

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

(A Hawaii Nonprofit Corporation)

CONSOLIDATING AUDITED FINANCIAL STATEMENTS
(With Independent Auditor’s Report)

FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative totals for the year ended December 31, 2018)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lana'i Community Health Center
Lana'i City, Hawai'i 96763

Report on the Financial Statements

We have audited the accompanying consolidating financial statements of Lana'i Community Health Center and Subsidiary, which comprise the consolidating statement of financial position as of December 31, 2019, and the related consolidating 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.

Management's Responsibility for the Consolidating Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Lana‘i Community Health Center and Subsidiary as of December 31, 2019, and the consolidating statement of activities and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

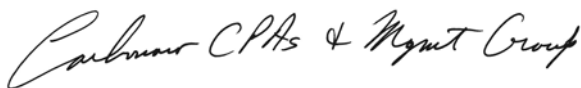
The prior year summarized comparative information has been derived from Lana‘i Community Health Center’s 2018 financial statements and in our report dated April 8, 2019. We expressed an unmodified opinion on the financial statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on page 14, 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 of 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 March 17, 2020 on our consideration of Lana‘i Community Health Center’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 Lana‘i Community Health Center’s internal control over financial reporting and compliance.



March 17, 2020
Wailuku, Hawai‘i

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Consolidating Statement of Financial Position

As of December 31, 2019

(With comparative totals as of December 31, 2018)

ASSETS

| | Community Health Center | LCHC Holdings | 2019 Totals | 2018 Totals |
|---|----------------------------|---------------------|----------------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash and Cash Equivalents (Note 2) | \$ 410,206 | \$ 307,988 | \$ 718,194 | \$ 952,625 |
| Restricted Cash (Notes 2 and 14) | 9,336 | - | 9,336 | 4,668 |
| Certificates of Deposit (Note 12) | 106,961 | - | 106,961 | 105,641 |
| Grants Receivable (Note 2) | 48,208 | - | 48,208 | 50,641 |
| Patient Receivables (Note 2) | 359,317 | - | 359,317 | 370,339 |
| Allowance for Doubtful Accounts (Note 2) | (150,232) | - | (150,232) | (150,062) |
| Prepaid Expenses | 82,199 | - | 82,199 | 52,324 |
| Due from LCHC Holdings | 100,000 | - | 100,000 | - |
| Other Receivables (Note 2) | 45,370 | - | 45,370 | 18,757 |
| Total Current Assets | 1,011,365 | 307,988 | 1,319,353 | 1,404,933 |
| PROPERTY AND EQUIPMENT (Note 2) | | | | |
| Land | 349,693 | 250,000 | 599,693 | 563,000 |
| Equipment, Vehicles and Furnishings | 662,996 | - | 662,996 | 614,088 |
| Software and Hardware | 115,075 | - | 115,075 | 83,284 |
| Facilities and Improvements | 1,093,316 | 6,498,361 | 7,591,677 | 7,362,816 |
| | 2,221,080 | 6,748,361 | 8,969,441 | 8,623,188 |
| Accumulated Depreciation | (494,429) | (905,336) | (1,399,765) | (1,032,165) |
| Net Property and Equipment | 1,726,651 | 5,843,025 | 7,569,676 | 7,591,023 |
| OTHER ASSETS | | | | |
| Notes Receivable (Note 13) | 5,384,200 | - | 5,384,200 | 5,384,200 |
| Loan Costs (Net of Accumulated Amortization of \$77,068 and \$58,935, Respectively) (Note 14) | - | 466,944 | 466,944 | 485,077 |
| Construction in Progress | 28,990 | - | 28,990 | 98,620 |
| Inventory (Note 2) | 25,374 | - | 25,374 | 46,201 |
| Total Other Assets | 5,438,564 | 466,944 | 5,905,508 | 6,014,098 |
| TOTAL ASSETS | \$ 8,176,580 | \$ 6,617,957 | \$ 14,794,537 | \$ 15,010,054 |

LIABILITIES & NET ASSETS

| | | | | |
|---|---------------------|---------------------|----------------------|----------------------|
| CURRENT LIABILITIES | | | | |
| Accounts Payable | \$ 197,100 | \$ 28,632 | \$ 225,732 | \$ 136,447 |
| Accrued Expenses | 261,191 | - | 261,191 | 227,267 |
| Deferred Revenue (Note 5) | 58,855 | - | 58,855 | 238,886 |
| Due to Lana'i Community Health Center | - | 100,000 | 100,000 | - |
| Current Portion of Long Term Debt (Note 14) | 27,081 | - | 27,081 | 23,762 |
| Total Current Liabilities | 544,227 | 128,632 | 672,859 | 626,362 |
| NON CURRENT LIABILITIES | | | | |
| Long-term Debt (Note 14) | 1,045,174 | 7,800,000 | 8,845,174 | 8,754,133 |
| TOTAL LIABILITIES | 1,589,401 | 7,928,632 | 9,518,033 | 9,380,495 |
| NET ASSETS (Note 3) | | | | |
| Net Assets Without Donor Restrictions | 6,526,428 | (1,310,675) | 5,215,753 | 5,543,448 |
| Net Assets With Donor Restrictions | 60,751 | - | 60,751 | 86,111 |
| Total Net Assets | 6,587,179 | (1,310,675) | 5,276,504 | 5,629,559 |
| TOTAL LIABILITIES & NET ASSETS | \$ 8,176,580 | \$ 6,617,957 | \$ 14,794,537 | \$ 15,010,054 |

The accompanying notes are an integral part of these consolidating financial statements.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY
Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019
(With comparative totals for the Year Ended December 31, 2018)

| | Lana'i Community Health Center | | | | | | |
|---------------------------------------|---|--|---------------------|-----------------------|--------------|---------------------|---------------------|
| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total | LCHC Holdings | Eliminations | 2019 Totals | 2018 Totals |
| PUBLIC SUPPORT AND REVENUE | | | | | | | |
| Federal Grant Income | \$ 2,328,240 | \$ - | \$ 2,328,240 | \$ - | \$ - | \$ 2,328,240 | \$ 2,165,518 |
| State and Local Grant Income | 704,422 | 82,000 | 786,422 | - | - | 786,422 | 796,796 |
| Clinic Revenues | 1,599,899 | - | 1,599,899 | - | - | 1,599,899 | 1,368,111 |
| Miscellaneous | 138,322 | - | 138,322 | 591 | (53,842) | 85,071 | 141,636 |
| In-kind Revenue (Note 9) | 36,151 | - | 36,151 | - | - | 36,151 | 93,977 |
| Contributions | 8,860 | - | 8,860 | - | - | 8,860 | 19,907 |
| Rental Income | - | - | - | 60,548 | (60,548) | - | - |
| Net Assets Released from Restrictions | 107,360 | (107,360) | - | - | - | - | - |
| Total Public Support and Revenue | 4,923,254 | (25,360) | 4,897,894 | 61,139 | (114,390) | 4,844,643 | 4,585,945 |
| EXPENSES | | | | | | | |
| Program Services | 3,862,209 | - | 3,862,209 | 349,352 | (114,390) | 4,097,171 | 2,957,349 |
| Management and General | 937,264 | - | 937,264 | - | - | 937,264 | 1,681,998 |
| Fundraising | 163,263 | - | 163,263 | - | - | 163,263 | 130,931 |
| Total Expenses | 4,962,736 | - | 4,962,736 | 349,352 | (114,390) | 5,197,698 | 4,770,278 |
| CHANGE IN NET ASSETS | \$ (39,482) | \$ (25,360) | \$ (64,842) | \$ (288,213) | \$ - | \$ (353,055) | \$ (184,333) |
| Net Assets, Beginning of Year | 6,565,910 | 86,111 | 6,652,021 | (1,022,462) | - | 5,629,559 | 5,813,892 |
| Net Assets, End of Year | <u>\$ 6,526,428</u> | <u>\$ 60,751</u> | <u>\$ 6,587,179</u> | <u>\$ (1,310,675)</u> | <u>\$ -</u> | <u>\$ 5,276,504</u> | <u>\$ 5,629,559</u> |

The accompanying notes are an integral part of these consolidating financial statements.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Consolidating Statement of Functional Expenses

For the Year Ended December 31, 2019

(With comparative totals for the Year Ended December 31, 2018)

| | Lana'i Community Health Center | | | | LCHC Holdings | Eliminations | 2019 Totals | 2018 Totals |
|--|--------------------------------|---------------------------|-------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| | Program Services | Management and General | Fundraising | Total | | | | |
| Classification of Expenses: | | | | | | | | |
| Salaries and Wages and Taxes | \$ 2,101,056 | \$ 696,285 | \$ 147,228 | \$ 2,944,569 | \$ - | \$ - | \$ 2,944,569 | \$ 2,441,882 |
| Professional Fees | 793,615 | 24,062 | - | 817,677 | - | - | 817,677 | 758,960 |
| Depreciation and Amortization | 107,736 | 35,703 | 7,549 | 150,988 | 234,745 | - | 385,733 | 373,427 |
| Supplies | 251,371 | 30,872 | - | 282,243 | - | - | 282,243 | 211,062 |
| Travel | 132,571 | 12,931 | - | 145,502 | - | - | 145,502 | 203,592 |
| Miscellaneous | 51,715 | 54,448 | - | 106,163 | 80 | - | 106,243 | 106,574 |
| Interest | 26,371 | - | - | 26,371 | 114,527 | (53,842) | 87,056 | 84,647 |
| Utilities | 44,452 | 14,731 | 3,115 | 62,298 | - | - | 62,298 | 56,114 |
| Telephone | 41,748 | 13,835 | 2,925 | 58,508 | - | - | 58,508 | 48,034 |
| Membership Dues and Fees | 31,182 | 24,780 | - | 55,962 | - | - | 55,962 | 38,454 |
| Non-Capitalized Equipment and Fixtures | 41,261 | 4,727 | - | 45,988 | - | - | 45,988 | 57,005 |
| Insurance | 30,077 | 9,967 | 2,108 | 42,152 | - | - | 42,152 | 44,771 |
| In-kind Donations (Note 9) | 36,151 | - | - | 36,151 | - | - | 36,151 | 93,977 |
| Rent | 90,113 | - | - | 90,113 | - | (60,548) | 29,565 | 38,634 |
| Molokai Drugs Expense | 28,778 | - | - | 28,778 | - | - | 28,778 | 33,141 |
| Printing, Publications and Advertising | 16,256 | 3,607 | - | 19,863 | - | - | 19,863 | 21,143 |
| Recruiting | 15,928 | - | - | 15,928 | - | - | 15,928 | 53,502 |
| General Maintenance | 14,364 | - | - | 14,364 | - | - | 14,364 | 14,541 |
| Bad Debt | - | 9,716 | - | 9,716 | - | - | 9,716 | 79,705 |
| Postage | 4,828 | 1,600 | 338 | 6,766 | - | - | 6,766 | 7,794 |
| Automobile Expense | 2,636 | - | - | 2,636 | - | - | 2,636 | 3,319 |
| | <u>\$ 3,862,209</u> | <u>\$ 937,264</u> | <u>\$ 163,263</u> | <u>\$ 4,962,736</u> | <u>\$ 349,352</u> | <u>\$ (114,390)</u> | <u>\$ 5,197,698</u> | <u>\$ 4,770,278</u> |

The accompanying notes are an integral part of these consolidating financial statements.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Consolidating Statement of Cash Flows

For the Year Ended December 31, 2019

(With comparative totals for the Year Ended December 31, 2018)

| | Lana'i Community Health | | | LCHC | | |
|--|-------------------------------|---------------|--------------|------|------------------|----------------|
| | Center | Holdings | Eliminations | | 2019 Totals | 2018 Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Cash From Grants | \$ 2,937,064 | \$ - | \$ - | | \$ 2,937,064 | \$ 2,857,100 |
| Cash From Clinic Revenue | 1,584,478 | - | - | | 1,584,478 | 1,375,871 |
| Cash From Contributions, Rent and Miscellaneous | 147,182 | 61,139 | - | | 208,321 | 161,543 |
| Cash Paid for Interest | (62,298) | - | - | | (62,298) | (84,647) |
| Cash Paid to Employees and Vendors | (4,608,918) | (114,607) | - | | (4,723,525) | (4,170,367) |
| Cash Provided (Used) by Operating Activities (Note 8) | (2,492) | (53,468) | - | | (55,960) | 139,500 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Purchases of Property and Equipment | (247,633) | - | - | | (247,633) | (10,000) |
| Purchases of Construction in Progress | (28,990) | - | - | | (28,990) | (98,620) |
| Net Redemption (Purchase) of Certificates of Deposits | (1,320) | - | - | | (1,320) | (1,304) |
| Cash Provided (Used) by Investing Activities | (277,943) | - | - | | (277,943) | (109,924) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Proceeds from Borrowing on Long-term Debt | 120,000 | - | - | | 120,000 | 184,131 |
| Borrowing (to) from Related Party | (100,000) | 100,000 | - | | - | - |
| Payments on Long-term Debt | (25,640) | - | - | | (25,640) | (54,971) |
| Cash Provided (Used) by Investing Activities | (5,640) | 100,000 | - | | 94,360 | 129,160 |
| Net (Decrease) Increase in Cash for the Year | (286,075) | 46,532 | - | | (239,543) | 158,736 |
| CASH BALANCE, BEGINNING OF YEAR | 695,837 | 261,456 | - | | 957,293 | 798,557 |
| CASH BALANCE, END OF YEAR | \$ 409,762 | \$ 307,988 | \$ - | | \$ 717,750 | \$ 957,293 |
| SUPPLEMENTAL CASH FLOW | | | | | | |
| Non-Cash Financing Activities | | | | | | |
| Long-term Debt Refinanced | \$ - | \$ - | \$ - | | \$ - | \$ 815,869 |
| Construction in Progress Transferred to Property and Equipment | \$ 98,620 | \$ - | \$ - | | \$ 98,620 | \$ - |

The accompanying notes are an integral part of these consolidating financial statements.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements December 31, 2019

Note 1. ORGANIZATION

Lana'i Women's Center, Inc. (the Organization) is a nonprofit organization incorporated under the laws of the State of Hawai'i on November 29, 2004. In 2009 the Center legally changed its name to Lana'i Community Health Center. The Lana'i Community Health Center was created to take care of the community of Lana'i with a focus on their physical, mental, emotional, intellectual and spiritual welfare by enriching and empowering their lives to help them build healthy families in a supportive community. In addition, the Lana'i Community Health Center has become a Federally Qualified community health center.

LCHC Holdings, Inc. (Holdings) is a nonprofit organization incorporated under the laws of the State of Hawaii that was established on January 21, 2015. Holdings was created solely to hold title to real property, collect income therefrom, and remit the entire amount thereof, less expenses, to Lana'i Community Health Center, Inc. The Holdings' major source of income is renting their facility to Lana'i Community Health Center, Inc.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Organization and Holdings use the accrual method of accounting for financial statement reporting according to generally accepted accounting principles. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

Basis of Financial Statement Presentation: Lana'i Community Health Center has conformed with ASC 958-810 "Consolidation" by consolidating the position and activities of LCHC Holdings.

Revenue Recognition: Contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions (Note 3). Unconditional promises to donate due in the next year are reflected as current promises to give and are recorded at their net realizable value. Grants and other contributions of cash are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to without donor restricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization has analyzed the provisions of the FASB's ASC Topic 606, Revenue from Contracts with Customers, and has concluded that no changes are necessary to conform to the new standard. Performance obligation related to grants and clinic revenue are recognized as the expenses occur or the services have been provided throughout the fiscal year. Other revenues and donations do not have a specific performance obligation and are generally earned when received.

Cash and Cash Equivalents: During the first quarter of 2019, the Organization adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. Management believes that the adoption of the new accounting standard provides a better presentation of cash flows to the users of its financial statements. The change had no effect on the statement of cash flows as the Organization was already including restricted cash in cash and cash equivalents on the statements of cash flows.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements
December 31, 2019

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the purpose of the statement of cash flows, cash is defined as demand deposits and savings accounts.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position that sum to the totals of the cash and cash equivalents in the statements of cash flows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------|-------------------|-------------------|
| Cash and Cash Equivalnets | \$ 718,194 | \$ 952,625 |
| Restricted Cash | 9,336 | 4,668 |
| | <u>\$ 727,530</u> | <u>\$ 957,293</u> |

Income Taxes: Lana‘i Community Health Center and LCHC Holdings, Inc. are exempt from Federal income taxes under *Section 501(c)(3) and Section 501(c)(2)* of the Internal Revenue Code, respectively, and also from State of Hawaii income taxes under *Section 237-23 (b)* of the Hawaii Revised Statutes.

Uncertain Tax Position: The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2019, the organizations have analyzed their tax positions and believe that all are more likely than not to be sustained upon examination.

The organizations are subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The organizations believe they are no longer subject to income tax examinations for years prior to 2016.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventory: Inventories are priced using an average cost method for service and sheet metal parts. All other inventories are priced using a first-in, first-out (FIFO) basis.

Advertising: The Organization expenses advertising costs as they are incurred. Total advertising expense was \$7,904 and \$13,062 for the years ended December 31, 2019 and 2018, respectively.

Grants, Patient and Other Receivables: Grants, patient and other receivables represent revenue earned and not yet received. Management reviews the receivables and charges off accounts when they determine they are uncollectable. Management periodically reviews the receivable listing to determine the allowance for doubtful accounts based on historical collection rates, industry standards and the composition of the receivable balance. Management has determined an allowance for doubtful accounts of \$150,232 and \$150,062 at December 31, 2019 and 2018, respectively.

Property and Equipment: The Organization and Holdings capitalize all furniture and equipment with a value of \$5,000 or greater and a useful life of more than one year. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements December 31, 2019

Note 3. NET ASSETS

In accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment.

Net assets with donor restrictions include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. Net assets with donor restrictions consist of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|--------------------------------------|------------------|------------------|
| Tobacco Prevention and Control | \$ 33,522 | \$ 46,207 |
| Jessie Ann Chalmers Charitable Trust | 27,229 | 17,972 |
| Susan G. Komen Hawaii | - | 16,548 |
| One Touch Glucose Strips | - | 5,384 |
| | <u>\$ 60,751</u> | <u>\$ 86,111</u> |

Note 4. CONCENTRATIONS

The Organization receives a substantial amount of its support from the U.S. Department of Health and Human Services. In 2019, Lana‘i Community Health Center received 48% of its revenues from this grantor. The discontinuance of these grants could adversely affect the operations of the Center.

Note 5. DEFERRED REVENUE

Deferred revenue represents funds received from government and foundation contracts which were not yet earned as of year-end. The contracts allow for these funds to be used and thus earned in the subsequent year. The deferred revenue balances were \$58,855 and \$238,886 as of December 31, 2019 and 2018, respectively.

Note 6. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 17, 2020, the date the financial statements were available for use.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements
December 31, 2019

Note 7. LINE OF CREDIT

The Organization has a \$200,000 line of credit with First Hawaiian Bank. The interest rate for the line of credit is First Hawaiian Bank Prime rate plus a 2.25% floating rate. As of December 31, 2019 and 2018 the balance due was \$-0-.

Note 8. RECONCILIATION OF CHANGES IN NET ASSETS WITH NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

| | Lana'i Community Health Center | LCHC Holdings | 2019 Totals | 2018 Totals |
|--|--------------------------------------|--------------------|--------------------|-------------------|
| Change in Net Assets | \$ (64,842) | \$ (288,213) | \$ (353,055) | \$ (184,333) |
| Adjustments to Reconcile: | | | | |
| Add back Depreciation and Amortization Expense | 150,988 | 234,745 | 385,733 | 373,427 |
| Add back Bad Debt | 58,508 | - | 58,508 | 79,705 |
| Change in Grants, Patient and Other Receivables | (71,496) | - | (71,496) | (125,841) |
| Change in Inventory | 20,827 | - | 20,827 | (13,601) |
| Change in Prepaid Expenses | (29,875) | - | (29,875) | (7,541) |
| Change in Accounts Payable | 89,285 | - | 89,285 | 14,264 |
| Change in Accrued Expenses | 33,924 | - | 33,924 | 54,738 |
| Change in Deferred Revenue | (180,031) | - | (180,031) | (51,318) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 7,288</u> | <u>\$ (53,468)</u> | <u>\$ (46,180)</u> | <u>\$ 139,500</u> |

Note 9. DONATED GOODS AND SERVICES

Under FASB ASC 958-605-25-16 "Not-for-Profit Entities, Contributed Services", contributions of donated services that create or enhance non-financial assets or that require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

In-Kind Revenue recorded also represents the fair value of many donated items for medicine, rent and various items for the ongoing operations of the Organization. These tangible items donated are valued at their estimated fair market value at the time of donation. The Organization received \$36,151 and \$93,977 of donated goods for inventory and other items during the years ended December 31, 2019 and 2018, respectively.

Note 10. FUNCTIONAL EXPENSES

The Organization allocates expenses on a functional basis among three categories: direct program services, supporting, and fundraising. Most expenses are allocated directly to the program and support services benefited. Certain expenses are allocated using a percentage base computed on an applicable basis.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements
December 31, 2019

Note 11. NEW MARKET TAX CREDIT PROGRAM

LCHC Holdings, Inc. and Lana'i Community Health Center participates in a New Markets Tax Credit (NMTC) program. NMTC programs were established as part of the Community Renewal Tax Relief Act of 2000 and the New Markets Tax Credit Extension Act of 2011 extended the program through 2016. The goal of NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in certified community development entities. The tax credit for investors equals 39% of the investment, and investors receive the tax credit over a seven year period. A Community Development Entity (CDE) is required to participate and has the primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as LCHC Holdings, Inc. to receive low-interest loans or investment capital from CDEs, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the NMTC program, LCHC Holdings, Inc. has obtained the low-interest loan described in Note 14.

Note 12. INVESTMENTS

The Organization has conformed to *FASB's ASC 820-10-50-1* which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This fair value hierarchy consists of three levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

Fair values of assets measured on a recurring basis are certificates of deposits totaling \$106,961 and \$105,641 at December 31, 2019 and 2018, respectively, and are measured at Level 1 inputs. There are no liabilities or other assets measured at fair value on a recurring or non-recurring basis.

Note 13. NOTE RECEIVABLE

Lana'i Community Health Center participates in the NMTC program described in Note 11 and has loaned \$5,384,200 to Twain Investment Fund 70, LLC. The Note Receivable has a stated interest rate of 1.000% and the loan matures on February 28, 2045. The loan calls for quarterly interest only payments beginning April 10, 2015. Beginning April 10, 2022 quarterly principle and interest payments begin unless the put/call option in Note 14 is exercised. The loan is secured by substantially all assets acquired by LCHC Holdings, Inc. from the proceeds of the loan.

LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements
December 31, 2019

Note 14. LONG-TERM DEBT

LCHC Holdings, Inc. participates in the NMTC program described in Note 11 and has obtained a loan of \$7,800,000 payable to CCM Community Development 65 LLC, which is a Community Development Entity (CDE). The loan proceeds were used solely for the purpose of constructing Lana'i Community Health Center's facility. The loan has a put/call option feature that is exercisable in March 2022. The stated interest rate is 1.4683% and the loan matures on February 28, 2045. The loan calls for quarterly interest only payments beginning April 1, 2015. Beginning March 4, 2022 quarterly principal and interest payment begin unless either party exercises the put/call option. The loan is secured by substantially all assets acquired by LCHC Holdings, Inc. from the proceeds of the loan.

In connection with the loan, LCHC Holdings, Inc. also incurred loan acquisition costs of \$544,012 which have been capitalized and will be amortized over the life of the loan. Debt issuance costs are presented net of accumulated amortization of \$77,068. LCHC Holdings, Inc. was in compliance with the terms of its NMTC loan, including loan covenants, at December 31, 2019 and 2018.

In 2018, the Organization entered into an agreement with U.S. Department of Agriculture for a loan which totals \$1,000,000 to refinance debt and construct a photovoltaic energy system. A mortgage payable to U.S. Department of Agriculture is due in monthly installments of principal and interest of \$3,890, at a fixed rate of interest of 2.375% until 2048. The loan requires that the Organization maintains a debt service reserve fund. The balance of the debt service reserve fund as of December 31, 2019 and 2018 was \$9,336 and \$4,668.

In April 2019, the Organization entered into an agreement with First Hawaiian Bank for a \$120,000 loan to purchase an apartment to be used by the Organization to house traveling providers and other staff. A mortgage payable is due in monthly installments of principal and interest of \$667, at a fixed rate of interest of 4.50% until 2029.

A summary for all long term debt as of December 31, 2019 is as follows:

| | |
|---|----------------------------|
| USDA Loan | \$ 954,239 |
| CCM QLICI Loan A | 5,464,200 |
| CCM QLICI Loan B | 2,335,800 |
| First Hawaiian Bank | 118,016 |
| Total long-term debt | <u>8,872,255</u> |
| Less current installments of long-term debt | (27,081) |
| Net long-term debt | <u><u>\$ 8,845,174</u></u> |

Maturities of long term debt are as follows:

| | |
|------------|----------------------------|
| 2020 | \$ 27,081 |
| 2021 | \$ 27,792 |
| 2022 | \$ 7,828,522 |
| 2023 | \$ 29,272 |
| 2024 | \$ 29,417 |
| Thereafter | \$ 930,171 |
| | <u><u>\$ 8,872,255</u></u> |

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements
December 31, 2019

Note 15. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management’s policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

| | |
|--|-------------------|
| Financial Assets at December 31, 2019 | \$ 727,530 |
| Less those unavailable for general expenditures within one year due to: | |
| Restricted by Debt Covenant (Note 14) | (9,336) |
| Restricted by donor with purpose restriction | <u>(60,751)</u> |
| Financial Assets available to meet cash needs for general expenditures within one year | <u>\$ 657,443</u> |

Note 16. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization’s year ending December 31, 2020. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 will not add significant right-of-use assets and lease liabilities to the statement of financial position.

Lana‘i Community Health Center and Subsidiary

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Contract Number | Federal Expenditures | State Expenditures |
|---|------------------------|--------------------|-------------------------|-----------------------|
| U.S. Department of Health and Human Services | | | | |
| Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | 93.224 | H80CS08775 | \$ 2,047,403 | \$ - |
| Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program | 93.912 | DO4RH31637 | 243,056 | - |
| Subtotal U.S. DHHS - Direct Funding Programs | | | <u>2,290,459</u> | <u>-</u> |
| Passed Through the State of Hawaii Department of Health: | | | | |
| Family Planning Services | 93.217 | ASO Log 13-118 | 1,110 | 150,139 |
| Subtotal U.S. DHHS - Passed Through the State of Hawaii Department of Health | | | <u>1,110</u> | <u>150,139</u> |
| Total U.S. Department of Health and Human Services Programs | | | <u>2,291,569</u> | <u>150,139</u> |
| U.S. Department of Housing and Urban Development | | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | ASO Log 18-130 | 36,670 | - |
| Total U.S. Department of Housing and Urban Development | | | <u>36,670</u> | <u>-</u> |
| Total expenditures of Federal Awards | | | <u>\$ 2,328,239</u> | <u>\$ 150,139</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

Lana‘i Community Health Center and Subsidiary

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Note A. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Lana‘i Community Health Center under programs of the Federal government for the year ended December 31, 2019.

The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Lana‘i Community Health Center it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Lana‘i Community Health Center.

Note B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate: The Organization elected not to use the De Minimis indirect cost rate.

**INDEPENDENT AUDITOR'S REPORT ON 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
Lana'i Community Health Center
Lana'i City, Hawaii 96763

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 Lana'i Community Health Center, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Lana'i Community Health Center's basic financial statements, and have issued our report thereon dated March 17, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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Report on Internal Control

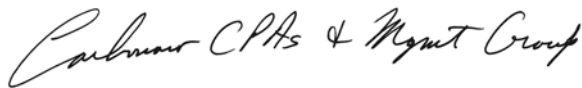
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Compliance and Other Matters

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

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.



March 17, 2020
Wailuku, Hawai'i

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

The Board of Directors
Lana'i Community Health Center
Lana'i City, Hawaii 96763

Report on Compliance for Each Major Federal Program

We have audited Lana'i Community Health Center'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 Lana'i Community Health Center's major Federal programs for the year ended December 31, 2019. Lana'i Community Health Center's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lana'i Community Health Center'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 requirement 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 Lana'i Community Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Lana'i Community Health Center's compliance.

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Report on Compliance For Each Major Federal Program

Page 2

Opinion on Each Major Federal Program

In our opinion, Lana‘i Community Health Center 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, 2019.

Report on Internal Control over Compliance

Management of Lana‘i Community Health Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lana‘i Community Health Center’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 Lana‘i Community Health Center’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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.



March 17, 2020
Wailuku, Hawai‘i

LANA 'I COMMUNITY HEALTH CENTER

Schedule of Findings and Questioned Costs
For the year ended December 31, 2019

Section I-Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued: **Unmodified**

Internal control over financial reporting:

• Significant Deficiencies **None**

• Material Weaknesses **None**

Noncompliance which is material to the financial statements **None**

Federal Awards

Internal control over Major Programs:

• Significant Deficiencies **None**

• Material Weaknesses **None**

Type of auditor's report issued in regards to major program compliance **Unmodified**

The program tested as a major programs was:

Consolidated Health Centers (Community Health Centers, Migrant Health

The threshold for distinguishing Type A and Type B Programs was **\$750,000**

Auditee qualified as a low-risk auditee **Yes**

Section II- Financial Statement and Compliance Findings

NONE NOTED

Section III- Prior Year Audit Findings

NONE NOTED