

**EAST CENTRAL OKLAHOMA
FAMILY HEALTH CENTER, INC.**

Financial Statements
December 31, 2018 and 2017
With Independent Auditors' Report Thereon

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

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Independent Auditors' Report

The Board of Directors
East Central Oklahoma Family Health Center, Inc.
Wetumka, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of East Central Oklahoma Family Health Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, statement of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 audits 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.

The Board of Directors
East Central Oklahoma Family Health Center, Inc.
Wetumka, Oklahoma
Page two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Central Oklahoma Family Health Center, 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.

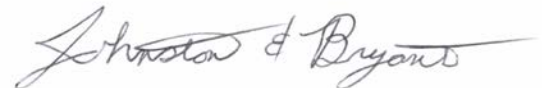
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *accompanying schedule of expenditures of federal awards, 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2019 on our consideration of East Central Oklahoma Family Health Center Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* in considering East Central Oklahoma Family Health Center Inc.'s internal control over financial reporting and compliance.



Ada, Oklahoma
April 29, 2019

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Statement of Financial Position

December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets		
Cash	\$ 1,347,529	\$ 1,615,642
Accounts Receivable:		
Patient, Net Allowance for Uncollectibles	222,028	121,274
Grants Receivable	68,978	46,382
Other Receivables	7,631	7,142
Inventories	161,565	168,708
Prepaid Expense	-	5,396
Total Current Assets	<u>1,807,731</u>	<u>1,964,544</u>
Property, Plant and Equipment	5,826,883	4,514,411
Accumulated Depreciation	<u>(1,306,196)</u>	<u>(1,062,410)</u>
Net Property, Plant and Equipment	<u>4,520,687</u>	<u>3,452,001</u>
 Total Assets	 <u><u>\$ 6,328,418</u></u>	 <u><u>\$ 5,416,545</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 28,888	\$ 32,938
Accrued Expenses:		
Salaries and Vacations Payable	175,923	139,284
Payroll Taxes Payable	5,459	3,307
Current Portion Long-Term Debt	98,295	93,533
Total Current Liabilities	<u>308,565</u>	<u>269,062</u>
 Long-Term Debt		
Long-Term Debt	2,057,927	2,154,759
Total Long-Term Debt	<u>2,057,927</u>	<u>2,154,759</u>
 Total Liabilities	 <u>2,366,492</u>	 <u>2,423,821</u>
 Net Assets		
Without Donor Restrictions	<u>3,961,926</u>	<u>2,992,724</u>
 Total Liabilities and Net Assets	 <u><u>\$ 6,328,418</u></u>	 <u><u>\$ 5,416,545</u></u>

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

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Statement of Activities

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues, Grants and Other Revenues:		
Patient Fees	\$ 3,208,366	\$ 3,148,290
Discounts Based on Eligibility and Doubtful Accounts	(959,516)	(859,841)
Net Patient Fees	2,248,850	2,288,449
Federal Financial Assistance	3,631,723	3,247,468
Interest Income	4,777	1,241
Miscellaneous	-	75
Total Operating Revenues, Grants and Other Revenues	5,885,350	5,537,233
Operating Expenses		
Personnel Services	2,650,496	2,323,690
Fringe Benefits	482,510	415,798
Utilities	128,017	143,121
Supplies - General	164,954	112,032
Supplies - Medical and Pharmacy	576,394	479,032
Repairs and Maintenance - Bldg and Equipment	82,556	105,960
Contract Services - Medical	403,212	398,749
Travel	37,029	36,910
Interest Expense	129,997	132,737
Depreciation	260,983	208,443
Total Operating Expenses	4,916,148	4,356,472
Changes in Net Assets from Operations	969,202	1,180,761
Net Assets - Without Donor Restrictions		
Beginning of Year	2,992,724	1,811,963
End of Year	<u>\$ 3,961,926</u>	<u>\$ 2,992,724</u>

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

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.Statement of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018		
	Salaries & Wages	Supplies & Other	Totals
Cost of Providing Medical Services:			
Physician	\$ 472,692	\$ -	\$ 472,692
Physician Assistant	-	-	-
Nurse Practitioner	487,738	-	487,738
Nursing	315,665	-	315,665
Behavioral Health	131,011	-	131,011
Dental	386,809	-	386,809
Laboratory	-	-	-
Radiology	61,155	-	61,155
Pharmacy	120,062	291,057	411,119
Medical Supplies	-	279,323	279,323
Total Cost of Providing Medical Services	<u>1,975,132</u>	<u>570,380</u>	<u>2,545,512</u>
Administrative and Overhead:			
Administrative & General Services	633,278	677,843	1,311,121
Marketing/Outreach	23,187	-	23,187
Plant Operation & Maintenance	18,899	143,939	162,838
Employee Benefit	-	482,510	482,510
Interest Expense	-	129,997	129,997
Depreciation	-	260,983	260,983
Total Administrative and Overhead	<u>675,364</u>	<u>1,695,272</u>	<u>2,370,636</u>
 Totals	 <u>\$ 2,650,496</u>	 <u>\$ 2,265,652</u>	 <u>\$ 4,916,148</u>

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

2017		
Salaries & Wages	Supplies & Other	Totals
\$ 317,739	\$ -	\$ 317,739
64,574	-	64,574
416,095	-	416,095
293,396	-	293,396
70,969	-	70,969
336,845	-	336,845
-	-	-
57,906	-	57,906
116,787	232,629	349,416
-	-	-
<u>1,674,311</u>	<u>232,629</u>	<u>1,906,940</u>
630,261	853,327	1,483,588
-	-	-
19,118	161,300	180,418
-	415,798	415,798
-	132,737	132,737
-	236,991	236,991
<u>649,379</u>	<u>1,800,153</u>	<u>2,449,532</u>
<u><u>\$ 2,323,690</u></u>	<u><u>\$ 2,032,782</u></u>	<u><u>\$ 4,356,472</u></u>

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activity		
Patient Fees	\$ 2,147,607	\$ 2,253,995
Fees and Grants from Governmental Agencies	3,609,127	3,273,062
Other Revenue	-	75
Payment to Employees	(2,613,857)	(1,719,250)
Payments to Vendors and Suppliers	(1,864,031)	(2,324,661)
Net Cash Provided by Operating Activities	<u>1,278,846</u>	<u>1,483,221</u>
Capital and Related Financing Activities		
Purchase of Capital Assets	(1,329,669)	(637,552)
Advances on Long-term Debt	-	46,500
Principal Payments	(92,070)	(81,692)
Interest Payments	(129,997)	(132,737)
Net Cash Flow from Capital and Related Financing Activities	<u>(1,551,736)</u>	<u>(805,481)</u>
Investing Activities		
(Purchase) Redemption of Certificates of Deposits	-	-
Interest Income Received	4,777	1,241
Net Cash Flow from Investing Activities	<u>4,777</u>	<u>1,241</u>
 (Decrease) Increase in Cash	 (268,113)	 678,981
Cash Beginning	<u>1,615,642</u>	<u>936,661</u>
Cash Ending	<u>\$ 1,347,529</u>	<u>\$ 1,615,642</u>

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

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER INC.

Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ 969,202	\$ 1,180,761
Adjustment to Reconcile Change in Net Assets to Net Cash (Used In) Provided by Operating Activities		
Depreciation	260,983	208,443
Interest Expense	129,997	132,737
Interest Earned	(4,777)	(1,241)
Changes in Operating Assets and Liabilities		
Accounts Receivable	(123,839)	(8,860)
Other Current Assets	12,539	(23,916)
Accounts Payable and Accrued Expenses	34,741	(4,703)
Net Cash Provided by Operations	<u>\$ 1,278,846</u>	<u>\$ 1,483,221</u>

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

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 1. Organization

East Central Oklahoma Family Health Center, Inc. (Organization/Center) was incorporated on December 22, 2005, as a 501 (c) (3) non-profit corporation. The stated purpose of the Organization is to provide health care services to the residents of Wetumka, Oklahoma and surrounding area regardless of age, sex, race, creed, color, national origin, or ability to pay. The Organization provides medical services to the medically underserved.

Note 2. Summary of Significant Accounting Policies

The following summarizes certain significant accounting policies followed in the preparation of these financial statements:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (the “FASB”) which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting. Accordingly, the statement of financial position reflects all significant receivables, payables, and other assets and liabilities. In the statement of activities and changes in net assets, revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. The Organization follows FASB Accounting Standards Codification (“ASC”), which integrates existing standards with other authoritative guidance. The ASC provides a single source of authoritative GAAP for nongovernmental entities and supersedes all other previously issued non-SEC accounting and reporting guidance.

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

Cash and Outstanding Checks in Excess of Bank Balances: The Organization maintains its cash and cash equivalents in bank deposit accounts, some of which may not be federally insured. The Organization has not experienced any losses in such accounts and believes it is not exposed to significant credit risk on cash and cash equivalents. Accounts whose outstanding checks are in excess of bank balances are classified as current liabilities for financial reporting purposes.

Cash and Cash Equivalents: The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, the Organization did not hold any cash equivalents.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 2. Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable: The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient account receivables are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies and Pharmacy Inventory: The Organization states supply and pharmacy inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment: Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items or a portion thereof may be reclaimed by the federal government if not used to further the grant's objectives.

Donation of property and equipment are reported at fair value as a increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment: The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Net Patient Service Revenue: The Organization has agreements which third-party payers that provide for payments to the Organization at amounts different from its established rates (see Note 16).

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 2. Summary of Significant Accounting Principles (Continued)

Government Grant Revenue: Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by granting agency, and as a result of such audit, adjustments could be required (see Note 4).

Income Taxes: East Central Oklahoma Family Health Center, Inc. is a tax-exempt organization under IRS Code section 501 (c) (3) and is not considered to be a private foundation. East Central Oklahoma Family Health Center, Inc. is exempt from federal taxes on income other than unrelated business income. East Central Oklahoma Family Health Center, Inc. did not have any net unrelated business income for the years ended December 31, 2018 and 2017.

Accounting for Uncertain Tax Positions: Management evaluated their tax position and concluded that they had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, they are no longer subject to income tax examinations by the U.S. Federal, State or local tax authorities for years before the year ended December 31, 2015.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Revenue and Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal and State Contracts: The Organization receives funding through federal and state contracts. Acceptance of these contracts requires compliance with contract conditions. Any costs disallowed by the contracts must be paid by non-governmental funds.

Note 3. Net Assets

In accordance with FASB ASU 2016-14 net assets are presented in the following two components:

Net Assets without Donor Restrictions

The portion of the organization's net assets that are not subject to donor-imposed restrictions.

Net Assets with Donor Restrictions

The portion of the organization's net assets whose use by the organization has been limited by donors to a specific time period or purpose. As of December 31, 2018, and 2017 the organization did not have any net assets with donor restrictions.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 3. Net Assets (Continued)

Net Assets Released

When a donor 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 statement of activities as net assets released from restrictions or in appropriate expense category in the statement of activities and changes in net assets.

Note 4. Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (“CHC”) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Wetumka, Henryetta and Wewoka, Oklahoma, and the surrounding area. Terms of the grant generally provide for funding of the Organization’s operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. The Organization recognized \$3,631,723 and \$3,247,468 in revenues from this grant for the years ended December 31, 2018 and 2017, respectively. The Organization’s present CHC grant award covers the grant year ending April 30, 2019 and is authorized for funding in the amount of \$3,206,394.

Note 5. Accounts Receivable - Patient

	2018	2017
Total Receivable-Patients	\$ 435,543	\$ 195,823
Less Allowance for Uncollectable	<u>(213,515)</u>	<u>(74,549)</u>
Total	<u>\$ 222,028</u>	<u>\$ 121,274</u>

The total for uncollectible accounts is based on management’s estimate of potential bad debts as of December 31, 2018 and 2017.

Note 6. Service Contracts and Grants

East Central Oklahoma Family Health Center, Inc. derives a majority of its revenue from service contracts and grants from federal and state agencies. A significant reduction in the level of revenue from these agencies could have a material effect on the Organization’s programs, activities and operations.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 7. Contingencies

During the normal course of business, the Center is involved in various claims and lawsuits. In the opinion of management, the potential loss on any claim and lawsuit, net of insurance proceeds, will not be significant to the Center's financial position or results of operations.

Note 8. Concentration of Credit Risk

The Center has locations in Wetumka, Henryetta and Wewoka, Oklahoma. The Center grants credit without collateral to its patients, most of whom are local residents and are uninsured or under insured.

Note 9. Charity Care and Other Community Benefits

In addition to the services provided to the financially disadvantaged, the Center provides services to other individuals, various community agencies, and to the broader community. These services are provided at no charge to the public and include such items as health education and promotion, blood pressure and cholesterol screening, and health assessments. Costs related to these services are not separately identifiable.

Note 10. Compensated Absences

The Center accepts that it is necessary for staff members to have a means by which they are able to have compensated time away from work for personal reasons, including short-term, transitory illnesses. It is believed that a paid time off (PTO) approach to allocating and taking compensated time away is an effective approach to providing compensated time off for the Center's staff members. In addition, it is believed that PTO is an effective tactic for managing staff member absences in a health service organization.

PROCEDURE:

- A. Annual leave is computed from an employee's first day at work but cannot be taken during the introductory period for newly hired employees. Annual leave does not accrue during periods of suspension, layoff, or leave of absence without pay.
- B. Adjustment in Annual Leave is effective the first day of the month following the employee's anniversary date.
- C. For employees in high demand professions, e.g. physicians, (primary care), pharmacists, dentists, and others, the Chief Executive Officer has the authority to negotiate a separate Recruitment/Retention plan. The plan should not exceed the market within the surrounding area.
- D. Annual leave earned during any calendar month shall be credited to the employee on the last day of the pay period.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 10. Compensated Absences (Continued)

- E. Employees may not accumulate annual leave in excess of 240 hours. Annual leave in excess of 240 hours will not be credited to annual leave accumulation or payment.
- F. Annual leave shall continue to accumulate at the normal rate during periods of authorized leave with pay. **Annual Leave must be used in fifteen (15) minute increments.**
- G. Leave may be taken any time during the year, subject to the convenience of the Agency. Employees shall file a request with their supervisor at least two weeks prior to their desired leave date.
- H. Employees, who have accumulated over eighty (80) hours of annual leave by May 1, may elect to exercise one of the following options
 - 1. Retain annual leave up to maximum of 30 days (240 Hours)
- I. Separation/Death
 - 1. Separation – An employee will be paid for annual leave at the next regular pay period after the date of separation.
 - 2. Death – In case of the death of an employee, payment will be delivered to the employee's beneficiary, estate, or as otherwise provided.

Note 11. Fair Value of Financial Instruments

The following methods and assumptions were used by the Center in estimating the fair value of its financial instruments at December 31, 2018 and 2017. The carrying amounts reported in the balance sheet for cash, assets limited as to use, accounts payable and accrued expenses, approximate their fair value.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 12. Capital Assets

Major classifications of capital assets and their respective depreciable lives are summarized below.

	Depreciable Lives	2018	2017
Land	N/A	\$ 215,144	\$ 215,144
Furniture and Equipment	5-40 Years	\$ 1,052,086	\$ 1,052,086
Buildings and Fixed Equipment		\$ 4,559,653	\$ 2,759,030
Construction in Progress		-	488,155
Total Property, Plant and Equipment		5,826,883	4,514,415
Accumulated Depreciation		(1,306,196)	(1,062,410)
Net Capital Assets		<u>\$ 4,520,687</u>	<u>\$ 3,452,005</u>

Note 13. Operating Lease

The Organization currently does not have any non-cancelable leases for health care facilities or equipment.

Note 14. Long-Term Debt

A Summary of Long-Term Debt, including capital lease obligations, as of December 31, 2018 and 2017 follows:

	Interest Rate	Maturity Date	2018				
			Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
First Untied Bank & Trust	6.00%	2040	\$ 1,767,952	\$ -	\$ 37,659	\$ 1,730,293	\$ 40,840
Gary and Donna Lovell	5.00%	2022	134,288		25,689	\$ 108,599	27,003
Floyd T Sellers	5.00%	2022	78,057		15,542	\$ 62,515	16,337
Rural Enterprises of Oklahoma	6.00%	2041	222,270		4,794	\$ 217,476	4,815
Cannon Financial Services	0.00%	2022	45,725		8,387	\$ 37,338	9,300
			<u>2,248,292</u>	<u>-</u>	<u>92,071</u>	<u>2,156,221</u>	<u>98,295</u>
Totals			<u>\$ 2,248,292</u>	<u>\$ -</u>	<u>\$ 92,071</u>	<u>\$ 2,156,221</u>	<u>\$ 98,295</u>

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 14. Long-Term Debt (Continued)

2017

	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
First Untied Bank & Trust	6.00%	2040	\$ 1,805,129	\$ -	\$ 37,177	\$ 1,767,952	\$ 38,467
Gary and Donna Lovell	5.00%	2022	158,726	-	24,438	134,288	25,689
Floyd T Sellers	5.00%	2022	92,843	-	14,786	78,057	15,542
Rural Enterprises of Oklahoma	6.00%	2041	226,786	-	4,516	222,270	4,535
Cannon Financial Services	0.00%	2022	-	46,500	775	45,725	9,300
			<u>2,283,484</u>	<u>46,500</u>	<u>81,692</u>	<u>2,248,292</u>	<u>93,533</u>
Totals			<u>\$ 2,283,484</u>	<u>\$ 46,500</u>	<u>\$ 81,692</u>	<u>\$ 2,248,292</u>	<u>\$ 93,533</u>

Scheduled principal and interest payment on long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total Payment
2019	\$ 98,295	\$ 124,659	\$ 222,954
2020	103,328	119,626	222,954
2021	108,648	114,306	222,954
2022	98,401	108,771	207,172
2023	58,004	104,739	162,743
2024 and thereafter	<u>1,689,545</u>	<u>1,003,937</u>	<u>2,693,482</u>
Totals	<u>\$ 2,156,221</u>	<u>\$ 1,576,038</u>	<u>\$ 3,732,259</u>

Note 15. Medical Malpractice Claims

The U.S Department of Health and Human Services has deemed the Organization and its practicing providers covered 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. FTCA coverage is comparable to an occurrence policy without a monetary cap. The Organization has adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims cost for both reported claims and claims incurred but not reported where the risk of a loss had not been transferred to a financially viable insurer. There was no impact of ASU adoption to the Organization's financial statements.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 15. Medical Malpractice Claims (Continued)

Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice costs for the years ended June 30, 2018 and 2017. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 16. Net Patient Service Revenue

The Organization is approved as a FQHC for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates.

These payments arrangements include:

Medicare – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for certain services provided. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid - Covered FQHC services rendered to Medicaid programs beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for certain services provided. Services not covered under the FQHC benefit are paid based on established fee schedules.

Approximately 53% and 48% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Patient service revenue, net of contractual allowances and discounts, for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Total Patient Service Revenue	\$ 3,208,366	\$ 3,148,290
Less: Total Contractual, Sliding Fee and Bad Debt Adjustment	<u>(959,516)</u>	<u>(859,841)</u>
Net Patient Service Revenue	<u>\$ 2,248,850</u>	<u>\$ 2,288,449</u>

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 16. Net Patient Service Revenue (continued)

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

Note 17. Significant Estimates and Concentrations

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

Grant Revenues – Concentration of revenues related to grant awards and other support is described in Note 4.

Allowance for Net Patient Service Revenue Adjustments – Estimates of allowances for adjustments included in net patient service revenue are described in Notes 2, 5, and 16.

Malpractice Claims – Estimates related to the accrual for professional liability claims are described in Note 15.

Current Economic Conditions – The current protracted economic decline continues to present community health centers with circumstances and challenges, which in some cases have resulted in declines in the fair value of investments and declines in contributions. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly and negatively impact the Organizations.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Notes to the Financial Statements

December 31, 2018 and 2017

Note 18. Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2018</u>	<u>2017</u>
Health Care Services	\$ 2,545,512	\$ 2,449,531
General and Administrative	<u>2,370,636</u>	<u>1,906,941</u>
Total Expenses	<u>\$ 4,916,148</u>	<u>\$ 4,356,472</u>

Note 19. Subsequent Events

Management has evaluated subsequent events through April 29, 2019 which is the date the financial statements were available to be issued, and has determined that no additional information needs to be added to the financial statements.

SUPPLEMENTAL INFORMATION

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	H80CS 10583	\$ 3,016,762
Affordable Care Act (ACA) Health Infrastructure Investment Program	U.S. Department of Health and Human Services	93.526	C8DCS 29734	\$ 614,961
Total Health Center Cluster				<u>\$ 3,631,723</u>

See Notes to Schedule of Expenditures of Federal Awards.

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Summary of Significant Accounting Policies

The Schedule of Expenditures of Federal Awards includes the federal awards activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statement.

The organization has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note B – Consolidated Health Centers

The Organization is the recipient of a Consolidated Health Centers (“CHC”) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Wetumka, Henryetta and Wewoka, Oklahoma, and the surrounding area. Terms of the grant generally provide for funding of the Organization’s operations based on an approval budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. The Organization recognized \$3,631,723 and \$3,247,468 in revenues from this grant for the years ended December 31, 2018 and 2017, respectively. The Organization’s present CHC grant award covers the grant year ending April 30, 2019, and is authorized for funding in the amount of \$3,206,394.

Note C – Subrecipients

The Organization did not provide a federal award to a subrecipient during the year ended December 31, 2018.

**INDEPENDENT AUDITORS' 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 Board of Directors
East Central Oklahoma Family Health Center, Inc.
Wetumka, Oklahoma

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 East Central Oklahoma Family Health Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2019.

Internal Control over Financial Reporting

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

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

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.

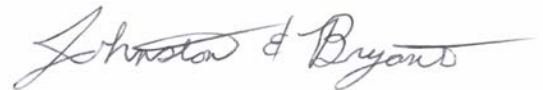
The Board of Directors
East Central Oklahoma Family Health Center, Inc.
Wetumka, Oklahoma
Page two

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script, reading "Johnston & Bryant", with a long horizontal flourish extending to the right.

Ada, Oklahoma
April 29, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors
East Central Oklahoma Family Health Center, Inc.
Wetumka, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited East Central Oklahoma Family Health Center, Inc.'s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of East Central Oklahoma Family Health Center, Inc.'s major federal programs for the year ended December 31, 2018. East Central Oklahoma Family Health Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and 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 East Central Oklahoma Family Health Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations 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 East Central Oklahoma Family Health Center, 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 East Central Oklahoma Family Health Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, East Central Oklahoma Family Health Center Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

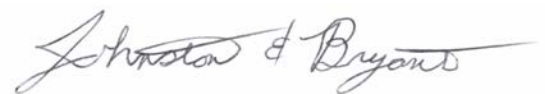
Report on Internal Control over Compliance

Management of East Central Oklahoma Family Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered East Central Oklahoma Family Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Central Oklahoma Family Health Center, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Ada Oklahoma
April 29, 2019

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

Section I – Summary of Auditors’ 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 that are
Not considered to be material weakness(es)? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(ies) identified ___ yes X no
- Significant deficiency(ies) identified that are
Not considered to be material weakness(es)? ___ yes X none reported

Type of auditor’s report issued on compliance for
Major programs: Unmodified

Identification of major programs:

Any audit findings disclosed that are required to be
Reported in accordance the Uniform Guidance? ___ yes X no

Program
Consolidated Health Centers Cluster

CFDA Number
93.224

Dollar threshold used to distinguish between type A
and type B programs: \$750,000

Auditee qualified as a low-risk auditee? X yes ___ no

EAST CENTRAL OKLAHOMA FAMILY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

Section II – Findings Required to be Reported in Accordance with Government Auditing Standards:

None Reported

Section III – Findings Required to be Reported in Accordance with the Uniform Guidance:

None Reported

Section IV – Prior Year Findings Required to be Reported in Accordance with Government Auditing Standards:

None Reported

Section V – Prior Year Findings Required to be Reported in Accordance with the Uniform Guidance:

None Reported