The Center is reimbursed by Medicare and Medicaid for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Arkansas Medicaid and Medicare administrative contractor. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Note 13: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Center is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

The new standard is currently effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Center is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to recognition of additional assets and liabilities for operating leases.

Note 14: Change in Accounting Principle

In 2019, the Center adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. This change had no impact on previously reported total changes in net assets. A summary of the changes by financial statement area is as follows:

Balance Sheet

The balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Operations and Changes in Net Assets

Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Functional Expenses

Expenses are reported by both nature and function in one location.

Notes to the Financial Statements

Enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2019

Note 15: Subsequent Events

Subsequent to year-end, a novel strain of coronavirus (COVID-19) began to cause some business disruption through reduced patient revenue, specifically related to physician office visits. Additionally, there has been significant volatility in the investment markets both nationally and globally since December 31, 2019.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Center expects this matter to negatively impact its financial condition and operating results. In response to the economic impact of COVID-19, the Center received the following:

- In April 2020, the Center was approved for a Paycheck Protection Program (PPP) Loan in the amount of \$1,881,790. This program was established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) and has certain allowable uses over a covered period of 24 weeks from the initial distribution date. There is a forgiveness provision which if followed could result in an all or partial loan forgiveness. Any unforgiven portion of the loan will have a term of two years at an interest rate of 1 percent.
- In April 2020, the Center received additional federal grant awards from the health center CARES Act funding totaling \$959,180. Each grant award contains specific terms and conditions that must be followed when utilizing this funding.

The overall financial impact and duration of COVID-19 cannot be reasonably estimated at this time.

Subsequent events have been evaluated through June 9, 2020, which is the date the financial statements were available to be issued.

Supplementary Information

East Arkansas Family Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended November 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Health Center Program Cluster				
U.S. Department of Health and Human Services/ Consolidated Health Centers	93.224		\$ -	\$ 779,509
U.S. Department of Health and Human Services/ Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527		-	<u>3,819,719</u>
Total Health Center Program Cluster			-	4,599,228
U.S. Department of Health and Human Services/ United Way of Mid-South/HIV Emergency Relief Project Grants	93.914		-	184,072
U.S. Department of Health and Human Services/ Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	<u>411,731</u>
			<u>\$ -</u>	<u>\$ 5,195,031</u>

East Arkansas Family Health Center, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended November 30, 2019

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of East Arkansas Family Health Center, Inc. (the Center) under programs of the federal government for the year ended November 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Center.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Center has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

East Arkansas Family Health Center, Inc.
Schedule of State Awards
Year Ended November 30, 2019

Program	State Agency/ Pass-Through Entity	State Revenues
Medicaid Title XIX ⁽¹⁾	Arkansas Department of Human Services	<u>\$ 1,696,263</u>

⁽¹⁾ Revenue recognized from the Medicaid program is included in the total of net patient service revenue in the accompanying statement of operations and changes in net assets. Medicaid revenue noted above represents 27% (the percentage the State of Arkansas contributed) of total Medicaid revenue recognized during fiscal year ended November 30, 2019.

**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
East Arkansas Family Health Center, Inc.
West Memphis, Arkansas

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 East Arkansas Family Health Center, Inc. (the Center), which comprise the balance sheet as of November 30, 2019, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2020, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a material weakness.

Board of Directors
East Arkansas Family Health Center, Inc.

Compliance and Other Matters

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

The Center's Response to Finding

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

BKD, LLP

Little Rock, Arkansas
June 9, 2020

**Report on Compliance for the Major Federal Program and Report on
Internal Control over Compliance**

Independent Auditor's Report

Board of Directors
East Arkansas Family Health Center, Inc.
West Memphis, Arkansas

Report on Compliance for the Major Federal Program

We have audited East Arkansas Family Health Center, Inc.'s (the Center) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended November 30, 2019. The Center's major federal program is 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 the Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Board of Directors
East Arkansas Family Health Center, Inc.

Opinion on the Major Federal Program

In our opinion, East Arkansas Family Health Center, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended November 30, 2019.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Center's internal control over compliance.

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

Our consideration of 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.

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.

BKD, LLP

Little Rock, Arkansas
June 9, 2020

East Arkansas Family Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes No

East Arkansas Family Health Center, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended November 30, 2019

7. The Center's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster	
Consolidated Health Centers	93.224
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Center qualified as a low-risk auditee?

Yes No

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

East Arkansas Family Health Center, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended November 30, 2019

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2019-001	<p>Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition: Net assets were not properly reconciled as of November 30, 2019. Certain transactions related to prior year estimates were recorded to net assets for the year ended November 30, 2019, that should have been recorded in the statement of operations and changes in net assets for the year ended November 30, 2019.</p> <p>Effect: Financial statements could potentially be misstated.</p> <p>Cause: Proper accounting policies and procedures were not followed related to the net asset reconciliation.</p> <p>Recommendation: Management should reconcile the net asset accounts on a monthly basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Management concurs with the finding and recommendation. Management will work to ensure proper policies and procedures are established and followed.</p>

East Arkansas Family Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended November 30, 2019

Reference Number	Summary of Finding	Status
	No matters are reportable.	



Preventive Health Care for a Healthier Tomorrow

East Arkansas Family Health Center

Accredited by Joint Commission
Member of BBB

East Arkansas Family Health Center, Inc. Corrective Action Plan

Contact Name: Robert Beard
Contact Phone Number: 870-733-6303
Audit Firm: BKD, LLP
Audit Period: November 30, 2019

Finding #2019-001 – Statement of Condition

Net assets were not properly reconciled as of November 30, 2019. Certain transactions related to prior year estimates were recorded to net assets for the year ended November 30, 2019, that should have been recorded in the statement of operations and changes in net assets for the year ended November 30, 2019.

Response:

Management concurs with the finding and recommendation. The Chief Financial Officer (Robert Beard) and Management will work to ensure proper policies and procedures are established and followed by November 30, 2020.