

HOPE FAMILY HEALTH SERVICES, INC.

Financial Statements

December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

HOPE FAMILY HEALTH SERVICES, INC.

Table of Contents

Financial Statements:	<u>Page No.</u>
Independent Auditor's Report.....	1
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7
Supplemental Information	
Schedule of Expenditures of Federal Awards.....	16
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.....	17
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	19
Schedule of Findings and Questioned Costs.....	21
Summary Schedule of Prior Year Audit Findings.....	23



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

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, 2018 and 2017, 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, 2018 and 2017, 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 June 7, 2019 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.



Lebanon, TN

June 7, 2019

HOPE Family Health Services, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 97,128	\$ 209,852
Assets Limited to Use- USDA Escrow	5,875	4,375
Assets Limited to Use- Grant Funds	203,245	0
Accounts Receivable Net	156,384	103,006
Other Receivables	23,874	32,044
Inventory	111,127	111,156
Prepaid Expenses	805	805
<i>Total Current Assets</i>	<u>598,438</u>	<u>461,238</u>
<i>Property and Equipment</i>		
Property and Equipment, at Cost,		
Net of Accumulated Depreciation	<u>565,382</u>	<u>535,283</u>
<i>Total Property and Equipment</i>	<u>565,382</u>	<u>535,283</u>
 Total Assets	 <u>\$ 1,163,820</u>	 <u>\$ 996,521</u>
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 57,630	114,520
Accrued Compensated Absences	60,188	47,063
Accrued Payroll Liabilities	114,048	95,826
Lines of Credit	7,121	0
Current Portion of Long Term Capital Leases	41,964	41,964
Current Portion of Long Term Debt	10,844	3,843
<i>Total Current Liabilities</i>	<u>291,795</u>	<u>303,216</u>
<i>Long-Term Liabilities</i>		
Note Payable	329,752	299,593
Capital Leases Payable	71,271	113,235
Less Current Portion of Long Term Capital Leases	(41,964)	(41,964)
Less Current Portion of Long Term Debt	(10,844)	(3,843)
<i>Total Long-Term Liabilities</i>	<u>348,215</u>	<u>367,021</u>
Total Liabilities	<u>640,010</u>	<u>670,237</u>
<i>Net Assets</i>		
Net Assets - Without Donor Restrictions	320,465	326,284
Net Assets - With Donor Restrictions	203,345	0
<i>Total Net Assets</i>	<u>523,810</u>	<u>326,284</u>
 Total Liabilities and Net Assets	 <u>\$ 1,163,820</u>	 <u>\$ 996,521</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Support and Revenues:		
Public Support - Federal Grants	\$ 1,818,474	\$ 2,075,423
Net Patient Revenue	2,139,935	1,731,925
Other Grants and Contracts	423,995	313,147
Contributions	11,687	14,681
Medical Records and Other Income	4,387	2,516
<i>Total Support and Revenues</i>	<u>4,398,478</u>	<u>4,137,692</u>
Expenses:		
Program Services Expenses	3,155,084	2,663,351
General and Administrative Expenses	1,249,213	1,363,522
<i>Total Expenses</i>	<u>4,404,297</u>	<u>4,026,873</u>
<i>Change in Net Assets</i>	<u>\$ (5,819)</u>	<u>\$ 110,819</u>
Net Assets:		
Net Assets Without Donor Restriction		
Excess (Deficit) of Revenues over Expenses	\$ (5,819)	\$ 110,819
Increase (Decrease) Net Assets Without Donor Restriction	(5,819)	110,819
Net Assets With Donor Restriction		
Contributions	\$ 203,345	\$ 0
Net Assets Released from Restriction	0	0
Increase (Decrease) Net Assets With Donor Restriction	203,345	0
Net Assets at Beginning of Year	326,284	215,465
Net Assets at End of Year	<u><u>\$ 523,810</u></u>	<u><u>\$ 326,284</u></u>

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, 2018 and 2017

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

2017	Program Services	General and Administrative	2017 Total
Salaries and Wages	\$ 1,625,801	\$ 671,720	\$ 2,297,521
Fringe Benefits	194,171	80,224	274,395
Purchased Services and Professional Fees	41,037	327,826	368,863
Supplies	475,224	87,969	563,193
Depreciation	64,227	16,057	80,284
Travel, Communication, and Other	262,891	179,726	442,617
Total	\$ 2,663,351	\$ 1,363,522	\$ 4,026,873

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 197,526	\$ 110,819
<i>Adjustments to Reconcile Change in Net Assets to Cash Provided From Operations:</i>		
Depreciation	89,340	80,284
Change in:		
Accounts Receivable	(53,378)	33,409
Other Receivable	8,170	497
Inventory	29	(54,348)
Prepaid Items	0	8,513
Accounts Payable	(56,890)	13,465
Accrued Leave and Payroll Liabilities	31,347	(16,903)
Cash Provided by Operating Activities	<u>216,144</u>	<u>175,736</u>
Cash Flows Used in Investing Activities:		
Purchases of Property, Plant and Equipment	(119,439)	(68,822)
Cash Used in Investing Activities	<u>(119,439)</u>	<u>(68,822)</u>
Cash Flows Provided by Financing Activities:		
Principal Payment on Capital Leases	(41,964)	(41,964)
Issuance of Notes Payable	39,636	0
Principal Payments on Notes Payable	(9,477)	(3,690)
Draws (Paydowns) on Line of Credit	7,121	2,298
Cash Provided by Financing Activities	<u>(4,684)</u>	<u>(43,356)</u>
Net Increase (Decrease) in Cash	<u>92,021</u>	<u>63,558</u>
Cash at Beginning of The Year, including restricted cash	214,227	150,669
Cash at End of The Year, including restricted cash	<u>\$ 306,248</u>	<u>\$ 214,227</u>
Supplemental Data:		
Interest Paid in Financing Activities	\$ 21,460	\$ 18,481

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

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies

The financial statements of HOPE Family Health Services, Inc. have been prepared on accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of The Business

HOPE Family Health Services, Inc. is a not-for-profit corporation organized under the laws of the State of Tennessee and provides outpatient health care services. Funding is obtained from a federal grant from the U. S. Department of Health and Human Services, reimbursements from Medicare, Medicaid, and private insurance, and payments from patients.

(b) Basis of Presentation

The financial statements of the Organization have been prepared 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.

(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, 2018 and 2017, cash equivalents consisted primarily of money market accounts. As of December 31, 2018, all deposits were insured by Federal Deposit Insurance Coverage or secured by Federal Securities.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

(d) Accounts Receivable

Included in patient receivables are amounts due from Medicare and Medicaid. These payments are generally less than established billing rates, the difference being charged against revenue as revenue adjustments at the time the fee for service is recorded. Amounts from these agencies are determined under cost reimbursement formulas and re-determination by the agencies. Accounts receivables from patient fees, other than the above, may be reduced using a sliding fee scale due to a patient's inability to pay. These adjustments are based on income level and number of family members applied to the Federal poverty guidelines.

(e) Allowance for Uncollectible Receivables

The provision for uncollectible receivables is not recorded as an expense but is treated as a reduction of the related revenue in the statements of activities and changes in net assets. The Organization utilizes computations within industry standards to establish the reserve for uncollectible patient accounts.

(f) 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.

(g) 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.

(h) Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a 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 statements of activities as net assets released from restrictions.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

(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) Estimated Amounts

The preparation of financial statements in conformity with generally accepted accounting principles requires the 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.

(k) 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.

(l) Recognition of Grant Income

Grant income is recognized over the grant period in relation to the expenditures incurred and services provided, as outlined in the grant documents. Cash received in excess of grant expenditures to date is recorded as deferred revenue, and a receivable is recorded when allowable expenditures exceed cash received.

(l) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Fair Value of Financial Instruments

- A. Cash – The carrying amount reported is the reconciled bank account balances, which are considered to be fair values.
- B. Accounts Receivable – The carrying amount reported is the estimated net collectible amount, which is considered the fair value.
- C. Accounts Payable and Other Liabilities – The carrying amounts reported are the amounts equaled to the required payments. The reported amounts are considered the fair values.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

(3) Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2018 and 2017:

	2018	2017
Cash and Cash Equivalents	\$ 97,128	\$ 209,852
Accounts Receivable Net	156,384	103,006
Other Receivable	23,874	32,044
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 277,386</u>	<u>\$ 344,902</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1.1 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

(4) Accounts Receivable

Included in patient receivables are amounts due from the patient, Medicare, Medicaid, and private insurance companies. These payments are generally less than established billing rates, the difference being recorded as revenue adjustments. Accounts receivable balances are as follows for the years ended December 31:

	2018	2017
Receivables for Patient Services and Fees	\$ 288,718	\$ 187,527
Less Allowance for Uncollectible Accounts	<u>(132,334)</u>	<u>(84,521)</u>
Accounts Receivable, Net	<u>\$ 156,384</u>	<u>\$ 103,006</u>

(5) 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.

(6) Property and Equipment

A summary of property and equipment at December 31, 2018 and 2017 is as follows:

	2018	2017
Building and building improvements	\$ 350,922	\$ 350,922
Furniture and equipment	553,171	451,982
Construction in process	18,250	0
	922,343	802,904
Less accumulated depreciation	<u>(356,961)</u>	<u>(267,621)</u>
Property and equipment, net	<u>\$ 565,382</u>	<u>\$ 535,283</u>

Property and equipment is depreciated on a straight-line basis over the estimated useful life. The depreciation for the fiscal year ended December 31, 2018 and 2017 was \$89,340 and \$80,284.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

Effective November 5, 2018, the Organization entered into a contract for sale of real estate to purchase the Westmoreland medical site. Under the terms of the agreement, the Organization agreed to purchase the property for \$725,000 with a closing date of February 4, 2019. During March 2019, the contract for sale was amended to extend the closing date to April 15, 2019. The Organization obtained approval for a note payable to the USDA/Rural Development on April 16, 2019. The Organization anticipates that processing of the loan and purchase of the property will be completed in June 2019.

(7) Debt Obligations

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 Westside building. At December 31, 2018 and 2017, the balances of this note were \$295,731 and \$299,593, respectively.

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, 2018, the balance of this note was \$34,021.

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

2019	\$	10,844
2020		11,867
2021		13,005
2022		14,275
2023		5,494
Thereafter		<u>274,267</u>
Total	\$	<u>329,752</u>

In addition, the Organization is required under the USDA loan agreement to deposit ten-percent (10%) of the annual installments due into an escrow account. As of December 31, 2018 and 2017, the minimum required balances held in an escrow account were \$5,875 and \$4,375, respectively. At December 31, 2018 and 2017, the balances in the escrow account met or exceeded the respective minimum required balance.

The Organization has an unsecured revolving line of credit with outstanding balances of \$7,121 and \$0 at December 31, 2018 and 2017, 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 with ScriptPro for pharmacy equipment requiring monthly payments of \$3,497. This is a zero percent interest lease that matures on May 7, 2020 and had balances of \$71,271 and \$113,235 at December 31, 2018 and 2017, respectively. 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.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

The following is a schedule of the future minimum lease payments under this capital lease, together with the present value of the future minimum lease payments as of December 31, 2018 for the years ending December 31:

2019	\$	41,964
2020		29,307
Thereafter		<u>0</u>
Total Minimum Lease Payments		71,271
Less: Amount Representing Interest		<u>0</u>
Total Capital Lease Obligations	\$	<u>71,271</u>

(9) Operating Lease

The Organization has an operating five-year lease which began on May 1, 2015 for the Westmoreland medical site. This lease requires monthly payments of \$4,000. During each of the fiscal years ended December 31, 2018 and 2017, the Organization made lease payments of \$48,000 under this agreement.

Future lease payments required under the above obligation as of December 31, 2018 is as follows for the years ending December 31:

2019	\$	48,000
2020		16,000
Thereafter		<u>0</u>
Total	\$	<u>64,000</u>

(10) Federal Grant Support

The Organization received grants from the U.S. Department of Health and Human Services of \$1,818,474 and \$2,075,423 of which all was obligated for the fiscal year ended December 31, 2018 and 2017. Under the terms of these grants the Organization is required to comply with certain federal and state guidelines and the grantor retains a residual interest in assets acquired with grant funds.

(11) Net Patient Revenue

Patient service revenue is recorded at amounts that the Organization anticipates collecting from Medicare, Medicaid, insurance, or individuals less a provision for uncollectible accounts. The rates charged to individuals are determined by an income discount scale that is based on the Federal poverty level guidelines. A summary of the net patient service revenue is as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Gross charges and cost settlements	\$ 5,632,390	\$ 3,800,272
Less revenue adjustments	<u>(3,492,455)</u>	<u>(2,068,347)</u>
Net patient revenue	<u>\$ 2,139,935</u>	<u>\$ 1,731,925</u>

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

(12) 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.

(13) 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 financial statements as net assets with donor restrictions and restricted cash.

(14) Charity Care

The Organization provides medical services to patients who qualify under federal guidelines and other corporate policies of the Organization at fees less than established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The charity amount calculation is based on the Organization’s standard billing rates for services provided. These fees approximate the total cost of providing charity care. The amount of charity care for the years ended December 31, 2018 and 2017 was \$244,703 and \$262,957, respectively.

(15) Significant Source of Revenue

Approximately 41% and 50% of the Organization’s revenue was provided by grants from the U.S. Department of Health and Human Services for the years ended December 31, 2018 and 2017, respectively.

(16) 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.

Effective April 16, 2019, the Organization received approval from the United States Department of Agriculture for a \$1,020,000 note payable for the purchase and improvement of the Westmoreland medical site. The note will require 420 monthly installments of \$4,671 and will accrue interest at 4.25%. The note will be collateralized by the property. The Organization anticipates that processing of the loan and purchase of the property will be completed in June 2019.

HOPE FAMILY HEALTH SERVICES, INC.

Notes to Financial Statements

December 31, 2018 and 2017

The Organization plans to close its dental office effective June 14, 2019. For the year ended December 31, 2018, revenues generated by dental charges represented approximately 3% of the Organization's total support and revenues. In addition, expenses from the dental office exceeded revenues by approximately \$270,000 for the year ended December 31, 2018. The Organization has notified the U. S. Department of Health and Human Services that the dental office would be closed, and all future dental services will be continued to be offered through local contractual agreements. Management does not anticipate that the closure will impact the Organization's federal funding for future years.

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

(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."

SUPPLEMENTAL SCHEDULES

HOPE FAMILY HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2018

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>U.S. Department of Health and Human Services</u>				
Health Center Program Cluster Grants for New and Expanded Service Under the Health Center Program <i>Grant No. H80CS 24109</i>	93.527	N/A	N/A	\$ 1,818,474
Total Health Center Program Cluster				\$ 1,818,474
Total Federal Grants				<u>\$ 1,818,474</u>

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, 2018. 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 balance outstanding at December 31, 2018:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Facilities Loan	10.766	\$ 295,731



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

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, 2018, 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 June 7, 2019.

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. Given these limitations, **during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.** However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.**

We noted certain matters that we reported to management of HOPE Family Health Services, Inc. in a separate letter dated June 7, 2019.

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.

A handwritten signature in black ink that reads "Jenny Home CPA". The signature is written in a cursive, flowing style.

Lebanon, TN

June 7, 2019



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

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, 2018. 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 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 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.

Opinion on Each Major Federal Program

In our opinion, 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 each of its major federal programs for the year ended December 31, 2018.

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.

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

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

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.



Lebanon, TN
June 7, 2019

HOPE FAMILY HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

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?

_____yes X 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?

_____yes X no

Significant Deficiency(ies) identified?

_____yes X none reported

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

Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.516(a)?

_____yes X no

Identification of major programs:

CFDA Number

Name of Federal Program

93.527

Health Center Program Cluster

Dollar threshold used to distinguish
between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X yes _____no

HOPE FAMILY HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

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.

None

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.

None

Questioned Costs: None Reported

HOPE FAMILY HEALTH SERVICES, INC.

Summary Schedule of Prior Year Audit Findings

December 31, 2018

There were no findings in the prior year audit. However, there were certain matters involving internal controls that were reported to the management of HOPE Family Health Services, Inc. in a separate letter. These matters were reviewed and it was determined that the necessary corrective action had been taken to improve these related controls.