HOPE FAMILY HEALTH SERVICES, INC.

Financial Statements

December 31, 2019 and 2018

(With Independent Auditor's Report Thereon)

HOPE FAMILY HEALTH SERVICES, INC.

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Independent Auditor's Report

The Governing Board
HOPE Family Health Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of HOPE Family Health Services, Inc. (the Organization) which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 HOPE Family Health Services, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 generally accepted in the United States of America. In our opinion, the Schedule of Expenditures and Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020 on our consideration of HOPE Family Health Services, Inc.'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards considering HOPE Family Health Services, Inc.'s internal control over financial reporting and compliance.

Terry Horne CPA

Lebanon, TN

December 11, 2020

HOPE Family Health Services, Inc.
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 686,869	$ 300,373
Assets Limited to Use - USDA Escrow	10,215	5,875
Accounts Receivable	140,223	156,384
Contract 340B Receivables	38,623	23,175
Grants Receivable	102,261	10,086
Other Receivables	16,473	11,592
Inventory	108,964	111,127
Prepaid Expenses	805	805
Total Current Assets	1,104,433	619,417
Property and Equipment, net	1,310,758	565,382
Total Assets	**$ 2,415,191**	**$ 1,184,799**
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 98,020	$ 57,630
Accrued Payroll Liabilities	127,028	114,048
Accrued Compensated Absences	64,144	60,188
Unearned Grant Revenue	26,997	0
Line of Credit	0	7,121
Accrued Interest Payable	17,477	0
Current Portion of Long Term Capital Leases	28,992	41,964
Current Portion of Long Term Debt	16,448	10,844
Total Current Liabilities	379,106	291,795
Long-Term Liabilities		
Note Payable	1,068,415	329,752
Capital Leases Payable	28,992	71,271
Less Current Portion of Long Term Capital Leases	(28,992)	(41,964)
Less Current Portion of Long Term Debt	(16,448)	(10,844)
Total Long-Term Liabilities	1,051,967	348,215
Total Liabilities	1,431,073	640,010
Net Assets		
Net Assets - Without Donor Restrictions	879,492	294,194
Net Assets - With Donor Restrictions	104,626	250,595
Total Net Assets	984,118	544,789
Total Liabilities and Net Assets	**$ 2,415,191**	**$ 1,184,799**

The accompanying notes are an integral part of this financial statement.

HOPE Family Health Services, Inc.
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2019 and 2018

	2019	2018
Support and Revenues:		
Patient Revenue	$ 2,216,412	$ 2,143,190
Contract 340B Revenue	562,534	48,824
Other Contract Revenue	110,003	122,664
Federal Grants	2,046,797	1,818,474
Other Grants	70,665	226,236
Contributions	12,599	11,687
Net Assets Released from Restriction	433,314	0
Total Support and Revenues	5,452,324	4,371,075
Expenses:		
Program Services	3,497,532	3,155,084
General and Administrative	1,377,494	1,249,213
Total Expenses	4,875,026	4,404,297
Other Income:		
Other Income	8,000	1,132
Total Other Income	8,000	1,132
Change in Net Assets Without Donor Restriction	**$ 585,298**	**$ (32,090)**
Net Assets With Donor Restriction		
Contributions	$ 287,345	$ 250,595
Net Assets Released from Restriction	(433,314)	0
Increase (Decrease) Net Assets With Donor Restriction	(145,969)	250,595
Total Change in Net Assets	$ 439,329	$ 218,505
Net Assets at Beginning of Year	544,789	326,284
Net Assets at End of Year	**$ 984,118**	**$ 544,789**

The accompanying notes are an integral part of this financial statement.

HOPE Family Health Services, Inc.

Statements of Functional Expenses

For the Years Ended December 31, 2019 and 2018

2019	Program Services	General and Administrative	2019 Total
Salaries and Wages	$ 1,789,268	$ 794,302	$ 2,583,570
Fringe Benefits	191,579	85,047	276,626
Purchased Services			
and Professional Fees	249,499	218,251	467,750
Supplies	828,712	62,504	891,216
Depreciation	86,734	21,684	108,418
Travel, Communication, and Other	351,740	195,706	547,446
Total	**$ 3,497,532**	**$ 1,377,494**	**$ 4,875,026**

2018	Program Services	General and Administrative	2018 Total
Salaries and Wages	$ 1,734,931	$ 736,646	$ 2,471,577
Fringe Benefits	218,090	92,600	310,690
Purchased Services			
and Professional Fees	170,952	181,089	352,041
Supplies	688,936	48,547	737,483
Depreciation	71,472	17,868	89,340
Travel, Communication, and Other	270,703	172,463	443,166
Total	**$ 3,155,084**	**$ 1,249,213**	**$ 4,404,297**

The accompanying notes are an integral part of this financial statement.

HOPE Family Health Services, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Change in Net Assets	$ 439,329	$ 218,505
Adjustments to Reconcile Change in Net Assets to Cash Flows From Operations:		
Depreciation	108,418	89,340
Change in:		
Accounts Receivable	16,161	(53,378)
Contract 340B Receivables	(15,448)	(20,979)
Grants Receivable	(92,175)	9,420
Other Receivable	(4,881)	(1,250)
Inventory	2,163	29
Accounts Payable	40,390	(56,890)
Excess Federal Cash	26,997	0
Accrued Payroll Liabilities	12,980	18,221
Accrued Compensated Absences	3,956	13,126
Prepaid Items	17,477	0
Cash Provided by Operating Activities	555,367	216,144
Cash Flows From Investing Activities:		
Purchases of Property, Plant and Equipment	(853,794)	(119,439)
Cash Flows From Investing Activities	(853,794)	(119,439)
Cash Flows From Financing Activities:		
Principal Payment on Capital Leases	(42,279)	(41,964)
Issuance of Notes Payable	750,126	39,636
Principal Payments on Notes Payable	(11,463)	(9,477)
Draws (Paydowns) on Line of Credit	(7,121)	7,121
Cash From Financing Activities	689,263	(4,684)
Net Increase (Decrease) in Cash	390,836	92,021
Cash at Beginning of The Year, including restricted cash	306,248	214,227
Cash at End of The Year, including restricted cash	**$ 697,084**	**$ 306,248**
Supplemental Data:		
Interest Paid in Financing Activities	$ 16,565	$ 21,460

The accompanying notes are an integral part of this financial statement.

(1) Nature of Activities and Summary of Significant Accounting Policies

(a) Nature of The Business

HOPE Family Health Services, Inc. (the Organization) is a not-for-profit corporation organized under the laws of the State of Tennessee. The Organization provides outpatient health care services and qualifies as a Federally Qualified Health Center (FQHC). The Organization is principally funded through payments from Medicare, Medicaid, private insurance and patients. Funding is also obtained through support provided by the Department of Health and Human Services, Health Resource and Services Administration (HRSA) and through other third-party grants and contributions.

(b) Basis of Presentation

The financial statements of the Organization have been prepared on an accrual basis and in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets with donor restrictions are subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. Net assets for which the restriction is met in the same year of receipt are reported in the statements of activities as unrestricted.

(c) Cash and Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts. At December 31, 2019, cash balances of approximately $334,000 exceeded Federal Deposit Insurance Coverage and was not secured by federal securities.

The Organization also has cash that is restricted under loan covenants with the United States Department of Agriculture. These restricted cash balances were $10,215 and $5,875 at December 31, 2019 and 2018, respectively.

(d) Accounts Receivable

Patient accounts receivable include amounts due from federal and state agencies (under the Medicare and Medicaid programs), commercial insurance companies, and patients. These receivables are subject to explicit and implicit discounts based on contractual agreements, discount policies, and management's assessment of historical experience. These discounts are reflected in the period of services.

(e) Grants and Contributions Receivable

Receivables for grants, such as Federal grants and other grants and contributions, are recognized as support if the donor communicates an unconditional promise to give to the Organization. Conditional promises to give are not recognized as support until the donor's conditions are substantially met. Contributions that are restricted by the donor (e.g., as to the passage of time or use for a specific purpose), are reported as increases in net assets with donor restrictions. Upon satisfaction or expiration of a donor restriction, the applicable net assets are reclassified to net assets without donor restrictions.

Contributions are recorded at fair value on the date received. The fair value of an unconditional promise to give to the Organization that is expected to be received after one year is deemed to be equal to its estimated present value based on a risk-free interest rate for issues with a similar maturity.

(f) Inventories

The Organization records all pharmaceuticals as inventory items when purchased. On a monthly basis, inventory is adjusted for the items dispensed to patients. The value of the inventory is determined on the First in, First Out Basis (FIFO) using the lower of cost or net realizable value. Generally, medical supplies are not considered to be material and are expensed as they are purchased.

(g) Property and Equipment

Property and equipment acquired with DHHS funds are considered to be owned by the Organization while used in the program or in future authorized programs. However, DHHS retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets. Accordingly, the Organization may not transfer, mortgage, assign, lease or in any other manner encumber certain property items without the prior approval of DHHS.

Property and equipment are depreciated on the straight-line method over estimated useful lives of the assets. Expenditures for maintenance and repairs are expenses when incurred. Expenditures for renewals or betterments are capitalized. The threshold for capitalization is $1,000. When property is retired or sold, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(h) Contributions

To determine the appropriate revenue recognition policy, the Organization assesses whether the transaction is an exchange or non-exchange transaction in accordance with accounting standards. In general, an exchange transaction consists of an exchange of goods and/or services for commensurate value. Transactions that consist of transferring goods and/or services without receiving commensurate value in return are considered non-exchange transactions.

Revenue from Exchange Transactions: Revenue related to exchange transactions is recognized as goods and/or services are provided and is based on the amount expected to be received in exchange for those goods and/or services. Revenue recognized as exchange transactions primarily includes net patient service revenue and pharmacy revenue.

Revenue from Non-Exchange Transactions: Non-exchange transactions include contributions and grants for which the transferor does not receive commensurate value in return for the funding. Revenue recognized as non-exchange transactions primarily include Federal grant revenue and other grants and contributions revenue.

(i) Expense Allocation

Some expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

(j) Income Taxes

The Organization is a non-profit corporation as described in Section 501c (3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 (1) of the Code. As of the date of this report the current and two most recent prior years are available for IRS audit.

(k) Estimated Amounts

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material. Significant estimates used by management in preparing these financial statements principally include those assumed in establishing the implicit discounts associated with accounts receivable and the estimated useful lives of property and equipment.

(l) Concentration of Credit and Market Risk

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution.

(m) Reclassifications and Prior Period Adjustment

Certain prior year amounts have been reclassified to conform to the current year presentation. In addition, the December 31, 2018 financial statements have been restated to include contract 340B revenue received during the year ended December 31, 2019 for transactions occurring on or prior to December 31, 2018. The effect on contract 340B receivables in the accompanying statement of financial position and contract 340B revenue in the accompanying statement of activities is an increase of $20,979. The Organization has also restated net assets with donor restriction at December 31, 2018 to include grant funds restricted for the treatment of chronic illness that had not been fully utilized at December 31, 2018. The effect on the statement of activities resulting from this restatement includes a decrease of $47,250 in other grants and a $47,250 increase in net assets with donor restrictions for the year ended December 31, 2018.

(n) Adoption of New Accounting Guidance

During the year ended December 31, 2019, the Organization adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

ASU 2018-08 clarifies the definition of an exchange and non-exchange transaction and provides guidance on determining whether a non-exchange transaction (contribution) is conditional or unconditional. This ASU was adopted using the modified retrospective method. The adoption of this standard did not have a significant impact on the operations of the Organization.

ASU 2014-09 implements a single framework for recognition of all revenue earned from customers in exchange contracts. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU was adopted using the modified retrospective method. The adoption of this standard changed the presentation of revenue related to uninsured and underinsured patients but did not materially affect the amount of net patient recognized for these patients. Under ASU 2014-09, estimated uncollectible amounts due from these patients are generally considered implicit price concessions, presented as a direct reduction to patient service revenue, and not presented separately as a provision for bad debts. Similarly, the related receivables from these patients are presented net of estimated allowances for implicit price concessions, and separate presentation of an allowance for bad debts has been eliminated.

Due to the adoption of the new accounting guidance, certain prior year balances have been reclassified to conform to the current year presentation. There was no change in net assets at December 31, 2018, and there was no effect on the change in net assets for the year ended December 31, 2018 as a result of the adoption of the new accounting guidance.

(2) Fair Value of Financial Instruments

Fair values of the Organization's financial instruments (principally cash and cash equivalents, accounts receivable, and grants receivable) are summarized in the accompanying Statements of Financial Position. Significant fair value measurement principles and assumptions used by the Organization are described in Note 1.

(3) Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2019 and 2018:

	2019	2018
Cash and Cash Equivalents	$ 686,869	$ 300,373
Accounts Receivable	140,223	156,384
Contract 340B Receivables	38,623	23,175
Grants Receivable	102,261	10,086
Other Receivables	16,473	11,592
Financial assets available to meet general expenditures over the next twelve months	$ 984,449	$ 501,610

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately $1.2 million). As part of its liquidity plan, excess cash may be invested in short-term investments, including money market accounts and certificates of deposit.

(4) Accounts Receivable

At December 31, 2019 and 2018, the Organization's accounts receivables were comprised of balances due from the following sources:

	2019	2018
Medicare	$ 27,143	$ 28,942
Medicaid	23,033	23,633
Commercial Insurance	33,220	55,919
Self Pay	56,827	47,890
Total Accounts Receivable	$ 140,223	$ 156,384

(5) Grants Receivable

The Organization has grant receivable balances at December 31 as follows:

	2019	2018
Federal Grants	$ 88,902	$ 0
State of Tennessee SafetyNet	13,359	10,086
Total Grants Receivable	$ 102,261	$ 10,086

All other receivables are due within one year. Therefore, there is no discount related to these receivables at December 31, 2019 and 2018. In addition, management has determined that there is no allowance for uncollectible receivables related to these balances at December 31, 2019 or December 31, 2018.

(6) Property and Equipment

A summary of property and equipment at December 31, 2019 and 2018 is as follows:

	2019	2018
Building and building improvements	$ 1,133,783	$ 350,922
Furniture and equipment	632,016	553,171
Construction in process	10,338	18,250
	1,776,137	922,343
Less accumulated depreciation	(465,379)	(356,961)
Property and equipment, net	$ 1,310,758	$ 565,382

Property and equipment is depreciated on a straight-line basis over the estimated useful life. The depreciation for the years ended December 31, 2019 and 2018 was $108,418 and $89,340.

(7) Notes Payable

The Organization issued a note payable to the USDA/Rural Development on February 22, 2015 with a principal of $310,000. This note matures in November 2054 and requires monthly installments of $1,250, accrues interest at 3.75%, and is collateralized by the Organization's building at its westside location. At December 31, 2019 and 2018, the balances of this note were $291,738 and $295,730, respectively.

The Organization issued a second note payable to the USDA/Rural Development on June 12, 2019 with an available principal balance of $1,020,000. The note was issued for the purchase of the building that the Organization uses for its main site. The cost of this building required the Organization to draw $750,126 of these funds. The Organization received approval from the USDA/Rural Development to defer principal payments and accrue interest for one year, upon issuance of the loan. The note also includes provisions for additional draws up to the $1,020,000 for additional renovations of the building. Subsequent to December 31, 2019, the Organization drew the remainder of these funds for renovations to the building. The note matures in June 2054 and requires monthly installments of $4,730.56 beginning June 12, 2020, accrues interest at 4.25%, and is collateralized by the Organization's building at its main location. At December 31, 2019, the balance of this note was $750,126.

The Organization issued a note payable to a vendor during January 2018 for the purchase of various office equipment for $39,636. The note requires 60 monthly installments of $882 and accrues interest at 12.0%. The note is collateralized by the related equipment. At December 31, 2019 and 2018, the balances of this note were $26,551 and $34,022 , respectively.

The minimum obligations on notes payable are as follows for the years ending December 31:

2020	$ 16,448
2021	23,725
2022	25,459
2023	17,169
2024	16,971
Thereafter	968,643
Total	$ 1,068,415

In addition, the Organization is required under the 2015 and 2019 USDA loan agreements to deposit ten-percent (10%) of the annual installments due into an escrow account. At December 31, 2019 and 2018, the minimum required balances held in an escrow account were $10,215 and $5,875, respectively. At December 31, 2019 and 2018, the balances in the escrow account met or exceeded the combined minimum required balance.

The Organization has an unsecured revolving line of credit with outstanding balances of $0 and $7,121 at December 31, 2019 and 2018, respectively. The line of credit has a limit of $10,000, accrues interest at 7.0%, and has a maturity of February 26, 2025.

(8) Capital Lease

The Organization has a capital lease for pharmacy equipment that requires monthly payments of $3,497. . In the event that the Organization makes all payments under the agreement, the purchase price will be one dollar. The Organization has capitalized the asset of $179,930, has recorded the related note as a liability, and records depreciation of the assets acquired as operating expense in the accompanying financial statements. The lease had balances of $28,992 and $71,271 at December 31, 2019 and 2018, respectively. The lease is scheduled to mature during the year ending December 31, 2020.

(9) Operating Lease

The Organization has an operating five-year lease which began on May 1, 2015 for the Westmoreland medical site. This lease required monthly payments of $4,000. During the fiscal years ended December 31, 2019 and 2018, the Organization made lease payments of $24,000 and $48,000 under this agreement.

During the year ended December 31, 2019, the Organization purchased the building, and the lease was terminated. Therefore there are no future lease payments required under this agreement.

(10) Net Assets With Donor Restriction

The following is a summary of the Organization's net assets with donor restriction at December 31:

	2019	2018
Pharmacy Services	$ 36,376	$ 203,345
Telemedicine	21,000	0
Chronic Illness Services	47,250	47,250
Total Net Assets With Donor Restriction	$ 104,626	$ 250,595

(11) Federal Grant Support

The Organization received grants from the U.S. Department of Health and Human Services and the U.S. Department of Agriculture with combined totals of $2,046,797 and $1,818,474 of which all was obligated for the fiscal year ended December 31, 2019 and 2018. Under the terms of these grants the Organization is required to comply with certain federal and state guidelines and the grantors retain a residual interest in assets acquired with grant funds.

(12) Patient Revenue

The Organization recognizes patient service revenue in the period in which performance obligations under its contracts are satisfied by transferring services to patients. All services are performed in an outpatient setting, and the Organization measures the performance obligation on the date of the outpatient visit. Bills to patients and third-party payors are generally sent within a few days or weeks of the outpatient visit.

The Organization maintains agreements with The Centers for Medicare and Medicaid Services under the programs that govern payments for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem rates or payments based on discounted charges or fee schedules. Certain contracts also provide for payments that are contingent upon meeting agreed upon quality and efficiency measures.

The Organization recognizes net patient service revenue associated with services provided to patients who have third-party payer coverage based on contractual rates for the services rendered.

The Organization also provides either full or partial charity care to patients who cannot afford to pay for their medical services based on income and family size. Charity care is generally available to qualifying patients for medically necessary services. As there is no expectation of collection, there is no net patient service revenue recorded related to charity care. The cost of providing charity care for the fiscal years ended 2019 and 2018 was $279,659 and $244,703, respectively.

For uninsured patients that do not qualify for charity care, the Organization recognizes revenue based on its standard rates (subject to discounts) for services provided. Based on historical experience, a significant portion of uninsured patients are unable or fail to pay for the services provided. Consequently, the Organization determined it has provided implicit discounts to uninsured patients. These discounts represent the difference between amounts billed to patients and amounts expected to be collected based on historical experience. Prior to the adoption of ASU 2014-09, a provision for bad debts of $132,334 was recorded at December 31, 2018 that represented charges for services provided that were deemed to be uncollectible

The following summarizes net patient service revenue, net of contractual allowances and discounts by significant payer for the years ended December 31, 2019 and 2018:

	2019	2018
Medicare	$ 800,746	$ 647,842
Medicaid	176,159	185,918
Commercial Insurance	967,398	1,063,508
Self Pay	272,109	245,922
Total Patient Revenue	$ 2,216,412	$ 2,143,190

(13) Contract 340B Revenue

The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. The Organization 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 Discount Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients.

The following summarizes net contract 340B revenue, net of drug replenishment costs and administrative costs for the years ended December 31, 2019 and 2018:

	2019	2018
Gross Receipts	$ 562,534	$ 48,824
Drug Replenishment Costs	(43,417)	(3,768)
Administrative Costs	(88,262)	(11,155)
Net 340B Revenue	$ 430,855	$ 33,901

(14) Medical Malpractice Coverage

The Bureau of Primary Health Care, in accordance with Section 224 of the Public Health Service Act, provides liability protection to the Organization under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. The FTCA coverage is comparable to an "occurrence" policy without a monetary cap

(15) Contributions

Effective December 19, 2018, the Organization entered into a grant agreement with a private foundation in which the private foundation conveyed a conditional promise to give $1,000,000 to the Organization over three years. The terms of the grant agreement provide that the Organization will achieve certain outcomes related to its pharmacy services within the primary care setting. The grant agreement stipulates that the grant will be funded in six installments awarded to the Organization beginning December 30, 2018 with the final payment scheduled for August 1, 2021.

During the year ended December 31, 2018, the Organization received the first installment of $203,345. This balance is reported in the accompanying 2018 financial statements as net assets with donor restrictions. The second installment was received during the year ended December 31, 2019. The unexpended balance of $36,376 is included in the accompany 2019 financial statements as a net asset with donor restrictions.

(16) Significant Source of Revenue

Approximately 38% and 42% of the Organization's revenue was provided by grants from the U.S. Department of Health and Human Services during the years ended December 31, 2019 and 2018, respectively. The Organization is dependent on this continued funding and the absence of these grants could possibly have a negative effect on operations.

(17) Related Party Transactions

The Organization is required by its federal grantor to maintain a governing board of individuals of which more than 50% are users of the Organization. Therefore, the Organization does have related party transactions with those directors. These transactions were not material to the operation of the Organization and were conducted at "arms-length."

(18) Subsequent Events

Management has evaluated the events and transactions subsequent to the statement of financial position through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements.

During March 2020, the United States began to see significant economic impacts related to the spread of novel coronavirus (COVID-19). At the date the financial statements were available to be issued, FQHCs across the United States, including the Organization, have experienced fluctuations in patient revenue as a result of the general population's efforts to mitigate the spread of COVID-19. In addition, certain FQHCs, including the Organization, have received additional funding in 2020 from HRSA and other federal funding sources to provide for COVID-19 testing and to offset lost patient revenue. Management continues to monitor the Organization's operations and believes there is no additional recognition of these matters required in the accompanying December 31, 2019 and 2018 financial statements.

In addition, the Organization issued a note payable to US Bank of approximately $515,140 on April 17, 2020 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses that include a provision of forgiveness whereby borrowers will not be responsible for any loan payment if the proceeds are utilized for forgivable purposes described in the CARES Act. These purposes include payment of payroll costs, rent, and utilities. The Organization believes that its use of the proceeds from the note payable are consistent with these purposes and meet the conditions for forgiveness of the debt. Any unforgiven portion of the PPP note payable accrues interest at 1.0% and requires 17 monthly payments of principal and interest of approximately $28,991 beginning October 17, 2020.

Subsequent to December 31, 2019, several pharmaceutical companies have demanded increased reporting by participating health care providers and announced that 340B discounts may be discontinued and distribution of these pharmaceuticals may be limited unless participating providers, such as the Organization, comply with the pharmaceutical manufacturers' requirements related to the 340B program. The future development of the 340B program is currently unknown, and limitations on the discounts available to the Organization could have a significant impact on future operations.

Management has not identified any other items requiring recognition or disclosure.

SUPPLEMENTAL SCHEDULES

HOPE FAMILY HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 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
U.S. Department of Health and Human Services				
Health Center Program Cluster Grants for New and Expanded Service Under the Health Center Program *Grant No. H80CS 24109*	93.527	N/A	N/A	$ 1,996,830
Total Health Center Program Cluster				1,996,830
U.S. Department of Agriculture				
Community Facilities Loans and Grants	10.766	N/A	N/A	49,967
Total Federal Grants				$ 2,046,797
U.S. Department of Agriculture				
Community Facilities Loans and Grants	10.766	N/A	N/A	750,126
Total Federal Expenditures				$ 2,796,923

HOPE FAMILY HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2019

Note to Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award (the "Schedule") of HOPE Family Health Services, Inc. under programs of the federal government for the year ended December 31, 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 HOPE Family Health Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of HOPE Family Health Services, Inc.

Note B-Summary of Significant Accounting Policies

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 represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. HOPE Family Health Services, Inc. has elected not to use the 10 percent de minimus indirect cost rate allowed under Uniform Guidance.

Note C - Loans Outstanding

HOPE Family Health Services, Inc. had the following loan balances outstanding at December 31, 2019:

Program Title	Federal CFDA Number	Amount Outstanding
Community Facilities Loan	10.766	$ 291,738
Community Facilities Loan	10.766	$ 750,126

TERRY L. HORNE, CPA

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Independent Auditor's 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

The Governing Board
HOPE Family Health Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of HOPE Family Health Services, Inc. which comprise the statements of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2020.

Internal Control Over Financial Reporting

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

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

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 were not identified. **We did identify certain deficiencies 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.**

Compliance and Other Matters

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

Purpose of this Report

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

Terry Horne CPA

Lebanon, TN

December 11, 2020

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Independent Auditor's Report on Compliance for Each Major Federal Program and
on Internal Control Over Compliance Required by the Uniform Guidance

The Governing Board
HOPE Family Health Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited HOPE Family Health Services, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of HOPE Family Health Services, Inc.'s major federal programs for the year ended December 31, 2019. HOPE Family Health Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HOPE Family Health Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 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 HOPE Family Health Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Health Center Program Cluster

As described in the accompanying schedule of findings and questioned costs, HOPE Family Health Services, Inc. did not comply with requirements regarding grant reporting and cash management that is applicable to its Health Center Program Cluster as described in findings 2019-002 and 2019-003. Compliance with such requirements is necessary, in our opinion, for HOPE Family Health Services, Inc. to comply with the requirements applicable to that program.

Qualified Opinion on Health Center Program Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, HOPE Family Health Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Health Center Cluster Program for the year ended December 31, 2019.

Other Matters

HOPE Family Health Services, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. HOPE Family Health Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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 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. **We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003 to be material weaknesses.**

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.

HOPE Family Health Services, Inc.'s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. HOPE Family Health Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Terry Horne CPA

Lebanon, TN
December 11, 2020

HOPE FAMILY HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2019

Section A-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	__X__ yes _____ no
Significant Deficiency(ies) identified?	_____ yes __X__ none reported
Noncompliance material to financial statements noted?	_____ yes __X__ no

Federal Awards

Internal Control over major programs:	
Material Weakness(es) identified?	__X__ yes _____ no
Significant Deficiency(ies) identified?	_____ yes __X__ none reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	__X__ yes _____ no

Identification of major programs:

CFDA Number	Name of Federal Program
93.527	Health Center Program Cluster
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	__X__ yes _____ no

Section B- Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the financial statements for which Government Auditing Standards requires reporting.

Material Weakness

***Finding*: 2019-001 Internal Control Deficiency**

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition: The Organization's financial statements required adjustments to be in conformity with accounting principles generally accepted in the United States of America (GAAP). Areas in which adjustments were proposed and recorded include:

- Accounts receivable and related revenue accounts
- Accounts receivable allowance for uncollectable
- Grants receivable, contracts receivable, and related revenue accounts
- Pharmacy inventory
- Fixed assets and related depreciation expense
- Accounts payable and related expense accounts
- Payroll liabilities and related expense accounts
- Deferred grant revenue
- Net assets with donor restrictions

Context: The Organization's financial statements should be prepared in conformity with GAAP. Timely and thorough account reconciliations and review of general ledger detail are critical to identify necessary adjustments.

Cause: The Organization failed to identify certain necessary adjustments required to present the financial statements in accordance with GAAP. Management should review existing policies and procedures for necessary changes and formalize the journal entry review process.

Effect: Adjusting journal entries were proposed during the financial statement audit.

Recommendation: Management should take steps to resolve the causes described for the monthly and year-end adjustments.

Auditee's Response and Corrective Action Plan: Management concurs and will review the policies and procedures for necessary changes and formalize the journal entry review process.

Contact Person: Jenny Dittes, CEO

Anticipated Date of Completion: January 31, 2021

Section C-Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a), significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse.

Material Weakness

***Finding*: 2019-002 Uniform Data System Report**

Federal Programs: Department of Health and Human Services
Health Center Program Cluster
CFDA 93.527
Grant No. H80CS 24109

Condition: The Uniform Data System report submitted to DHHS for the year ended December 31, 2019 contained incorrect data for patient revenue. The Table 9D did not include the pharmacy information.

Criteria: Uniform Guidance, Special Reporting – Uniform Data System

Context: The pharmacy charges, adjustments and payments were not included on Table D of the UDS report. The charges were understated by approximately $3,500,000, adjustments were understated by approximately $2,200,000 and payments were understated by approximately $1,300,000.

Cause: The above exception resulted from an error in preparing table 9D of the Uniform Data System report.

Effect: The Department of Health and Human Services reviews the UDS data for financial analysis for grant recipients. Errors in this data causes incorrect financial analysis results and distorted performance indicators.

Recommendation: It is recommended that a system should be developed to ensure actual charges and adjustments from all sources are reported and reconciled to the UDS report. HRSA should be informed of the error and the 2019 Table 9D should be revised and resubmitted if requested.

Auditee's Response and Corrective Action Plan: Management concurs. Efforts will be made to ensure that the revenue recorded is reconciled to the revenue on the UDS report.

Contact Person: Jenny Dittes, CEO

Anticipated Date of Completion: January 31, 2021

Questioned Costs: None Reported

HOPE FAMILY HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2019

***Finding:* 2019-003 Cash Management**

Federal Programs: Department of Health and Human Services
Health Center Cluster, CFDA 93.527
Grant No. H80CS 24109

Criteria: Cash Management, 45 CFR 75.305

Condition: During the year, the Organization drew federal funds that were not disbursed for program expenses. The Organization is required to minimize the time elapsing between the transfer of funds to the Organization from the U.S. Treasury and the issuance of payments for program purposes by the Organization.

Context: One cash draw made by the Organization during the fiscal year was determined to an be advanced draw.

Cause: The Organization did not identify qualifying expenditures prior to drawing down grant draws.

Effect: Grant funds were drawn in advance of qualifying expenditures. The grant draws included supplementary funds that were not earned as of the end of the grant period and are reflected as unearned grant revenue. Portions of these funds were eligible for carry forward based on the grant terms.

Recommendation: Efforts should be made to ensure advance draws of federal funds do not occur.

Auditee's Response and Corrective Action Plan: Finance staff understands the requirements to draw funds for qualifying expenditures only. Procedures will be established to ensure that draws are not made in excess of the allowable expenditures of the Organization.

Contact Person: Jenny Dittes, CEO

Anticipated Date of Completion: January 31, 2021

Questioned Costs: Cash Management

CFDA 93.527	$	26,997

HOPE FAMILY HEALTH SERVICES, INC.

Summary Schedule of Prior Year Audit Findings

December 31, 2019

There were no findings in the prior year audit.

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Corrective Action Plan

In Finding 2019-001, The Organization's financial statements required adjustments to be in conformity with accounting principles generally accepted in the United States of America (GAAP). There are several areas in which adjustments were proposed and recorded.

Management recognizes the importance of maintaining the financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and proper internal controls over financial reporting. In response to Finding 2019-001, Management concurs and will review the policies and procedures for necessary changes and formalize the journal entry review process. Also, personnel will be trained to properly perform that accounting procedures timely and accurately. This review and training will be completed by January 31, 2021.

In Finding 2019-002, The Uniform Data System report submitted to DHHS for the year ended December 31, 2019 contained incorrect data for patient revenue. The Table 9D did not include the pharmacy information.

Management recognizes the importance of complying with grant guidelines. In response to Finding 2019-002, efforts will be made to ensure that all revenue sources recorded on the billing systems are reconciled to the revenue on the UDS report. These procedures will be completed by January 31, 2021.

In Finding 2019-003, The Organization drew federal funds that were not disbursed for program expenses. The Organization is required to minimize the time elapsing between the transfer of funds to the Organization from the U.S. Treasury and the issuance of payments for program purposes by the Organization.

Management recognizes the importance of complying with grant guidelines. In response to Finding 2019-003, Finance staff understands the requirements to draw funds for qualifying expenditures only. Procedures will be established to ensure that draws are not made in excess of the allowable expenditures of the Organization. The updated procedure will be completed by January 31, 2021.

Jennifer Dittes

Jennifer Dittes

Chief Executive Officer