

# **FAMILY AND MEDICAL COUNSELING SERVICE, INC.**

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## **REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**For the years ended December 31, 2019 and 2018**

## **WITH REPORTS ON INTERNAL CONTROLS AND ON COMPLIANCE**



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Family and Medical Counseling Service, Inc.

We have audited the accompanying financial statements of Family and Medical Counseling Service, Inc. ("FMCS"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, cash flows, and the schedule of functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FMCS as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards (page 18) 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2020, on our consideration of FMCS'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 FMCS's internal control over financial reporting and compliance.

## **Emphasis-of-Matter**

As discussed in Note 2 to the financial statements (Accounts Receivable, Allowance for Doubtful Accounts, Patient Revenue section), FMCS changed their method for estimating third party receivables in 2019, which resulted in a significant increase in accounts receivable and patient revenue as of December 31, 2019 and for the year then ended. Our opinion is not modified with respect to these matters.

*Milligan & Company, LLC*

Washington, DC  
December 24, 2020



FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
 Statements of Financial Position  
 December 31, 2019 and 2018

	2019	2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 690,702	\$ 239,624
Accounts receivable, net	2,163,299	648,149
340B pharmacy receivable	384,192	595,819
Contracts and grants receivable	1,501,280	901,821
Prepaid expenses	16,497	6,663
Other receivables	1,374	-
Total current assets	4,757,344	2,392,076
Property and equipment, net	2,425,410	408,430
Deposits	1,743	1,743
Total assets	\$ 7,184,497	\$ 2,802,249
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accrued salaries and payroll taxes	\$ 358,919	\$ 434,968
Accounts payable	258,491	167,220
Deferred revenue	53,008	244,731
Deferred rent	84,014	80,843
Lessor financed improvements, current portion	80,691	-
Total current liabilities	835,123	927,762
Lessor financed improvements, noncurrent	2,036,412	-
Total liabilities	2,871,535	927,762
Net assets:		
Without donor restrictions	4,098,498	1,729,372
With donor restrictions	214,464	145,115
Total net assets	4,312,962	1,874,487
Total liabilities and net assets	\$ 7,184,497	\$ 2,802,249

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

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
Statement of Activities  
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	2019 Total
Operating Activities:			
Grants and contracts:			
Federal	\$ 3,607,575	\$ -	\$ 3,607,575
District of Columbia	1,437,181	-	1,437,181
Other	690,284	-	690,284
340B pharmacy	3,133,858	-	3,133,858
Patient service revenue	4,403,129	-	4,403,129
Other income	150,706	233,400	384,106
Total revenue and support before releases	13,422,733	233,400	13,656,133
Net assets released from restrictions	164,051	(164,051)	-
Total revenue and support	13,586,784	69,349	13,656,133
Expenses and losses:			
Program services			
Medical	5,169,019	-	5,169,019
Behavioral health	1,237,188	-	1,237,188
Testing and prevention	1,474,184	-	1,474,184
Social services	1,684,240	-	1,684,240
Total program services	9,564,631	-	9,564,631
Support services:			
General and administrative	1,653,027	-	1,653,027
Total support expenses	1,653,027	-	1,653,027
Total operating expenses	11,217,658	-	11,217,658
Change in net assets from operating activities	2,369,126	69,349	2,438,475
Net assets, beginning of the year	1,729,372	145,115	1,874,487
Net assets, end of the year	\$ 4,098,498	\$ 214,464	\$ 4,312,962

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

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
Statement of Activities  
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities:			
Grants and contracts:			
Federal	\$ 3,440,990	\$ -	\$ 3,440,990
District of Columbia	757,306	-	757,306
Other	919,918	-	919,918
340B pharmacy	4,030,534	-	4,030,534
Patient service revenue	2,311,843	-	2,311,843
Other income	301,976	140,000	441,976
Total revenue and support before releases	11,762,567	140,000	11,902,567
Net assets released from restrictions	55,869	(55,869)	-
Total revenue and support	11,818,436	84,131	11,902,567
Expenses and losses:			
Program services			
Medical	5,450,086	-	5,450,086
Behavioral health	1,261,956	-	1,261,956
Testing and prevention	1,325,523	-	1,325,523
Social services	1,795,023	-	1,795,023
Total program services	9,832,588	-	9,832,588
Support services:			
General and administrative	2,273,726	-	2,273,726
Total support expenses	2,273,726	-	2,273,726
Total operating expenses	12,106,314	-	12,106,314
Change in net assets from operating activities	(287,878)	84,131	(203,747)
Net assets, beginning of the year	2,017,250	60,984	2,078,234
Net assets, end of the year	\$ 1,729,372	\$ 145,115	\$ 1,874,487

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

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
Schedule of Functional Expenses  
For the Year Ended December 31, 2019

	Program Services					Supporting Services	
	Medical	Behavioral Health	Testing & Prevention	Social Services	TOTAL	General & Administrative	TOTAL
Salaries and Wages	\$ 1,665,364	\$ 729,957	\$ 770,469	\$ 691,547	\$ 3,857,337	\$ 899,656	\$ 4,756,993
Fringe Benefits	354,857	155,540	164,172	147,355	821,924	191,701	1,013,625
Client Cost	62	-	177,410	145,761	323,233	6,247	329,480
Consultants/Experts	8,951	82,948	76,588	243,126	411,613	11,870	423,483
Supplies	9,095	2,597	9,238	10,883	31,813	13,021	44,834
Office Expenses/Utilities	3,704	1,223	2,873	20,152	27,952	12,028	39,980
Medical Supplies	29,674	669	11,480	-	41,823	120	41,943
Medical Labs	59,081	-	-	55	59,136	37	59,173
Medications	1,706,873	-	-	57,087	1,763,960	-	1,763,960
Training & Conference	259	65	954	6,838	8,116	2,765	10,881
License/Fees	711,391	4,385	5,394	47,165	768,335	1,448	769,783
Postage & Shipping	15,065	46	36	4,336	19,483	339	19,822
Occupancy	385,474	147,924	95,455	108,018	736,871	109,134	846,005
Furniture & Equipment	10,744	53,149	5,568	22,131	91,592	22,468	114,060
Repairs & Maint.	40,305	14,841	25,353	18,151	98,650	11,356	110,006
Travel	3,511	707	8,304	12,570	25,092	31,350	56,442
Telephone/Communications	23,257	9,789	23,631	23,539	80,216	5,948	86,164
Copier	7,369	2,985	5,076	2,432	17,862	2,974	20,836
Advertising	160	760	34,856	4,957	40,733	2,114	42,847
Automobile Maintenance	60	-	7,513	-	7,573	893	8,466
Professional Fees	-	-	-	-	-	36,351	36,351
Interest & Bank Charges	-	-	-	172	172	96,331	96,503
Bad Debt Expense	-	-	-	-	-	73,342	73,342
Prescriptions	-	-	-	22	22	-	22
Dues & Subscriptions	-	2,775	115	45,169	48,059	4,152	52,211
Insurance	62,718	9,422	27,668	6,661	106,469	18,278	124,747
Payroll Fees	-	-	-	-	-	26,781	26,781
Depreciation	71,023	16,868	20,983	23,433	132,307	23,584	155,891
Other	22	538	1,048	42,680	44,288	48,739	93,027
<b>Total Direct Costs</b>	<b>\$ 5,169,019</b>	<b>\$ 1,237,188</b>	<b>\$ 1,474,184</b>	<b>\$ 1,684,240</b>	<b>\$ 9,564,631</b>	<b>\$ 1,653,027</b>	<b>\$ 11,217,658</b>

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

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
Schedule of Functional Expenses  
For the Year Ended December 31, 2018

	Program Services					Supporting Services	
	Medical	Behavioral Health	Testing and Prevention	Social Services	Total	General and Administrative	Total
Salaries and Wages	\$ 1,628,444	\$ 647,473	\$ 646,217	\$ 729,041	\$ 3,651,175	\$ 907,003	\$ 4,558,178
Fringe Benefits	403,884	159,758	159,447	179,884	902,973	223,801	1,126,774
Client Cost	463	-	213,718	130,137	344,318	1,280	345,598
Consultants/Experts	19,929	180,108	67,407	203,214	470,658	15,157	485,815
Supplies	13,834	13,072	16,120	29,030	72,056	15,464	87,520
Office Expenses/Utilities	6,534	2,507	1,618	1,902	12,561	8,671	21,232
Medical Supplies	14,115	-	2,431	3,751	20,297	285	20,582
Medical Labs	18,264	-	-	37,039	55,303	120	55,423
Medications	2,155,019	-	248	27,378	2,182,645	-	2,182,645
Training & Conference	1,093	2,815	80	4,150	8,138	2,646	10,784
License/Fees	572,989	-	116	115,108	688,213	2,129	690,342
Postage & Shipping	714	-	-	3,799	4,513	2,771	7,284
Occupancy	456,276	175,094	112,988	127,858	872,216	129,179	1,001,395
Furniture & Equipment	911	8,520	-	7,976	17,407	158	17,565
Repairs & Maint.	27,641	10,607	6,845	36,212	81,305	8,970	90,275
Travel	4,822	1,033	23,365	31,893	61,113	37,169	98,282
Telephone/Communications	25,816	9,041	13,298	6,888	55,043	3,237	58,280
Copier	6,644	3,392	5,174	2,543	17,753	3,060	20,813
Advertising	655	360	37	2,860	3,912	665	4,577
Automobile Maintenance	-	-	16,602	13,497	30,099	2,567	32,666
Professional Fees	-	-	-	-	-	29,020	29,020
Interest & Bank Charges	-	-	-	-	-	10,538	10,538
Bad Debt Expense	-	-	-	-	-	774,346	774,346
Prescriptions	-	1,541	-	20,528	22,069	-	22,069
Dues & Subscriptions	-	2,425	-	7,229	9,654	10,677	20,331
Insurance	45,844	17,592	22,755	12,846	99,037	18,391	117,428
Payroll Fees	-	-	-	-	-	29,049	29,049
Depreciation	46,195	26,434	17,057	19,303	108,989	22,691	131,680
Other	-	184	-	40,957	41,141	14,682	55,823
<b>Total expenses</b>	<b>\$ 5,450,086</b>	<b>\$ 1,261,956</b>	<b>\$ 1,325,523</b>	<b>\$ 1,795,023</b>	<b>\$ 9,832,588</b>	<b>\$ 2,273,726</b>	<b>\$ 12,106,314</b>

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

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
 Statements of Cash Flows  
 For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 2,438,475	\$ (203,747)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	155,891	131,680
Decrease (increase) in contract and grant receivable	(599,459)	(317,073)
Decrease (increase) in accounts receivable	(1,515,150)	(396,552)
Decrease (increase) in 340B pharmacy receivable	211,627	17,621
Decrease (increase) in contributions receivable	-	35,000
Decrease (increase) in other receivables	(1,374)	1,285
Decrease (increase) in prepaid expenses	(9,834)	(937)
Increase (decrease) in accounts payable	91,271	11,070
Increase (decrease) in accrued salaries and payroll taxes	(76,049)	68,840
Increase (decrease) in deferred revenue	(191,723)	69,523
Increase (decrease) in deferred rent	3,171	7,142
Net cash provided (used) by operating activities	506,846	(576,148)
Cash flows from investing activities:		
Purchase of property and equipment	(17,772)	(65,745)
Net cash used by investing activities	(17,772)	(65,745)
Cash flows from financing activities:		
Lessor financed improvement payments	(37,996)	-
Proceeds from line of credit	855,852	661,511
Payments on line of credit	(855,852)	(661,511)
Net cash (used) provided by financing activities	(37,996)	-
Net increase (decrease) in cash	451,078	(641,893)
Cash, beginning of the year	239,624	881,517
Cash, end of the year	\$ 690,702	\$ 239,624
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 86,957	\$ 1,543

During 2019, FMCS made leasehold improvements to their DC office through lessor financing of \$2,155,099.

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

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 1**      *Organization*

Family and Medical Counseling Service, Inc. (FMCS) is a non-profit organization incorporated in the District of Columbia on May 20, 1976 with the mission being “To employ community-based, culturally competent approaches to provide comprehensive services that promote the emotional and physical health of families and individuals, regardless of income or social status”. FMCS was organized exclusively for charitable, social welfare, and health purposes. FMCS performs specialized services in the areas of social welfare and health for low, moderate, and fixed income citizens under grants from the federal government and others. FMCS also provides outpatient primary medical care, case management, group and individual services to uninsured and underinsured HIV/AIDS clients.

Major classes of programs include:

Medical Program

FMCS provides full-life cycle integrated continuum of care primary care and preventative care to residents of the service area. Primary health care services is inclusive of screenings and other preventative service, acute care, immunizations, and chronic disease management. Services are provided at two locations (District of Columbia and Seat Pleasant Maryland) by physicians and nurse practitioners.

Behavioral Health Program

Behavioral health services consist of both mental health and substance use. FMCS provides individual and group counseling services. Funding is received from the Department of Health and Human Services, the District of Columbia Government Department of Health, Court Services and Offender Supervision Agency and United States Probation Office for the District of Columbia.

Testing and Prevention Program

FMCS currently provides HIV testing to eligible DC residents. The services are provided in-house as well as through our community outreach efforts at the Department of Motor Vehicles, Income Maintenance Center, and Needle Exchange programs. The target population for the program includes Wards 7 & 8, and other identified high incidence areas.

Social Services

Social services consist of quality improvement, case management, food bank and outreach services. Funding from these services are provided by the Department of Health and Human Services and the District of Columbia Government Department of Health.

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 2**      *Summaries of Significant Accounting Policies*

Basis of Presentation

The financial statements of FMCS have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations.” ASC 958-205 was effective for fiscal years beginning after December 2017, and it requires that net assets, revenues, and gains and losses, be classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of FMCS and changes therein are classified as follows:

**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 FMCS. FMCS’s board may designate assets without restrictions for specific operational purposes from time to time.

**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 FMCS or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. All of FMCS’s net assets with donor restrictions are temporary in nature.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Revenue Recognition

Grant revenue is recognized as the related expenses are incurred on an accrual basis. Grant revenue includes funding received from federal and local agencies under grant contracts. Grant advances received, but not yet earned, are reported as deferred revenue.

Fee-for-service revenue is recognized net of contractual allowances and adjustments, once the service has been provided.

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 2**      *Summaries of Significant Accounting Policies, Continued*

Revenue Recognition, Continued

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to FMCS's ongoing activities. Non-operating activities are limited to non-budget related activity and other activities considered to be of a more unusual or nonrecurring nature. During 2019 and 2018, there were no non-operating activities.

New Accounting Pronouncements

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made of Not-for-Profit Entities (Topic 958)*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and made primarily by not-for-profit organizations. It provided guidance for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. In addition, it clarifies whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The implementation of this ASU had no significant effect on the financial statements and disclosures in 2019.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. Five key steps will be required to assess revenue recognition along with enhanced disclosures. This standard was originally effective for periods beginning after December 31, 2018. See extended deadline in ASU No. 2020-05 note.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 2**      *Summaries of Significant Accounting Policies, Continued*

New Accounting Pronouncements, continued:

recognition of leases and note disclosure of certain information about lease arrangements. FASB ASC 842 is applicable to any entity that enters into a lease and applies to all leases and subleases of property, plant, and equipment. It does not apply to certain nondepreciable assets accounted for under other FASB ASC topics. The original effective date was for fiscal years beginning after December 15, 2019. See extended deadline in ASU No. 2020-05 note.

In June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*, 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. The ASU also deferred the effective date for applying ASC 842 by one year for entities within the “all other entities” category. ASU No. 2020-05 also deferred the effective dates for applying ASC 606 for certain entities. FMCS has not elected to early adopt the guidance and is currently evaluating the impact on the financial statements and related disclosures.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include: copier, supplies, telephone/communications, and depreciation, all of which are allocated on a full time equivalency (“FTE”) basis, and occupancy costs, which are allocated on a square footage basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, demand deposits and investments in money market accounts.

Concentration of Credit Risk

At times during the years ended December 31, 2019 and 2018, the organization maintained cash balances at financial institutions in excess of the Federal Deposit Insurance Corporations (FDIC) insurance limitation of \$250,000.

Concentration of Revenue Risk

For the years ended December 31, 2019 and 2018, FMCS received \$3,607,575 and \$3,440,990 in federal grant revenue, both from direct funding and pass-through grants. This represented 25% and 29%, respectively, of its support. A loss or material reduction in federal support could potentially have a serious effect on the services provided. However, by continuously meeting the terms of its

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 2**      *Summaries of Significant Accounting Policies, Continued*

Concentration of Revenue Risk, continued

grant awards, FMCS has developed a strong relationship with its granting agencies and does not foresee such a material reduction in award amounts.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, five years for property and equipment. The cost of leasehold improvements is amortized on a straight-line basis over the term of the lease or the useful life of the assets, whichever is shorter. FMCS capitalizes all assets that are \$5,000 and greater.

Repairs and maintenance are charged to operations when incurred. Betterments and renewals in excess of \$5,000 are capitalized. When property and equipment are sold or otherwise disposed of, the assets and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

Accounts Receivable, Allowance for Doubtful Accounts, Patient Revenue

The amount of accounts receivable reported represents balances due from third party payors for services provided, net of adjustments. Accounts receivable are reduced primarily by an allowance for doubtful accounts, based on past history. There are certain third party payors that will pay outstanding claims up to two years after the billing date. For most third party payors, claims that have been outstanding greater than 270 days are considered uncollectible and written off to bad debt.

The 2019 revenue related to third party payors includes \$833,221 of wrap around payments received during the year, related to 2016-2018. These amounts were not accrued in prior years. Also in 2019, FMCS changed their methods to determine and accrue outstanding estimated wrap around payments. A total of \$1,515,150 of accounts receivable, net consist of estimated wrap around payments due for 2019 patient services.

340B Pharmacy Receivable and Revenue

FMCS is enrolled in the federal 340B Drug Pricing Program. The program entitles the covered entity to receive discounts on all eligible covered drugs. FMCS has arrangements with four contract pharmacies to fill the prescriptions. An administrator processes bills and payments for two of the four contract pharmacies. The other two process their own claims and remit payment directly to FMCS. Revenue is recognized when the contract pharmacy or the administrator bills the insurance company for prescriptions filled during the period. The 340B pharmacy receivable is related to outstanding bills due from the contract pharmacy or the administrator.

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 2**      *Summaries of Significant Accounting Policies, Continued*

Income Taxes

FMCS is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes. Management believes all of FMCS's income is related to its exempt purpose and there are no material uncertain tax positions. Accordingly, no provision for federal and state income taxes is included in the financial statements.

FMCS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. FMCS believes it is no longer subject to income examinations for periods prior to 2016.

Allocation of Indirect Costs

The allocation of indirect costs is based on the direct allocation method. Under this method, the company's costs for the period are separated as either direct or indirect. Direct costs are those that can be identified specifically with a particular project or other activity. However, a cost may not be assigned to a project as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been allocated to a project as an indirect cost. Indirect costs are allocated on a pro-rata basis using modified costs as the distribution base. The computed, pro-rata percentages for each program cannot exceed the indirect cost rate allowable under the relative program. Unallowable costs are excluded from direct and indirect cost pools and not allocated.

Restatement

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

**Note 3**      *Property and Equipment, Net*

Major categories of property and equipment, net are as follows:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 138,041	\$ 138,041
Leasehold improvements	3,441,671	1,276,799
Vehicles	381,444	373,444
Less: accumulated depreciation	<u>(1,535,746)</u>	<u>(1,379,854)</u>
Property and equipment, net	<u>\$ 2,425,410</u>	<u>\$ 408,430</u>

Depreciation and amortization expense totaled \$155,891 and \$131,680 for the years ended December 31, 2019 and 2018, respectively.

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 4**      *Net Assets - With Donor Restrictions*

Donor Restricted Net Assets consist of the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes		
Testing and Prevention Program activities:		
Nursing services	\$ 31,446	\$ 42,197
Outreach services	24,849	27,918
Behavioral Health Program activities:		
Substance abuse treatment services	158,169	50,000
General and Administrative activities:		
General Operations	-	25,000
Total net assets with donor restrictions	<u>\$ 214,464</u>	<u>\$ 145,115</u>

Releases from Donor Restricted Net Assets, are as follows:

	<u>2019</u>	<u>2018</u>
Releases from restrictions:		
Subject to expenditure for specified purpose		
Testing and Prevention Program activities:		
Nursing services	\$ 10,751	\$ 19,829
Outreach services	86,470	36,040
Behavioral Health Program activities:		
Substance abuse treatment services	41,830	-
General and Administrative activities		
General operations	<u>25,000</u>	<u>-</u>
Total releases from restrictions	<u>\$ 164,051</u>	<u>\$ 55,869</u>

**Note 5**      *Line of Credit*

FMCS has a line of credit (LOC) available in the amount of \$250,000. The LOC is renewed yearly, conditioned upon FMCS paying the renewal fee. The LOC is primarily used to cover grant expenses when there is a timing delay in grant cost reimbursements. Interest is at the rate of 4.25% annually on the outstanding balance. There is no outstanding balance as of December 31, 2019 and 2018, respectively.

**Note 6**      *Deferred Revenue*

Deferred revenue consists of funds received in advance that were not fully expended as of December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
NIH	\$ 53,008	\$ 53,008
340b Pharmacy	-	191,723
Total Deferred Revenue	<u>\$ 53,008</u>	<u>\$ 244,731</u>

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 7      Liquidity**

FMCS's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash and cash equivalents	\$	690,702
Accounts receivable, net		2,163,299
340B Pharmacy receivable		384,192
Contracts and grants receivable		1,501,280
Prepaid expenses		16,497
Other receivable		1,374
Total	\$	<u>4,757,344</u>

As part of FMCS's liquidity management rule its financial assets are structured to be available as the general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, a LOC in the amount of \$250,000 is available.

**Note 8      Leases**

Operating Leases

FMCS leases office space under two operating leases with escalating clauses, and termination dates in July 2034 and December 2026. The rental expense for all operating leases totaled \$846,005 and \$865,488 for the years ended 2019 and 2018, respectively.

Minimum future lease payments under the non-cancelable operating leases are as follows:

Years Ending December 31:

2020	\$	759,762
2021		859,613
2022		924,922
2023		960,084
2024		996,301
Thereafter		<u>10,202,333</u>
Total	\$	<u>14,703,015</u>

Lessor Financed Improvements

Leasehold improvements costing \$2,155,099, with a net book value of \$2,083,262 at December 31, 2019, were financed under arrangements with the landlord. The note has a 15 year term, expiring the same date as the lease, and an annual interest rate of 8%. Future minimum payments required under these arrangements as of December 31, 2019, are as follows:

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**Note 8**      *Leases, continued*

Lessor Financed Improvements, continued

Year ending December 31	Principal
2020	\$ 80,691
2021	87,388
2022	94,641
2023	102,496
2024	111,004
Thereafter	1,640,883
	2,117,103
Less: current portion	(80,691)
	\$ 2,036,412

Interest expense on the lessor financed improvements was \$85,576 for the year ended December 31, 2019.

**Note 9**      *Pension Plan*

FMCS sponsors a defined contribution pension plan that covers substantially all salaried employees. Contributions are based on 5% of employees' annual compensation. Employer contributions totaled \$180,841 and \$191,992 for the years ended December 31, 2019 and 2018, respectively.

**Note 10**      *Subsequent events*

The COVID-19 outbreak in the United States has caused business disruption through business closures and other restrictions. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and restrictions. Although the related financial impact and duration cannot be reasonably estimated at this time, FMCS does not expect a significant negative impact on their financial results. To further mitigate financial risk, FMCS applied for and received a loan of \$1,153,700, made available through the CARES Act. If FMCS meets certain requirements within the prescribed period of receiving the loan, it is possible most or all of the loan will be forgiven.

FMCS evaluated its December 31, 2019 financial statements for subsequent events through December 24, 2020, the date the financial statements were available to be issued, noting no additional subsequent events required disclosure in these financial statements.

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures
<i>US Department of Health and Human Services</i>			
<b>Health Center Program</b>	93.224	-	\$ 2,152,132
<b>Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease</b>	93.918	-	651,083
<b>HIV Prevention Activities-Nongovernmental</b>	93.939	-	<u>326,003</u>
			3,129,218
<i>Pass-through programs:</i>			
<i>DC Department of Health</i>			
<b>HIV Care Formula Grants</b>	93.917	19C408	329,845
<i>Howard University</i>			
<b>Substance Abuse and Mental Health Services Projects</b>	93.243	1H79SM080519	53,517
<i>NIH</i>			
<b>Allergy and Infectious Disease Research</b>	93.855	5UM1A1069503	23,967
<i>Rutgers, The State University of New Jersey</i>			
<b>Special Projects of National Significance</b>	93.928	U90HA32147	<u>71,028</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 3,607,575</u></u>

**FAMILY AND MEDICAL COUNSELING SERVICE, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2019**

**Note 1**      *Basis of Presentation*

The accompanying schedule of expenditures of federal awards includes the grant activity of FMCS and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirements for federal awards* (Uniform Guidance). The amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. FMCS elected to not use the 10% 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*

Board of Directors  
Family and Medical Counseling Service, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Family and Medical Counseling Service, Inc. ("FMCS"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 24, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered FMCS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FMCS's internal control. Accordingly, we do not express an opinion on the effectiveness of FMCS'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

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

## **FMCS's Response to Finding**

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

## **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.

*Milligan & Company, LLC*

Washington, DC  
December 24, 2020



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

Board of Directors  
Family and Medical Counseling Service, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Family and Medical Counseling Service, Inc.'s ("FMCS")'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 FMCS's major federal programs for the year ended December 31, 2019. FMCS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of FMCS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of 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 FMCS'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 FMCS's compliance.

## **Opinion on the Major Federal Program**

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

## **Report on Internal Control over Compliance**

Management of FMCS 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 FMCS'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 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 FMCS'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.

*Milligan & Company, LLC*

Washington, DC  
December 24, 2020



FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 December 31, 2019

PART 1: Summary of Auditor’s Results

1. The auditor’s report expresses an unmodified opinion on the financial statements of FMCS.
2. There is one material weakness reported in the “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*.”
3. No instances of noncompliance material to the financial statements of FMCS, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs are reported in the “Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance.”
5. The auditor’s report on compliance for the major federal award programs for FMCS expresses an unmodified opinion on the major federal programs.
6. There are no audit findings reported that are required to be disclosed in accordance with 2 CFR 200.516(a).
7. The programs identified and tested as major federal programs are:

<b>Agency</b>	<b>Name of Federal Program</b>	<b>CFDA #</b>
U.S. Department of Health and Human Services	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918
	HIV Care Formula Grants	93.917

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. FMCS was determined to qualify as a low-risk auditee.

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2019

PART 2: Findings – Financial Statement Audit (GAGAS)

**Finding 2019-001**

*Criteria:* Internal control is a process—effected by those charged with governance, management, and other personnel—designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

*Condition:* Although third party payor accounts receivable balances were analyzed and adjusted prior to the start of the audit, subsequent receipts needed to be reviewed further to determine collectibility and reasonableness of the balance. A significant adjustment was made to the accounts receivable balance at the end of the audit, as a result of additional analysis.

*Effect:* Periodic reporting may be inaccurate if analysis is not done timely.

*Cause:* Third party accounts receivables and allowances were not adequately analyzed and adjusted timely.

*Questioned Cost:* N/A

*Context:* During the analysis of accounts receivable, after questions were raised by the audit regarding the subsequent collection of the receivable balance, management performed another analysis and provided a significant adjustment to reduce accounts receivable and revenue.

*Identification of Repeat Finding:* This finding was originally reported in 2018.

*Recommendation:* We recommend that FMCS run subsequent receipt reports as late in the following year as possible, as a part of analyzing the reasonableness of accounts receivable.

*View of responsible officials and planned corrective actions:* FMCS hired a Controller in May 2020, whose responsibility is to ensure the accuracy of the AR balance. In addition to making great improvements in having our providers to close their notes timely in 2019, FMCS has also contacted our electronic health records administrator in an effort to implement an interface with our new accounting system.

FAMILY AND MEDICAL COUNSELING SERVICE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2019

PART 3: Audit Findings and Questioned Costs (Major Programs – Uniform Guidance)

None reported.

PART 4: Summary of Prior Audit Findings

<b>Finding Number</b>	<b>Program CFDA</b>	<b>Type of Finding</b>	<b>Current Status</b>
2018-001	N/A-GAGAS	Timely analysis of accounts receivable.	The accounts receivable balance was analyzed and adjusted prior to the auditors receiving the trial balance, however, further significant adjustments were posted during the audit after collectability was discussed. See current year finding 2019-001.