

**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, 2020**  
(With Comparative Totals for the Year Ended December 31, 2019)

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY  
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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, 2020, 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.

## ***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, 2020, 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 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 16, 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 April 30, 2021 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.

## ***Report on Summarized Comparative Information***

We have previously audited the Lana‘i Community Health Center’s 2019 financial statements, and our report dated March 17, 2020 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent in all material respects, with the audited financial statements from which it has been derived.



April 30, 2021  
Wailuku, Hawai‘i

## LANA'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

**Consolidating Statement of Financial Position**

As of December 31, 2020

(With Comparative Totals as of December 31, 2019)

**ASSETS**

	Lana'i Community					
	Health Center	LCHC Holdings	Eliminations	2020 Totals	2019 Totals	
<b>CURRENT ASSETS</b>						
Cash and Cash Equivalents (Note 15)	\$ 738,636	\$ 247,100	\$ -	\$ 985,736	\$ 718,194	
Certificates of Deposit (Note 12)	23,213	-	-	23,213	106,961	
Grants Receivable (Note 2)	88,494	-	-	88,494	48,208	
Patient Receivables (Note 2)	557,103	-	-	557,103	359,317	
Allowance for Doubtful Accounts (Note 2)	(287,773)	-	-	(287,773)	(150,232)	
Prepaid Expenses	45,961	-	-	45,961	82,199	
Due from LCHC Holdings	100,000	-	(100,000)	-	-	
Other Receivables (Note 2)	20,114	-	-	20,114	45,370	
Total Current Assets	1,285,748	247,100	(100,000)	1,432,848	1,210,017	
<b>PROPERTY AND EQUIPMENT (Note 2)</b>						
Land	672,893	250,000	-	922,893	599,693	
Equipment, Vehicles and Furnishings	721,193	-	-	721,193	662,996	
Software and Hardware	124,533	-	-	124,533	115,075	
Facilities and Improvements	1,093,316	6,498,361	-	7,591,677	7,591,677	
	2,611,935	6,748,361	-	9,360,296	8,969,441	
Accumulated Depreciation	(650,459)	(1,121,948)	-	(1,772,407)	(1,399,765)	
Net Property and Equipment	1,961,476	5,626,413	-	7,587,889	7,569,676	
<b>OTHER ASSETS</b>						
Note Receivable (Note 13)	5,384,200	-	-	5,384,200	5,384,200	
Construction-in-Progress (Note 2)	200,521	-	-	200,521	28,990	
Inventory (Note 2)	58,793	-	-	58,793	25,374	
Restricted Cash (Notes 14 and 15)	14,004	-	-	14,004	9,336	
Total Other Assets	5,657,518	-	-	5,657,518	5,447,900	
<b>TOTAL ASSETS</b>	<b>\$ 8,904,742</b>	<b>\$ 5,873,513</b>	<b>\$ (100,000)</b>	<b>\$ 14,678,255</b>	<b>\$ 14,227,593</b>	
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts Payable	\$ 83,798	\$ 28,764	\$ -	\$ 112,562	\$ 225,732	
Accrued Expenses	310,062	-	-	310,062	261,191	
Refundable Advances (Note 5)	150,507	-	-	150,507	58,855	
Due to Lana'i Community Health Center	-	100,000	(100,000)	-	-	
Current Portion of Long-Term Debt (Note 14)	27,792	-	-	27,792	27,081	
Total Current Liabilities	572,159	128,764	(100,000)	600,923	572,859	
<b>NON-CURRENT LIABILITIES</b>						
Long-Term Debt (Note 14)	1,353,761	7,800,000	-	9,153,761	8,845,174	
Net Loan Acquisition Costs (Note 14)	-	(448,810)	-	(448,810)	(466,944)	
	1,353,761	7,351,190	-	8,704,951	8,378,230	
<b>TOTAL LIABILITIES</b>	<b>1,925,920</b>	<b>7,479,954</b>	<b>(100,000)</b>	<b>9,305,874</b>	<b>8,951,089</b>	
<b>NET ASSETS (Note 3)</b>						
Net Assets Without Donor Restrictions	6,905,268	(1,606,441)	-	5,298,827	5,215,753	
Net Assets With Donor Restrictions	73,554	-	-	73,554	60,751	
Total Net Assets	6,978,822	(1,606,441)	-	5,372,381	5,276,504	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 8,904,742</b>	<b>\$ 5,873,513</b>	<b>\$ (100,000)</b>	<b>\$ 14,678,255</b>	<b>\$ 14,227,593</b>	

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, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

	Lana'i Community Health Center						
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	LCHC Holdings	Eliminations	2020 Totals	2019 Totals
<b>PUBLIC SUPPORT AND REVENUE</b>							
Federal Grant Income	\$ 2,340,080	\$ -	\$ 2,340,080	\$ -	\$ -	\$ 2,340,080	\$ 2,328,240
Clinic Revenues	1,632,608	-	1,632,608	-	-	1,632,608	1,599,899
State and Local Grant Income	607,867	187,000	794,867	-	-	794,867	786,422
Payroll Protection Program Income (Note 16)	506,600	-	506,600	-	-	506,600	-
In-kind Revenue (Note 9)	296,357	-	296,357	-	-	296,357	36,151
Miscellaneous	122,200	-	122,200	720	(55,651)	67,269	85,071
Contributions	14,087	-	14,087	-	-	14,087	8,860
Rental Income	-	-	-	56,000	(56,000)	-	-
Net Assets Released from Restrictions	174,197	(174,197)	-	-	-	-	-
Total Public Support and Revenue	<u>5,693,996</u>	<u>12,803</u>	<u>5,706,799</u>	<u>56,720</u>	<u>(111,651)</u>	<u>5,651,868</u>	<u>4,844,643</u>
<b>EXPENSES</b>							
Program Services	3,841,633	-	3,841,633	352,486	(111,651)	4,082,468	4,097,171
Management and General	1,294,442	-	1,294,442	-	-	1,294,442	937,264
Fundraising	179,081	-	179,081	-	-	179,081	163,263
Total Expenses	<u>5,315,156</u>	<u>-</u>	<u>5,315,156</u>	<u>352,486</u>	<u>(111,651)</u>	<u>5,555,991</u>	<u>5,197,698</u>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 378,840</b>	<b>\$ 12,803</b>	<b>\$ 391,643</b>	<b>\$ (295,766)</b>	<b>\$ -</b>	<b>\$ 95,877</b>	<b>\$ (353,055)</b>
Net Assets, Beginning 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>
Net Assets, End of Year	<u><u>\$ 6,905,268</u></u>	<u><u>\$ 73,554</u></u>	<u><u>\$ 6,978,822</u></u>	<u><u>\$ (1,606,441)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,372,381</u></u>	<u><u>\$ 5,276,504</u></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, 2020

(With Comparative Totals for the Year Ended December 31, 2019)

	Lana'i Community Health Center				LCHC Holdings	Eliminations	2020 Totals	2019 Totals
	Program Services	Management and General	Fundraising	Total				
Classification of Expenses:								
Salaries and Wages and Taxes	\$ 2,155,584	\$ 835,130	\$ 157,406	\$ 3,148,120	\$ -	\$ -	\$ 3,148,120	\$ 2,944,569
Professional Fees	679,357	60,980	-	740,337	-	-	740,337	817,677
Depreciation	106,837	41,391	7,802	156,030	216,612	-	372,642	367,599
In-kind Donations (Note 9)	296,357	-	-	296,357	-	-	296,357	36,151
Supplies	151,740	54,787	-	206,527	-	-	206,527	282,243
Bad Debt	-	126,233	-	126,233	-	-	126,233	9,716
Interest	38,967	-	-	38,967	132,794	(55,651)	116,110	105,190
Advertising (Note 2)	66,789	25,876	4,877	97,542	3,020	-	100,562	68,217
Telephone	(3,654)	73,089	3,654	73,089	-	-	73,089	58,508
Membership Dues and Fees	44,365	16,019	-	60,384	-	-	60,384	55,962
Utilities	36,488	14,137	2,665	53,290	-	-	53,290	62,298
Non-Capitalized Equipment and Fixtures	39,526	7,098	-	46,624	-	-	46,624	45,988
Miscellaneous	32,161	11,612	-	43,773	60	-	43,833	57,889
Travel	31,288	11,297	-	42,585	-	-	42,585	145,502
Insurance	28,954	11,218	2,114	42,286	-	-	42,286	42,152
Rent	87,431	-	-	87,431	-	(56,000)	31,431	29,565
403b Expense	19,848	-	-	19,848	-	-	19,848	28,778
General Maintenance	12,524	-	-	12,524	-	-	12,524	14,364
Postage	7,706	2,985	563	11,254	-	-	11,254	6,766
Recruiting	7,172	2,590	-	9,762	-	-	9,762	15,928
Automobile Expense	2,193	-	-	2,193	-	-	2,193	2,636
	<u>\$ 3,841,633</u>	<u>\$ 1,294,442</u>	<u>\$ 179,081</u>	<u>\$ 5,315,156</u>	<u>\$ 352,486</u>	<u>\$ (111,651)</u>	<u>\$ 5,555,991</u>	<u>\$ 5,197,698</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, 2020

(With Comparative Totals for the Year Ended December 31, 2019)

	Lana'i				
	Community	LCHC			
	Health Center	Holdings	Eliminations	2020 Totals	2019 Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash Received from Grants	\$ 3,186,313	\$ -	\$ -	\$ 3,186,313	\$ 2,937,064
Cash Received from Clinic Revenue	1,471,386	-	-	1,471,386	1,574,762
Cash Received from Payroll Protection Program (Note 16)	506,600	-	-	506,600	-
Cash Received from Contributions, Rent and Miscellaneous	136,287	56,720	(111,651)	81,356	154,479
Cash Paid for Interest	(38,967)	(114,528)	55,651	(97,844)	(87,056)
Cash Paid to Employees and Vendors	(4,759,181)	(3,080)	56,000	(4,706,261)	(4,625,429)
Cash Provided (Used) by Operating Activities (Note 8)	502,438	(60,888)	-	441,550	(46,180)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of Property and Equipment	(390,855)	-	-	(390,855)	(247,633)
Purchases of Construction-in-Progress	(171,531)	-	-	(171,531)	(28,990)
Net Redemption (Purchase) of Certificates of Deposits	83,748	-	-	83,748	(1,320)
Cash Used by Investing Activities	(478,638)	-	-	(478,638)	(277,943)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from Borrowing on Long-term Debt	336,000	-	-	336,000	120,000
Payments on Long-term Debt	(26,702)	-	-	(26,702)	(25,640)
Cash Provided by Financing Activities	309,298	-	-	309,298	94,360
<b>Net Increase (Decrease) in Cash for the Year</b>	<b>333,098</b>	<b>(60,888)</b>	<b>-</b>	<b>272,210</b>	<b>(229,763)</b>
CASH BALANCE, BEGINNING OF YEAR (Note 15)	419,542	307,988	-	727,530	957,293
CASH BALANCE, END OF YEAR (Note 15)	\$ 752,640	\$ 247,100	\$ -	\$ 999,740	\$ 727,530
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>					
Construction in Progress Transferred to Property and Equipment	\$ -	\$ -	\$ -	\$ -	\$ 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, 2020

### Note 1. ORGANIZATION

Lana‘i Women’s Center, Inc. (the Center) 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 Center 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, Inc. Collectively they are referred to as the Organization.

*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 give 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 restrictions expire, 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.

*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 \$287,773 and \$150,232 at December 31, 2020 and 2019, respectively.

LANA 'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2020

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Inventory:* Inventories are priced using an average cost method for supplies and medicine. All other inventories are priced using a first-in, first-out (FIFO) basis.

*Property and Equipment:* The Center 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.

*Construction-in-Progress:* The Organization has \$200,521 and \$28,990 in Construction in Progress at December 31, 2020 and 2019, respectively. This relates to the improvement of the Sixth Street house expansion project.

*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, 2020, the Organization has analyzed its tax positions and believe that all are more likely than not to be sustained upon examination.

The Organization is subject to routine audit by taxing jurisdictions, however, there are currently no audit for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2017.

*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.

*Advertising:* The Organization expenses advertising costs as they are incurred. Total advertising expense were \$100,562 and \$68,217 for the years ended December 31, 2020 and 2019, respectively.

*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, 2020

### 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Tobacco Prevention and Control	\$ 30,042	\$ 33,522
Jessie Ann Chalmers Charitable Trust	19,383	27,229
HDS Foundation	11,803	-
Hawaii State Rural Health Association	10,000	-
HIPHI	2,326	-
	<u>\$ 73,554</u>	<u>\$ 60,751</u>

### Note 4. CONCENTRATIONS

The Organization receives a substantial amount of its support from the U.S. Department of Health and Human Services. In 2020, Lana‘i Community Health Center received 41% of its revenues from this grantor. The discontinuance of these grants could adversely affect the operations of the Center.

### Note 5. REFUNDABLE ADVANCES

Conditional contribution revenue is recognized when earned which is as conditions are fulfilled. However funds received that are not earned as of year-end are recorded as a liability under refundable advances. The Refundable Advances balances were \$150,507 and \$58,855 at December 31, 2020 and 2019, respectively.

### Note 6. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 30, 2021, the date the financial statements were available to be issued.

Subsequent to year end, the COVID-19 pandemic was still ongoing. The United States economy was negatively affected and the financial markets have experienced fluctuations due to the outbreak. At the time these financial statements were available to be issued, the situation remained very volatile and the full effect of the pandemic on the operations of the Organization could not be determined.

LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2020

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, 2020 and 2019 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	2020 Totals	2019 Totals
Change in Net Assets	\$ 391,643	\$ (295,766)	\$ 95,877	\$ (353,055)
Adjustments to Reconcile:				
Add Depreciation	156,030	216,612	372,642	367,599
Add Amortization of Loan Acquisition Costs	-	18,134	18,134	18,134
Add Bad Debt	126,233	-	126,233	9,716
Change in Grants, Patient and Other Receivables	(201,508)	-	(201,508)	(22,704)
Change in Inventory	(33,419)	-	(33,419)	20,827
Change in Prepaid Expenses	36,238	-	36,238	(29,875)
Change in Accounts Payable	(113,302)	132	(113,170)	89,285
Change in Accrued Expenses	48,871	-	48,871	33,924
Change in Refundable Advances	91,652	-	91,652	(180,031)
Net Cash Provided (Used) by Operating Activities	<u>\$ 502,438</u>	<u>\$ (60,888)</u>	<u>\$ 441,550</u>	<u>\$ (46,180)</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 \$296,357 and \$36,151 of donated goods for inventory and other items during the years ended December 31, 2020 and 2019, respectively.

## LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

### Notes to the Financial Statements December 31, 2020

#### Note 10. RETIREMENT PLAN

In 2010, the Organization established a tax-deferred 401(k) Retirement Plan (the Plan) under Section 401(k) of the Internal Revenue Code. The Plan covers all employees who meet certain eligibility requirements as defined in the Plan. Employees may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code. The Organization contributes 4% and 3% of the participant’s regular salary (as defined) to the plan for the years 2020 and 2019, respectively. Contributions for the years 2020 and 2019 were \$55,214 and \$34,296, respectively.

#### Note 11. NEW MARKET TAX CREDIT PROGRAM

LCHC Holdings, Inc. and Lana‘i Community Health Center participate 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 \$23,213 and \$106,961 at December 31, 2020 and 2019, 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.

## LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

### Notes to the Financial Statements December 31, 2020

#### 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.

#### 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 included in the long-term debts as loan acquisition costs and are being amortized to interest expenses over the life of the loan. Debt acquisition costs are presented net of accumulated amortization of \$95,202 and \$77,068, at December 31, 2020 and 2019, respectively. LCHC Holdings, Inc. was in compliance with the terms of its NMTC loan, including loan covenants, at December 31, 2020 and 2019.

In 2018, the Center 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 Center maintains a debt service reserve fund. The balance of the debt service reserve fund as of December 31, 2020 and 2019 were \$14,004 and \$9,336, respectively. The reserve is included in restricted cash on the statement of financial position.

In April 2019, the Center entered into an agreement with First Hawaiian Bank for a \$120,000 loan to purchase an apartment to be used by the Center 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.

In January 2020, the Center entered into an agreement with First Hawaiian Bank for a \$336,000 loan to purchase a house to be used by the Center to expand its current location. The loan calls for monthly interest only payments until February 2022 when the entire principal is due.

LANA 'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2020

Note 14. LONG-TERM DEBT (Continued)

A summary for all long-term debt as of December 31, 2020 is as follows:

CCM QLICI Loan A	\$ 5,464,200
CCM QLICI Loan B	2,335,800
USDA Loan	929,898
First Hawaiian Bank	336,000
First Hawaiian Bank	<u>115,655</u>
Total long-term debt	9,181,553
Less current installments of long-term debt	<u>(27,792)</u>
Net long-term debt	<u>\$ 9,153,761</u>

Maturities of long term debt are as follows:

2021	\$ 27,792
2022	8,164,522
2023	29,272
2024	30,045
2025	30,837
Thereafter	<u>899,085</u>
	<u>\$ 9,181,553</u>

Note 15. CASH AND CASH EQUIVALENTS

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

During 2020, the Organization adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Management believes that the adoption of the new accounting standard had no effect on the statement of cash flows as the Organization always included restricted cash as part of the cash and cash equivalents in the statement of cash flows. The following table provides a reconciliation of cash, cash equivalents in the statements of cash flows:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 985,736	\$ 718,194
Restricted Cash	<u>14,004</u>	<u>9,336</u>
	<u>\$ 999,740</u>	<u>\$ 727,530</u>

The Organization maintained its cash accounts at several financial institutions. These balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit per financial institution. Management acknowledges the possibility of risk in this arrangement; however, the size and the longevity of the depository institution minimize such risk. At December 31, 2020 and 2019, the Organization had \$232,319 and \$2,913, respectively, in excess of the FDIC insured limit.

# LANA 'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

## Notes to the Financial Statements December 31, 2020

### Note 16. PAYROLL PROTECTION PROGRAM LOAN

On April 16, 2020, the Organization received loan proceeds in the amount of \$506,600 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness can be reduced if the borrower terminates employees or reduces salaries over the period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization used the proceeds for purposes consistent with the PPP requirements and therefore believes it has met the conditions for forgiveness of the loan. As of December 31, 2020, the full PPP loan of \$506,600 was recognized as revenue.

### Note 17. 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, 2020	\$ 999,740
Less those unavailable for general expenditures within one year due to:	
Restricted by debt covenant (Note 14)	(14,004)
Restricted by donor with purpose restrictions	<u>(73,554)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 912,182</u>

### Note 18. RECLASSIFICATION

Certain items on the 2019 financial statements have been reclassified to conform to the 2020 financial statements. These reclassifications had no net effect on Net Assets.

### Note 19. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842, which superseded Topic 840), which requires, among other prior 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. FASB further issued ASU No. 2020-05, which, among other provisions, deferred the effective dates for applying ASC 842 for certain not-for-profit entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020. ASU 2016-02 is effective for entity fiscal years beginning after December 15, 2021, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's fiscal year ending December 31, 2022. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the statement of financial position.



LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Notes to the Financial Statements  
December 31, 2020

Note 19. RECENT ACCOUNTING PRONOUNCEMENTS *(Continued)*

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 985): *Presentation and disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, effective for annual periods beginning after June 15, 2021 with early application permitted. The provisions are effective for the Organization’s fiscal year ending December 31, 2021. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

LANA 'I COMMUNITY HEALTH CENTER AND SUBSIDIARY

Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2020

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Contract Number	Federal Expenditures
<b>U.S. Department of Health and Human Services (DHHS)</b>			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS08775	\$ 1,500,550
COVID 19 - Health Center Program			
FY2020 Coronavirus Supplemental Funding for Health Centers	93.224	H8CCS34735	44,833
COVID 19 - Health Center Program			
Coronavirus Aid, Relief, and Economic Security (CARES) Act	93.224	H8DCS36060	350,015
COVID 19 - Health Center Program			
FY2020 Expanding Capacity for Coronavirus Testing (ECT)	93.224	H8ECS38112	79,741
Subtotal CFDA 93.224			<u>1,975,139</u>
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	D04RH31637	186,786
Provider Relief Fund	93.498		131,465
Subtotal U.S. DHHS - Direct Funding Programs			<u>2,293,390</u>
Passed Through the State of Hawaii Department of Health:			
Opioid STR	93.788		20,000
Subtotal U.S. DHHS - Passed Through Funding Program			<u>20,000</u>
<b>Total U.S. Department of Health and Human Services Programs</b>			<u><u>2,313,390</u></u>
<b>U.S. Department of Housing and Urban Development</b>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	ASO Log 18-130	26,690
<b>Total U.S. Department of Housing and Urban Development</b>			<u>26,690</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 2,340,080</u></u>

## LANA‘I COMMUNITY HEALTH CENTER AND SUBSIDIARY

### Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2020

#### 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, 2020.

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 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  
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, 2020, 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 April 30, 2021.

**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.

## Report on Internal Control

Page 2

### 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.



April 30, 2021  
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, 2020. 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.

## **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, 2020.

### **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.



April 30, 2021  
Wailuku, Hawai‘i

LANA 'I COMMUNITY HEALTH CENTER

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2020

**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 the major program was:

<b>U.S. Department of Health and Human Services (DHHS)</b>	<u>CFDA</u>	<u>CONTRACT</u>
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS08775
COVID 19 - Health Center Program FY2020 Coronavirus Supplemental Funding for Health Centers	93.224	H8CCS34735
COVID 19 - Health Center Program Coronavirus Aid, Relief, and Economic Security (CARES) Act	93.224	H8DCS36060
COVID 19 - Health Center Program FY2020 Expanding Capacity for Coronavirus Testing (ECT)	93.224	H8ECS38112

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