



GREATER SEACOAST COMMUNITY HEALTH

Goodwin
Community Health

Families
First

Lilac City
Pediatrics

FINANCIAL STATEMENTS

and

REPORTS IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS AND THE UNIFORM GUIDANCE*

December 31, 2019 and 2018

With Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Greater Seacoast Community Health

Report on Financial Statements

We have audited the accompanying financial statements of Greater Seacoast Community Health, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Seacoast Community Health as of December 31, 2019 and 2018, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2019 Greater Seacoast Community Health adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and related guidance. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2020 on our consideration of Greater Seacoast Community Health'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 solely 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 the effectiveness of Greater Seacoast Community Health's 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 Greater Seacoast Community Health's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
July 27, 2020

GREATER SEACOAST COMMUNITY HEALTH

Balance Sheets

December 31, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 4,895,949	\$ 3,896,813
Patient accounts receivable	1,178,290	1,560,698
Grants receivable	680,448	424,642
Pledges receivable	33,625	263,557
Inventory	100,428	143,250
Other current assets	<u>53,142</u>	<u>57,987</u>
Total current assets	6,941,882	6,346,947
Investments	1,373,984	1,112,982
Investment in limited liability company	-	38,201
Assets limited as to use	1,621,866	1,421,576
Property and equipment, net	<u>5,784,530</u>	<u>6,107,219</u>
Total assets	<u>\$ 15,722,262</u>	<u>\$15,026,925</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 200,449	\$ 172,852
Accrued payroll and related expenses	1,199,712	1,075,463
Patient deposits	137,239	173,105
Deferred revenue	<u>46,628</u>	<u>7,269</u>
Total current liabilities and total liabilities	<u>1,584,028</u>	<u>1,428,689</u>
Net assets		
Without donor restrictions	12,379,359	11,824,495
With donor restrictions	<u>1,758,875</u>	<u>1,773,741</u>
Total net assets	<u>14,138,234</u>	<u>13,598,236</u>
Total liabilities and net assets	<u>\$15,722,262</u>	<u>\$15,026,925</u>

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

GREATER SEACOAST COMMUNITY HEALTH

Statements of Operations

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenue and support		
Patient service revenue	\$11,318,482	\$11,353,111
Provision for bad debts	<u>-</u>	<u>(651,700)</u>
Net patient service revenue	11,318,482	10,701,411
Grants, contracts, and contributions	7,943,253	7,713,908
Other operating revenue	259,394	368,017
Net assets released from restriction for operations	<u>448,507</u>	<u>634,931</u>
Total operating revenue and support	<u>19,969,636</u>	<u>19,418,267</u>
Operating expenses		
Salaries and wages	12,295,009	12,439,986
Employee benefits	2,156,634	2,275,134
Contracted services	1,080,950	1,119,854
Program supplies	1,324,866	1,191,451
Software maintenance	503,376	534,192
Occupancy	787,474	582,900
Other	1,125,378	1,018,477
Depreciation	<u>326,934</u>	<u>349,661</u>
Total operating expenses	<u>19,600,621</u>	<u>19,511,655</u>
Operating income (loss)	<u>369,015</u>	<u>(93,388)</u>
Other revenue and (losses)		
Investment income	48,963	48,204
Loss on disposal of assets	(20,936)	(6,874)
Change in fair value of investments	<u>157,822</u>	<u>(95,246)</u>
Total other revenue and (losses)	<u>185,849</u>	<u>(53,916)</u>
Excess (deficiency) of revenue over expenses and increase (decrease) in net assets without donor restrictions	<u>\$ 554,864</u>	<u>\$ (147,304)</u>

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

GREATER SEACOAST COMMUNITY HEALTH

Statements of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions		
Excess (deficiency) of revenue over expenses and increase in net assets without donor restrictions	\$ <u>554,864</u>	\$ <u>(147,304)</u>
Net assets with donor restrictions		
Contributions	169,687	44,649
Investment income	47,540	37,790
Change in fair value of investments	216,414	(147,099)
Net assets released from restriction for operations	<u>(448,507)</u>	<u>(634,931)</u>
Decrease in net assets with donor restrictions	<u>(14,866)</u>	<u>(699,591)</u>
Change in net assets	539,998	(846,895)
Net assets, beginning of year	<u>13,598,236</u>	<u>14,445,131</u>
Net assets, end of year	<u>\$14,138,234</u>	<u>\$13,598,236</u>

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

GREATER SEACOAST COMMUNITY HEALTH

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 539,998	\$ (846,895)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	326,934	349,661
Equity in loss of limited liability company	13,754	2,395
Change in fair value of investments	(374,236)	242,345
Loss on disposal of assets	20,936	6,874
(Increase) decrease in		
Patient accounts receivable	406,855	(319,654)
Grants receivable	(255,806)	304,713
Pledges receivable	229,932	300,635
Inventory	42,822	101,604
Other current assets	4,845	(1,155)
Increase (decrease) in		
Accounts payable and accrued expenses	27,597	(138,262)
Accrued salaries and related amounts	124,249	33,819
Patient deposits	(35,866)	6,790
Deferred revenue	<u>39,359</u>	<u>(2,117)</u>
Net cash provided by operating activities	<u>1,111,373</u>	<u>40,753</u>
Cash flows from investing activities		
Capital acquisitions	(25,181)	(21,463)
Proceeds from sale of investments	244,247	198,458
Purchase of investments	<u>(331,303)</u>	<u>(294,519)</u>
Net cash used by investing activities	<u>(112,237)</u>	<u>(117,524)</u>
Net increase (decrease) in cash and cash equivalents	999,136	(76,771)
Cash and cash equivalents, beginning of year	<u>3,896,813</u>	<u>3,973,584</u>
Cash and cash equivalents, end of year	<u>\$ 4,895,949</u>	<u>\$ 3,896,813</u>

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

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Organization

Greater Seacoast Community Health (the Organization) is a not-for-profit corporation organized in New Hampshire. The Organization is a Federally Qualified Health Center (FQHC), providing fully integrated medical, behavioral, oral health, recovery services and social support for underserved populations. The Organization is a network of community health centers, which includes Families First Health & Support Center, Goodwin Community Health, and Lilac City Pediatrics providing healthcare services to individuals living within the greater Seacoast service area.

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which requires the Organization to report information in the financial statements according to the following net asset classifications:

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

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization is a public charity under Section 501(c)(3) of the Internal Revenue Code (IRC). As a public charity, the Organization is exempt from state and federal income taxes on income earned in accordance with its tax-exempt purpose. Unrelated business income is subject to state and federal income tax. Management has evaluated the Organization's tax positions and concluded that the Organization has no unrelated business income or uncertain tax positions that require adjustment to the financial statements.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and petty cash funds.

The Organization has cash deposits in major financial institutions which exceed federal depository insurance limits. The Organization has not experienced losses in such accounts and management believes the credit risk related to these deposits is minimal.

Revenue Recognition and Patient Accounts Receivable

In 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and related guidance, which provide guidance for revenue recognition. These standards' core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The most significant change from the adoption of the new standards relates to the presentation of implicit price concessions. Under the previous standards, the estimate for amounts not expected to be collected based upon historical experience was reflected as provision for doubtful accounts, and presented separately as an offset to net patient service revenue. Under the new standards, the estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue, but not reflected separately as provision for doubtful accounts. The Organization has adopted the provisions of ASU No. 2014-09 for the year ended December 31, 2019, and elected the modified retrospective method; therefore, the financial statements and related notes have been presented accordingly. Under the modified retrospective method, amounts in the comparative period have not been restated and continue to be reported under the accounting standards in effect for that year.

The impact of the adoption on the statement of operations for the year ended December 31, 2019 follows:

	<u>As Reported</u>	<u>Balance before ASU 2014-09 Adoption</u>	<u>Effect of Change</u>
Patient service revenue	\$ -	\$ 12,036,809	\$ -
Provision for bad debts	-	(718,327)	-
Net patient service revenue	<u>\$ 11,318,482</u>	<u>\$ 11,318,482</u>	<u>\$ -</u>

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients and third-party payers (including commercial insurers and governmental programs). Generally, the Organization bills the patients and third-party payers several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

Performance obligations are determined based on the nature of the services provided by the Organization. The Organization measures the performance obligation for medical, behavioral health, dental and ancillary services from the commencement of a face-to-face encounter with a patient to the completion of the encounter. Ancillary services provided the same day as the face-to-face encounter are considered to be part of the performance obligation and are not deemed to be separate performance obligations. The Organization measures the performance obligation for in-house and contract pharmacy services based on when the prescription is distributed to the patient.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Organization's sliding fee discount program, and implicit price concessions provided to uninsured patients.

The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

The Organization has elected the practical expedient allowed under FASB Accounting Standards Codification Subtopic 606-10-32-18, and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less.

A summary of the payment arrangements with major third-party payers follows:

Medicare

The Organization is primarily reimbursed based on the lesser of actual charges or prospectively set rates for all FQHC services furnished to a Medicare beneficiary on the same day when an FQHC furnishes a face-to-face FQHC visit. Certain other non-FQHC services are reimbursed based on fee-for-service rate schedules.

Medicaid

The Organization is entitled to reimbursement based on a minimum per visit reimbursement rate (encounter rate) when providing care to Medicaid beneficiaries which is adjusted annually for inflation using the Medicare Economic Index. Certain other non-FQHC services are reimbursed based on fee-for-service rate schedules.

Other Payers

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Under these arrangements, the Organization is reimbursed based on contractually obligated payment rates for each Current Procedural Terminology code which may be less than the Organization's public fee schedule.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

Patients

Patient balances are typically due within 30 days of billing; however, the Organization does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

340B Pharmacy Program Revenue

The Organization, as an FQHC, is eligible to participate in the 340B Drug Pricing Program. This program requires drug manufacturers to provide outpatient drugs to FQHCs and other covered entities at a reduced price. The Organization operates an in-house pharmacy and contracts with other local pharmacies under this program. The contract pharmacies dispense drugs to eligible patients of the Organization and bill Medicare and commercial insurances on behalf of the Organization. Reimbursement received by the contract pharmacies is remitted to the Organization, less dispensing and administrative fees. The dispensing and administrative fees are costs of the program and not deemed to be implicit price concessions which would reduce the transaction price. The Organization recognizes revenue in the amounts that reflect the consideration to which it expects to be entitled in exchange for the prescription.

Laws and regulations governing the Medicare, Medicaid and 340B programs are complex and subject to interpretation. Management believes that the Organization is in compliance with all laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare, Medicaid and 340B programs. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in patient service revenue in the year that such amounts become known.

Consistent with the Organization's mission and FQHC designation, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and amounts the Organization expects to collection based on its collection history with those patients.

The Organization provides care to patients who meet certain criteria under its sliding fee discount program. The Organization estimates the costs associated with providing this care by calculating the ratio of total cost to total charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for the sliding fee discount program. The estimated cost of providing services to patients under the Organization's sliding fee discount program amounted to \$1,523,271 and \$1,756,052 for the years ended December 31, 2019 and 2018, respectively. The Organization is able to provide these services with a component of funds received through federal and state grants.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payer. In assessing collectability, the Organization has elected the portfolio approach. The portfolio approach is being used as the Organization has a large volume of similar contracts with similar classes of customers (patients). The Organization reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all the contracts (which are at the patient level) by the particular payer or group of payers will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level. A table detailing the payers is presented in Note 7.

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The accounts receivable from patients and third-party payers, net of contractual allowances, were as follows:

	<u>2019</u>	<u>2018</u>
Governmental plans		
Medicare	7 %	7 %
Medicaid	28 %	29 %
Commercial payers	31 %	32 %
Patient	<u>34 %</u>	<u>32 %</u>
Total	<u>100 %</u>	<u>100 %</u>

Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balances. All such amounts are considered collectible. Support received under grants and contracts with governmental agencies is recorded as revenue when terms of the agreements have been met.

The Organization receives a significant amount of grants from the U.S. Department of Health and Human Services (DHHS). For the years ended December 31, 2019 and 2018, grants from DHHS (including both direct awards and awards passed through other organizations) represented approximately 66% and 63%, respectively, of grants, contracts and contributions.

Inventory

Inventory consists primarily of pharmaceuticals and is stated at the lower of cost or retail. Cost is determined on the first-in, first-out method.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

Investments

The Organization reports investments at fair value. Investments include donor endowment funds and assets held for long-term purposes. Accordingly, investments have been classified as non-current assets in the accompanying balance sheets regardless of maturity or liquidity. The Organization has established policies governing long-term investments, which are held within several investment accounts, based on the purposes for those investment accounts and their earnings.

The Organization has elected the fair value option for valuing its investments, which consolidates all investment performance activity within the other revenue and losses section of the statement of operations. The election was made because the Organization believes reporting the activity in a single performance indicator provides a clearer measure of the investment performance. Accordingly, investment income and the change in fair value are included in the excess (deficiency) of revenue over expenses, unless otherwise stipulated by the donor or State Law.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

Investment in Limited Liability Company

The Organization is one of seven members of Primary Health Care Partners, LLC (PHCP). The Organization's investment in PHCP is reported using the equity method. PHCP dissolved on December 31, 2019 and the Organization's remaining capital balance was subsequently distributed to the Organization.

Assets Limited as to Use

Assets limited as to use include investments held for others and donor-restricted contributions to be held in perpetuity and earnings thereon, subject to the Organization's spending policy as further discussed in Note 6.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Maintenance, repairs and minor renewals are expensed as incurred and renewals and betterments are capitalized. Provision for depreciation is computed using the straight-line method over the useful lives of the related assets. Property and equipment costing less than \$5,000 is charged to expense upon purchase.

Patient Deposits

Patient deposits consist of payments made by patients in advance of significant dental work based on quotes for the work to be performed.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations as net assets released from restriction.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. All pledges receivable are due within one year. Given the short-term nature of the Organization's pledges, they are not discounted and a reserve for uncollectible pledges has been established in the amount of \$2,000 at December 31, 2019 and 2018. Conditional promises to give are not included as revenue until the conditions are substantially met.

In 2019, the Organization adoption ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 applies to all entities that receive or make contributions and clarifies the definition of transactions accounted for as an exchange transaction subject to ASU No. 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange transactions) subject to the contribution accounting model. Further, ASU No. 2018-08 provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. ASU No. 2018-08 has been applied retrospectively to 2018; however, there was no impact to total net assets, results of operations or cash flows.

Excess (Deficiency) of Revenue Over Expenses

The statement of operations reflects the excess (deficiency) of revenue over expenses. Changes in net assets without donor restrictions which are excluded from the excess (deficiency) of revenue over expenses include contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

Subsequent Events

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a global pandemic. Governments have mandated the temporary shut-down of business in many sectors and imposed limitations on travel. Most sectors are experiencing disruption to business operations. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and the extent of government actions to mitigate them. While management believes this matter may negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was enacted into law. The Organization obtained a loan for \$1,479,000 under the Act. The loan is intended to cover 8 weeks of payroll during May and June, and if certain provisions are met, the loan may be forgiven. Amounts not forgiven, if any, are repayable over two years with interest at 1% and six month deferred payment. The Organization has also received approximately \$1,500,000 from a number of stimulus payments and Federal grants under the CARES Act to support ongoing operations as well as COVID related expenses through March 2021.

For financial reporting purposes, subsequent events have been evaluated by management through July 27, 2020, which is the date the financial statements were available to be issued. Management has not evaluated subsequent events after that date for inclusion in the financial statements.

2. Availability and Liquidity of Financial Assets

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and a line of credit.

The Organization had working capital of \$5,357,854 and \$4,918,258 at December 31, 2019 and 2018, respectively. The Organization had average days cash and cash equivalents and investments on hand (based on normal expenditures) of 119 and 95 at December 31, 2019 and 2018, respectively.

Financial assets available for general expenditure within one year were as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,895,949	\$ 3,896,813
Patient accounts receivable, net	1,178,290	1,560,698
Grants receivable	680,448	424,642
Pledges receivable	<u>33,625</u>	<u>263,557</u>
Financial assets available for current use	<u>\$ 6,788,312</u>	<u>\$ 6,145,710</u>

The Organization has long-term investments and assets for restricted use, which are more fully described in Note 3, that are not reflected in the amount above.

3. Investments and Assets Limited as to Use

Investments, stated at fair value, consisted of the following:

	<u>2019</u>	<u>2018</u>
Long-term investments	\$ 1,373,984	\$ 1,112,982
Assets limited as to use	<u>1,621,866</u>	<u>1,421,576</u>
Total investments	<u>\$ 2,995,850</u>	<u>\$ 2,534,558</u>

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

Assets limited as to use are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Assets held in trust under Section 457(b) deferred compensation plans	\$ 36,304	\$ 26,764
Assets with donor restrictions	<u>1,585,562</u>	<u>1,394,813</u>
Total	<u>\$ 1,621,866</u>	<u>\$ 1,421,576</u>

Fair Value of Financial Instruments

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

U.S. GAAP distinguishes three levels of inputs that may be utilized when measuring fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value:

	<u>Investments at Fair Value as of December 31, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 193,877	\$ -	\$ -	\$ 193,877
Municipal bonds	-	290,796	-	290,796
Exchange traded funds	330,437	-	-	330,437
Mutual funds	<u>2,180,740</u>	-	-	<u>2,180,740</u>
Total investments	<u>\$ 2,705,054</u>	<u>\$ 290,796</u>	<u>\$ -</u>	<u>\$ 2,995,850</u>

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

	Investments at Fair Value as of December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 13,810	\$ -	\$ -	\$ 13,810
Municipal bonds	-	288,679	-	288,679
Exchange traded funds	411,147	-	-	411,147
Mutual funds	<u>1,820,922</u>	<u>-</u>	<u>-</u>	<u>1,820,922</u>
Total investments	<u>\$ 2,245,879</u>	<u>\$ 288,679</u>	<u>\$ -</u>	<u>\$ 2,534,558</u>

Municipal bonds are valued based on quoted market prices of similar assets.

4. Property and Equipment

Property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 718,427	\$ 718,427
Building and improvements	5,857,428	5,857,428
Leasehold improvements	302,547	311,561
Furniture, fixtures, and equipment	<u>2,673,943</u>	<u>2,667,663</u>
Total cost	9,552,345	9,555,079
Less accumulated depreciation	<u>3,767,815</u>	<u>3,447,860</u>
Property and equipment, net	<u>\$ 5,784,530</u>	<u>\$ 6,107,219</u>

The Organization's facility was built and renovated with federal grant funding. In accordance with the grant agreements, a Notice of Federal Interest (NFI) was required to be filed in the appropriate official records of the jurisdiction in which the property is located. The NFI is designed to notify any prospective buyer or creditor that the Federal Government has a financial interest in the real property acquired under the aforementioned grant; that the property may not be used for any purpose inconsistent with that authorized by the grant program statute and applicable regulations; that the property may not be mortgaged or otherwise used as collateral without the written permission of the Associate Administrator of the Office of Federal Assistance Management (OFAM) and Health Reimbursement and Services Administration (HRSA); and that the property may not be sold or transferred to another party without the written permission of the Associate Administrator of OFAM and HRSA.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

5. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Specific purpose		
Program services	\$ 139,688	\$ 115,371
Passage of time		
Pledges receivable	33,625	263,557
Investments to be held in perpetuity, for which the income is without donor restrictions	<u>1,585,562</u>	<u>1,394,813</u>
Total	\$ <u>1,758,875</u>	\$ <u>1,773,741</u>

Net assets released from net assets with donor restrictions were as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose - program services	\$ 53,238	\$ 270,530
Passage of time - pledges receivable	322,064	291,384
Passage of time - endowment earnings	<u>73,205</u>	<u>73,017</u>
Total	\$ <u>448,507</u>	\$ <u>634,931</u>

6. Endowments

Interpretation of Relevant Law

The Organization's endowments primarily consist of an investment portfolio managed by the Investment Sub-Committee. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as a donor-restricted endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent donor-restricted endowment gifts, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund, if any, is classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

Spending Policy

The Organization has a policy of appropriating for expenditure an amount equal to 5% of the endowment fund's average fair market value over the prior 20 quarters. The earnings on the endowment fund are to be used for operations.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration (underwater). In the event the endowment becomes underwater, it is the Organization's policy to not appropriate expenditures from the endowment assets until the endowment is no longer underwater. There were no such deficiencies as of December 31, 2019 and 2018.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed or meet designated benchmarks while incurring a reasonable and prudent level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a balanced emphasis on equity-based and income-based investments to achieve its long-term return objectives within prudent risk constraints.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

Endowment Net Asset Composition by Type of Fund

The Organization's endowment consists of assets with donor restrictions only and had the following related activities:

	<u>2019</u>	<u>2018</u>
Endowments, beginning of year	\$ 1,394,813	\$ 1,577,139
Investment income	47,540	37,790
Change in fair value of investments	216,414	(147,099)
Spending policy appropriations	<u>(73,205)</u>	<u>(73,017)</u>
Endowments, end of year	<u>\$ 1,585,562</u>	<u>\$ 1,394,813</u>

7. Patient Service Revenue

Net patient service revenue by payer and program is as follows:

	<u>2019</u>		
	Medical, Behavioral Health and Dental <u>Services</u>	Pharmacy <u>Services</u>	<u>Total</u>
Governmental payers			
Medicare	\$ 927,218	\$ 241,341	\$ 1,168,559
Medicaid	4,641,469	298,673	4,940,142
Commercial payers	2,806,586	277,352	3,083,938
Patient	<u>470,870</u>	<u>182,195</u>	<u>653,065</u>
Net direct patient service revenue	8,846,143	999,561	9,845,704
340B contract pharmacy revenue	<u>-</u>	<u>1,472,778</u>	<u>1,472,778</u>
Net patient service revenue	<u>\$ 8,846,143</u>	<u>\$ 2,472,339</u>	<u>\$ 11,318,482</u>

	<u>2018</u>		
	Medical, Behavioral Health and Dental <u>Services</u>	Pharmacy <u>Services</u>	<u>Total</u>
Governmental payers			
Medicare	\$ 1,001,792	\$ 171,979	\$ 1,173,771
Medicaid	3,910,040	196,962	4,107,002
Commercial payers	3,154,989	295,839	3,450,828
Patient	<u>1,165,229</u>	<u>137,889</u>	<u>1,303,118</u>
Total direct patient service revenue	9,232,050	802,669	10,034,719
Provision for bad debts	<u>(651,700)</u>	<u>-</u>	<u>(651,700)</u>
Net direct patient service revenue	8,580,350	802,669	9,383,019
340B contract pharmacy revenue	<u>-</u>	<u>1,318,392</u>	<u>1,318,392</u>
Net patient service revenue	<u>\$ 8,580,350</u>	<u>\$ 2,121,061</u>	<u>\$ 10,701,411</u>

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

8. Retirement Plans

The Organization has a defined contribution plan under IRC Section 401(k) that covers substantially all employees. For the years ended December 31, 2019 and 2018, the Organization contributed \$193,365 and \$194,214, respectively, to the plan.

The Organization has established an unqualified deferred compensation plan under IRC Section 457(b) for certain key employees of the Organization. The Organization did not contribute to the plan during the year ended December 31, 2019. The balance of the deferred compensation plan amounted to \$36,304 and \$26,764 at December 31, 2019 and 2018, respectively.

9. Food Vouchers

The Organization acts as a conduit for the State of New Hampshire's Special Supplemental Food Program for Women, Infants and Children (WIC). The value of food vouchers distributed by the Organization was \$1,068,417 and \$1,136,875 for the years ended December 31, 2019 and 2018, respectively. These amounts are not included in the accompanying financial statements as they are not part of the contract the Organization has with the State of New Hampshire for the WIC program.

10. Functional Expense

The Organization provides various services to residents within its geographic location. Given the Organization is a service organization, expenses are allocated between healthcare, administrative and support and fundraising services based on the percentage of direct care wages to total wages, with the exception of program supplies which are 100% healthcare in nature. Expenses related to providing these services are as follows:

	Healthcare <u>Services</u>	Administrative and Support <u>Services</u>	Fundraising <u>Services</u>	<u>Total</u>
2019:				
Salaries and wages	\$ 10,587,330	\$ 1,293,845	\$ 413,834	\$ 12,295,009
Employee benefits	1,857,078	226,878	72,678	2,156,634
Contracted services	890,375	183,127	7,448	1,080,950
Program supplies	1,324,866	-	-	1,324,866
Software maintenance	433,457	52,955	16,964	503,376
Occupancy	678,094	82,842	26,538	787,474
Other	963,883	103,415	58,080	1,125,378
Depreciation	<u>281,523</u>	<u>34,393</u>	<u>11,018</u>	<u>326,934</u>
Total	<u>\$ 17,016,606</u>	<u>\$ 1,977,455</u>	<u>\$ 606,560</u>	<u>\$ 19,600,621</u>

GREATER SEACOAST COMMUNITY HEALTH

Notes to Financial Statements

December 31, 2019 and 2018

	Healthcare <u>Services</u>	Administrative and Support <u>Services</u>	Fundraising <u>Services</u>	<u>Total</u>
2018:				
Salaries and wages	\$ 10,726,571	\$ 1,233,194	\$ 480,221	\$ 12,439,986
Employee benefits	1,961,848	225,466	87,820	2,275,134
Contract services	956,218	147,500	16,136	1,119,854
Program supplies	1,191,451	-	-	1,191,451
Software maintenance	460,634	52,938	20,620	534,192
Occupancy	502,635	57,765	22,500	582,900
Other	854,906	88,360	75,211	1,018,477
Depreciation	<u>301,513</u>	<u>34,651</u>	<u>13,497</u>	<u>349,661</u>
Total	\$ <u>16,955,776</u>	\$ <u>1,839,874</u>	\$ <u>716,005</u>	\$ <u>19,511,655</u>

11. Medical Malpractice Insurance

The Organization is protected from medical malpractice risk as an FQHC under the Federal Tort Claims Act (FTCA). The Organization has additional medical malpractice insurance, on a claims-made basis, for coverage outside the scope of the protection of the FTCA. As of December 31, 2019, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of both FTCA and additional medical malpractice insurance coverage, nor are there any unasserted claims or incidents which require loss accrual. The Organization intends to renew the additional medical malpractice insurance coverage on a claims-made basis and anticipates that such coverage will be available.

12. Lease Commitments

The Organization leases office space and certain other office equipment under noncancelable operating leases. Future minimum lease payments under these leases are as follows:

2020	\$ 315,971
2021	274,281
2022	42,211
2023	43,048
2024	23,971
Thereafter	<u>1,191</u>
Total	\$ <u>700,673</u>

Rental expense amounted to \$316,139 and \$258,695 for the year ended December 31, 2019 and 2018, respectively.

SUPPLEMENTARY INFORMATION

GREATER SEACOAST COMMUNITY HEALTH

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Contract Number	Total Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
<u>Direct</u>			
<i>Health Center Program Cluster</i>			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		\$ 1,075,232
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527		<u>3,038,730</u>
Total Health Center Program Cluster			4,113,962
<u>Direct</u>			
Substance Abuse and Mental Health Services_Protocols of Regional and National Significance	93.243		376,645
<u>Pass-Through</u>			
<i>State of New Hampshire Department of Health and Human Services</i>			
Substance Abuse and Mental Health Services_Protocols of Regional and National Significance	93.243	102-500734 / 49156501	<u>85,096</u>
Total CFDA 93.243			461,741
<u>Pass-Through</u>			
<i>State of New Hampshire Department of Health and Human Services</i>			
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	102-500734 / 49156501	47,531
Immunization Cooperative Agreements	93.268	102-500731 / 90023010	8,510
Promoting Safe and Stable Families	93.556	102-500734 / 42107306	21,584
Temporary Assistance for Needy Families	93.558	102-500731 / 45030353	82,132
Temporary Assistance for Needy Families	93.558	502-500891 / 45030206	<u>38,062</u>
Total CFDA 93.558			<u>120,194</u>
Stephanie Tubbs Jones Child Welfare Services Program	93.645	102-500734 / 42106802	4,692
Social Services Block Grant	93.667	102-500734 / 42106603	80,934
Social Services Block Grant	93.667	102-500731 / 93017858	<u>33,117</u>
Total CFDA 93.667			114,051
Preventive Health and Health Services Block Grant Funded Solely with Prevention and Public Health Funds (PPHF)	93.758	102-500734 / 49156501	23,208
Block Grants for Prevention and Treatment of Substance Abuse	93.959	102-500730 / 90077021	120,276
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	102-500731 / 90080081	46,755
Maternal and Child Health Services Block Grant to the States	93.994	102-500731 / 90080400	136,169
Maternal and Child Health Services Block Grant to the States	93.994	102-500731 / 90004009	<u>5,761</u>
Total CFDA 93.994			141,930
<i>Bi-State Primary Care Association</i>			
Grants to States to Support Oral Health Workforce Activities	93.236	n/a	<u>6,311</u>
Total U.S. Department of Health and Human Services			5,230,745

GREATER SEACOAST COMMUNITY HEALTH

Schedule of Expenditures of Federal Awards (Concluded)

Year Ended December 31, 2019

Federal Grant/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Contract Number	Total Federal Expenditures
<u>U. S. Department of Agriculture</u>			
<u>Pass-Through</u>			
<i>State of New Hampshire Department of Health and Human Services</i>			
Special Supplemental Nutrition Program for			
Women, Infants, and Children	10.557	102-500734	<u>453,934</u>
<u>U.S. Department of Housing and Urban Development</u>			
<u>Pass-Through</u>			
<i>City of Rochester, New Hampshire</i>			
Community Development Block Grants/Entitlement			
Grants	14.218	n/a	<u>3,750</u>
Total Federal Awards, All Programs			<u><u>\$ 5,688,429</u></u>

The accompanying notes are an integral part of this schedule.

GREATER SEACOAST COMMUNITY HEALTH

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

1. Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards (the Schedule) are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Indirect Cost Rate

Greater Seacoast Community Health (the Organization) has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

3. Basis of Presentation

The Schedule includes the federal grant activity of the Organization. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.



**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**

Board of Directors
Greater Seacoast Community Health

We have audited, in accordance with U.S. generally accepted auditing standards 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 Greater Seacoast Community Health (the Organization), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 27, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Berry Dunn McNeil & Parker, LLC

Portland, Maine
July 27, 2020



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

Board of Directors
Greater Seacoast Community Health

Report on Compliance for the Major Federal Program

We have audited Greater Seacoast Community Health's (the Organization) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2019. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Organization 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, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Directors
Greater Seacoast Community Health

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.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
July 27, 2020

GREATER SEACOAST COMMUNITY HEALTH

Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(ies) identified that are not
considered to be material weakness(es)?

☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified:

☐ Yes ☒ No

Significant deficiency(ies) identified that are not
considered to be material weakness(es)?

☒ Yes ☐ None reported

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

Unmodified

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

☒ Yes ☐ No

Identification of major programs:

CFDA Number Name of Federal Program or Cluster

Health Center Program Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

2. Financial Statement Findings

None

GREATER SEACOAST COMMUNITY HEALTH

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2019

3. Federal Award Findings and Questioned Costs

Finding Number: 2019-001

Information on the
Federal Program:

Program Name: Health Center Program Cluster (CFDA numbers 93.224 and 93.527)
Grant Award: 6 H80CS04210-14 from May 1, 2018 through April 30, 2019 and 2 H80CS04210-15 from May 1, 2019 through April 30, 2020
Agency: U.S. Department of Health and Human Services,
Health Resources and Services Administration
Pass-Through Entity: N/A

Criteria:

In accordance with 42 USC 254(k)(3)(F), the Organization must prepare and apply a sliding fee discount schedule so that the amounts owed for the Organization's services by eligible patients are adjusted (discounted) based on the patient's ability to pay.

Condition Found
and Context:

Through testing the application of the Organization's sliding fee discount program to 25 individual patient balances, we noted the sliding fee discount applied was not consistent with the Organization's sliding fee discount policy for one patient. The total difference between the discount and the policy was 1% of the sample tested.

Cause and Effect:

The Organization's policy allows for retroactive discounts to services provided 30 days prior to the completion of the sliding fee application. The process for retroactive discounts is a manual process. The error in our testing was related to a service date with a retroactive sliding fee discount and was the result of human error and was not caught by internal monitoring procedures. The Organization stopped performing internal monitoring procedures early in 2019 as the monthly testing was not identifying errors. The error resulted in a patient paying less than what was required under the Organization sliding fee discount program.

Questioned Costs:

None

Repeat Finding:

No

Recommendation:

We recommend the Organization reinstate internal monitoring procedures and perform periodic testing of sliding fee discounts to help ensure the discounts are provided consistent with the Organization's sliding fee discount policy.

GREATER SEACOAST COMMUNITY HEALTH

Schedule of Findings and Questioned Costs (Concluded)

Year Ended December 31, 2019

3. Federal Award Findings and Questioned Costs (Concluded)

Finding Number: 2019-001 (Concluded)

Views of a Responsible
Official and Corrective
Action Plan:

Management agrees with the finding. Routine and timely documented reviews of sliding fee discounts will be completed to ensure compliance with the Organization's sliding fee discount program.



Corrective Action Plan

Finding Number: 2019-001

The Organization's policy allows for retroactive discounts to services provided 30 days prior to the completion of the sliding fee application. The process for retroactive discounts is a manual process. The error in the audit testing was related to a service date with a retroactive sliding fee discount and was the result of human error and was not caught by internal monitoring procedures. The Organization stopped performing internal monitoring procedures early in 2019 as the monthly testing was not identifying errors. The error resulted in a patient paying less than what was required under the Organization sliding fee discount program.

Planned Corrective Action:

Finding detail will be reviewed with all staff that review sliding fee applications and complete manual discounts when appropriate. If any additional training is needed this will be completed by either the Billing Manager or CFO.

Additionally, on a monthly basis the Billing Manager or identified billing department employee will review a sample of 15 sliding scale adjustments issued during the month. The audit will include review of the documentation received from the sliding scale application and will verify the discount received. Findings from this monthly audit will be shared with the agency Compliance Committee at its quarterly meetings. Any errors will be reviewed and discussed with staff.

Name of Party Responsible for Corrective Action:

Erin Ross, CFO

Anticipated Completion Date:

Finding to be reviewed with staff in August 2020. Monthly audits will also re-start in August 2020. Quarterly audits will be considered when current audit is at 100% compliance for any given year.