

Carolina Health Centers, Inc.

Report on Financial Statements

For the years ended May 31, 2020 and 2019

Carolina Health Centers, Inc.

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Independent Auditor's Report

The Board of Directors
Carolina Health Centers, Inc.
Greenwood, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Carolina Health Centers, Inc. (the Center), which comprise the statements of financial position as of May 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of May 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2020, on our consideration of the Center's internal control over financial reporting and 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 the 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 the Center's internal control over financial reporting and compliance.



Greenwood, South Carolina
August 26, 2020

Carolina Health Centers, Inc.**Statements of Financial Position****May 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 5,379,006	\$ 1,791,971
Patient accounts receivable - net	1,129,154	1,996,457
Grant receivables	177,482	123,832
Other accounts receivable	149,401	41,368
Inventory	770,669	719,879
Other assets	193,593	150,125
Property and equipment - net	8,347,155	8,195,203
Total assets	<u>\$ 16,146,460</u>	<u>\$ 13,018,835</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 302,677	\$ 269,132
Accrued expenses	512,366	360,837
Accrued leave	537,440	461,293
Deferred revenue	17,286	14,041
Payroll Protection Program (PPP) note payable	1,500,000	-
Long-term debt	2,715,425	2,334,670
Total liabilities	<u>5,585,194</u>	<u>3,439,973</u>
Net assets		
Without donor restriction	10,534,398	9,551,994
With donor restriction	26,868	26,868
Total net assets	<u>10,561,266</u>	<u>9,578,862</u>
Total liabilities and net assets	<u>\$ 16,146,460</u>	<u>\$ 13,018,835</u>

See Notes to Financial Statements

Carolina Health Centers, Inc.

Statements of Activities

For the years ended May 31, 2020 and 2019

	2020			2019		
	Without Donor Restriction	With Donor Restriction	2020 Total	Without Donor Restriction	With Donor Restriction	2019 Total
Revenues and support						
Grant revenue	\$ -	\$ 6,175,071	\$ 6,175,071	\$ -	\$ 6,111,855	\$ 6,111,855
Patient revenue - net	12,029,641	-	12,029,641	12,579,340	-	12,579,340
Pharmacy sales - net	17,179,015	-	17,179,015	13,636,191	-	13,636,191
Rental and other income	57,591	-	57,591	153,127	-	153,127
Net assets released from restrictions	6,175,071	(6,175,071)	-	6,133,185	(6,133,185)	-
Total revenues and support	35,441,318	-	35,441,318	32,501,843	(21,330)	32,480,513
Expenses						
Program services						
Health care services	19,378,974	-	19,378,974	18,545,038	-	18,545,038
Cost of pharmacy sales	9,631,364	-	9,631,364	8,743,205	-	8,743,205
Supporting services	5,452,163	-	5,452,163	5,511,539	-	5,511,539
Total expenses	34,462,501	-	34,462,501	32,799,782	-	32,799,782
Excess/(deficit) of revenues and support over/(under) expenses						
	978,817	-	978,817	(297,939)	(21,330)	(319,269)
Other income and expenses						
Investment income	3,587	-	3,587	16,923	-	16,923
Total other income and expenses	3,587	-	3,587	16,923	-	16,923
Changes in net assets						
	982,404	-	982,404	(281,016)	(21,330)	(302,346)
Net assets, beginning of year						
	9,551,994	26,868	9,578,862	9,833,010	48,198	9,881,208
Net assets, end of year						
	\$ 10,534,398	\$ 26,868	\$ 10,561,266	\$ 9,551,994	\$ 26,868	\$ 9,578,862

See Notes to Financial Statements

Carolina Health Centers, Inc.**Statements of Functional Expenses****For the years ended May 31, 2020 and 2019**

	2020			2019		
	Program Services	Supporting Services	2020 Total	Program Services	Supporting Services	2019 Total
Building rent	\$ 192,165	\$ -	\$ 192,165	\$ 175,413	\$ -	\$ 175,413
Contractual services	496,732	403,733	900,465	812,487	457,635	1,270,122
Cost of pharmacy sales	9,631,364	-	9,631,364	8,743,205	-	8,743,205
Depreciation	605,996	82,636	688,632	454,677	62,001	516,678
Dues and subscriptions	63,194	21,065	84,259	71,963	23,988	95,951
Fringe benefits	2,161,355	840,527	3,001,882	2,046,693	795,936	2,842,629
Insurance	-	112,125	112,125	-	75,746	75,746
Interest and other charges	90,387	31,758	122,145	66,823	23,479	90,302
Miscellaneous	58,958	42,694	101,652	55,573	40,242	95,815
Personnel	12,882,475	3,011,021	15,893,496	12,258,482	3,055,111	15,313,593
Printing and advertising	178,304	65,948	244,252	216,843	80,202	297,045
Professional fees	290,593	113,009	403,602	299,419	116,441	415,860
Repairs and maintenance	816,016	190,020	1,006,036	518,159	177,282	695,441
Supplies	1,213,835	-	1,213,835	1,315,752	-	1,315,752
Telephone and postage	9,790	263,581	273,371	8,890	250,662	259,552
Travel and training	171,062	257,589	428,651	105,691	337,461	443,152
Utilities	148,112	16,457	164,569	138,173	15,353	153,526
Total expenses	\$ 29,010,338	\$ 5,452,163	\$ 34,462,501	\$ 27,288,243	\$ 5,511,539	\$ 32,799,782

See Notes to Financial Statements

Carolina Health Centers, Inc.**Statements of Cash Flows****For the years ended May 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating activities		
Increase/(decrease) in net assets	\$ 982,404	\$ (302,346)
Adjustments to reconcile change in net assets to cash provided by/(used for) operating activities:		
Depreciation	688,632	516,678
Changes in assets and liabilities		
Accounts receivable	1,305,206	262,752
Allowance for uncollectible accounts	(437,903)	(190,697)
Grants receivables	(53,650)	(42,333)
Other accounts receivables	(108,033)	24,218
Inventory	(50,790)	(126,182)
Other assets	(43,468)	(64,654)
Accounts payable	33,545	(94,908)
Accrued expenses	151,529	39,858
Accrued leave	76,147	45,946
Deferred revenue	3,245	(17,414)
Net cash provided by/(used for) operating activities	<u>2,546,864</u>	<u>50,918</u>
Investing activities		
Purchase of property and equipment	(840,584)	(1,102,987)
Net cash provided by/(used for) investing activities	<u>(840,584)</u>	<u>(1,102,987)</u>
Financing activities		
Proceeds from long term debt	2,148,156	497,744
Payments on long term debt	(267,401)	(195,028)
Net cash provided by/(used for) financing activities	<u>1,880,755</u>	<u>302,716</u>
Net increase/(decrease) in cash and cash equivalents	3,587,035	(749,353)
Cash and cash equivalents, beginning of year	<u>1,791,971</u>	<u>2,541,324</u>
Cash and cash equivalents, end of year	<u>\$ 5,379,006</u>	<u>\$ 1,791,971</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 122,149</u>	<u>\$ 89,303</u>

See Notes to Financial Statements

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies

Carolina Health Centers, Inc. (the Center) was established as a non-profit corporation pursuant to the laws and regulations of the State of South Carolina on June 28, 1977, to assess the medical needs and develop a comprehensive program designed to improve primary medical care services to McCormick, Edgefield, Greenwood, Abbeville, Laurens and Saluda counties. Since being established, the Center has received federal funds to service the needs of this area. The Center extends credit to patients served.

Financial statement presentation:

The financial statements of the Center are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Center reports information regarding its financial position and activities according to two classes of net assets as follows:

- a. **Net Assets without Donor Restrictions**—These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program related services, raising contributions, and performing administrative functions. This class of net assets accounts for all resources over which the Board of Directors has discretionary control to use in carrying on the operations of the Center in accordance with its charter and bylaws. It also accounts for the Center's net investment in fixed assets. In addition, it includes self-imposed limits such as voluntary resolutions by the Board of Directors.
- b. **Net Assets with Donor Restrictions**—These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted. The Center had \$26,868 of donor restricted net assets at May 31, 2020 and 2019, respectively.

Cash and cash equivalents:

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with original maturities of less than 90 days.

Contributions:

Contributions received are recorded as unrestricted or restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as restricted support that increases those net asset classes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributed property and equipment is recorded at fair value at the date of donation.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Revenue:

Grants

The Center recognizes Federal grant awards when they are earned. Thus, Federal grant awards are recognized only to the extent that allowable grant expenses have been incurred. Federal grant funds received prior to incurring allowable grant program expenses are recorded as deferred grant revenue.

Patient service revenue

Patient service revenue is recorded at amounts that the Center anticipates collecting from Medicare, Medicaid, private or commercial insurance, or individuals, less a provision for uncollectible accounts. The rates charged to individuals are determined by an income discount scale, which is based on federal poverty level guidelines.

Revenues generated from patients by payor are as follows:

	<u>2020</u>	<u>2019</u>
Medicare	23%	33%
Medicaid	33	28
Commercial insurance	24	22
Self-pay	20	17
	<u>100%</u>	<u>100%</u>

Management determines the allowance for uncollectible accounts by regularly evaluating receivables and considering aging of receivable balances and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received.

Third party contractual adjustments:

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on final settlements.

Performance indicator:

The performance indicator is operating income. Changes in net assets without donor restrictions, which are excluded from operating income, include investment income, equity investment activity and gain or loss on disposal of fixed assets.

Inventories:

Inventories of pharmaceuticals and other supplies are stated at the lower of cost (first-in, first-out) or market.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided for by the straight-line method, based on the estimated useful lives of the respective assets. Interest costs, if any, less related interest income, incurred during the construction period are capitalized as a cost of the constructed assets. The Center capitalizes assets that have a useful life of more than one year and cost more than \$5,000.

Income taxes:

The Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Management evaluates any uncertain tax positions or unrecognized tax benefits or liabilities that may exist. Management does not believe that any material uncertain tax positions or unrecognized tax benefits or liabilities exist for the years ended May 31, 2020 or 2019. The Center's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. With few exceptions, the Center is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2017.

Other investments:

Generally, investments in which the Center has significant influence, but not control, and an ownership interest of between 20 percent and 50 percent, are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee. The investment is reduced to zero when losses exceed the total investment. Losses not recognized offset future profits from the investment.

Investments in which the entity does not have significant influence, generally less than 20 percent of the voting rights are accounted for using the cost method of accounting. Under the cost method, the Center records the investment at cost and recognizes as income the dividends received that are distributed from the net accumulated earnings of the investee since the date of investment.

Compensated absences:

Accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to employees. Full-time employees of the Center accrue vacation at various rates based on the employee's number of service years. Annual leave may be accrued only up to a maximum number of hours based on an employee's number of years of service. Upon termination or retirement, employees are paid for unused, accumulated vacation. The liability for accumulated vacation leave amounted to \$537,440 and \$461,293 at May 31, 2020 and 2019, respectively.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 1. Summary of Significant Accounting Policies, Continued

Advertising costs:

Advertising costs, consisting primarily of advertisement of services offered by the Center, are expensed as incurred. Advertising expense for the years ended May 31, 2020 and 2019, was \$198,716 and \$239,009, respectively.

Expense allocation:

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Note 2. Concentrations of Credit Risk

As of May 31, 2020, the Center's carrying amount of deposits was \$5,376,505 and the bank balances were \$5,455,826 at various financial institutions. The Center had petty cash totaling \$2,501 as of May 31, 2020. As of May 31, 2020, the Center had deposits totaling \$4,880,884 that were not covered by Federal Depository Insurance Corporation (FDIC) insurance. As of May 31, 2019, the Center's carrying amount of deposits was \$1,786,658 and the bank balances were \$1,912,990 at various financial institutions. The Center had petty cash totaling \$5,313 as of May 31, 2020. As of May 31, 2019, the Center had deposits totaling \$552,784 that were not covered by Federal Depository Insurance Corporation (FDIC) insurance.

Note 3. Investments

The Center has a 30.77 percent interest in AMICUS Health, LLC (AMICUS). AMICUS Health, LLC was formed to develop diversified revenue streams to support member health centers' non-profit mission and provide laboratory services for each member health center. The Center's investment is accounted for using the equity method of accounting. AMICUS began operations during the year ended May 31, 2014. Through May 31, 2020, the Center's investment was \$100,000, consisting of the original investment. In August 2019, AMICUS ceased performing lab tests. Between August 2019 and May 2020, AMICUS disposed of all assets except \$122,833 in a local checking account. AMICUS expects no additional liabilities arising from an IRS income tax filing matter and once that matter has been resolved, AMICUS will distribute the remaining \$122,833 on a pro rata basis to the its members. Due to the uncertainty that exists as of May 31, 2020, the Center has recorded an allowance equal to its initial investment in AMICUS.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 3. Investments, Continued

The Center also has an investment in the common stock of Community Integrated Management Services, LLC (CIMS). CIMS was formed to develop and implement clinical and financial protocols that will provide enhanced clinical services to the patients that each member services, participate in managed care contracts on behalf of its members, and provide more efficient clinical services to the patients of each member through standardized clinical protocols and outcomes. As the Center owned less than 20 percent of the common stock at May 31, 2020 and 2019, the investment was accounted for using the cost method of accounting. The carrying value of the investment was \$16,379 at May 31, 2019 and 2018, respectively, and is recorded in other assets.

Note 4. Patient Accounts Receivable

Accounts receivable balances for patient service fees are summarized as follows at May 31:

	<u>2020</u>	<u>2019</u>
Patient fees	\$ 2,701,247	\$ 4,118,148
Pharmacy receivables	545,889	434,194
Less: Allowance for contractual adjustments	(555,069)	(724,153)
Allowance for uncollectible accounts	<u>(1,562,913)</u>	<u>(1,831,732)</u>
Patient accounts receivable - net	<u>\$ 1,129,154</u>	<u>\$ 1,996,457</u>

Note 5. Property and Equipment

A summary of property and equipment is as follows at May 31:

	<u>2020</u>	<u>2019</u>
Land, building and improvements	\$ 9,846,031	\$ 9,838,228
Capital projects in process	-	959,060
Furniture and equipment	4,036,654	2,307,766
Automobiles	<u>317,664</u>	<u>254,711</u>
Total	14,200,349	13,359,765
Less: Accumulated depreciation	<u>(5,853,194)</u>	<u>(5,164,562)</u>
Property and equipment - net	<u>\$ 8,347,155</u>	<u>\$ 8,195,203</u>

The following is a summary of the estimated useful lives of the property, plant and equipment used to determine depreciation:

Land, building and improvements	15-39 years
Furniture and equipment	3-10 years
Automobiles	5 years

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 6. Payroll Protection Program (PPP) Note Payable

In April 2020, the Center applied for and received loan proceeds in the amount of \$1,500,000 under the Paycheck Protection program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after either eight or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight- or twenty-four-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Center intends to use the proceeds for purposes consistent with the PPP guidelines. While the Center believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the Center cannot assure that the Center will not take actions that could cause the Center to be ineligible for forgiveness of the loan, in whole or in part.

As of May 31, 2020, the Center has not submitted its application for loan forgiveness but intends to do so before the deadline set forth for loan forgiveness consideration. Therefore, the Center has recorded a long-term liability in the amount of \$1,500,000 as of May 31, 2020.

Note 7. Long-term Debt and Obligations

Notes payable consist of the following at May 31:

	<u>2020</u>	<u>2019</u>
Note payable to a financial institution in monthly installments of \$2,324 through July 2029, including interest at 4.25%. Collateralized by building and land.	\$ 212,652	\$ 239,585
Note payable to a financial institution in monthly installments of \$4,905 through October 2026, including interest at 5.29%. Collateralized by building and land.	318,877	359,264
Note payable to a financial institution in monthly installments of \$1,346 through October 2026, including interest at 5.29%. Collateralized by a building.	87,515	98,599
Note payable to a financial institution in monthly installments of \$21,294 through December 2024, including interest at 4.2%. Collateralized by building, furniture and fixtures.	1,059,184	497,744
Note payable to a financial institution in monthly installments of \$10,021 through September 2028, including interest at 4.00%. Collateralized by building, land, furniture and fixtures and assignment of rents, revenues and fees.	849,066	932,922
Note payable to the USDA in monthly installments of \$2,237 through September 2028, including interest at 4.25%. Collateralized by a building.	<u>188,131</u>	<u>206,556</u>
Total	<u>\$ 2,715,425</u>	<u>\$ 2,334,670</u>

One of the Center's debt agreements requires the Center to meet certain covenants which include limitations on capital expenditures. The Center's capital expenditures were within those limitations for the years ending May 31, 2020 and 2019, respectively.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 7. Long-term Debt and Obligations, Continued

The maturities of these notes payable are as follows:

	<u>Amount</u>
2021	\$ 394,137
2022	411,798
2023	430,114
2024	449,254
2025	355,973
Thereafter	<u>674,149</u>
	<u>\$ 2,715,425</u>

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at May 31:

	<u>2020</u>	<u>2019</u>
Escrow balances required by USDA loan	<u>\$ 26,868</u>	<u>\$ 26,868</u>
	<u>\$ 26,868</u>	<u>\$ 26,868</u>

Note 9. Commitments, Contingencies, Risks and Uncertainties

The Center is subject to potential credit risk related to accounts receivable from patients and third-party payors. Third-party payors are primarily Medicare, Medicaid, Blue Cross of South Carolina and affiliates and other commercial insurance, which provide reimbursement on patient accounts on a regular basis.

The mix of receivables from patient and third-party payors are as follows (presented at gross receivable amount) at May 31:

	<u>2020</u>	<u>2019</u>
Medicare	21%	21%
Medicaid	29	29
Other commercial insurance	14	13
Self-pay	<u>36</u>	<u>37</u>
	<u>100%</u>	<u>100%</u>

Federally funded grant programs are routinely subject to audits by various funding agencies. Such audits could result in claims against the Center's resources. No audits have occurred as of the date of this report; therefore, no provision has been made for any liabilities that may arise since the amounts, if any, cannot be determined.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 9. Commitments, Contingencies, Risks and Uncertainties, Continued

The Center leases a clinic facility at the Laurens County Memorial Hospital on a month-to-month basis for \$2,200 per month. Under terms of the lease, the tenant is required to pay all utilities, property taxes and maintenance on the property. The Center also leases a clinic facility in McCormick under a lease which expires in September of 2040 with a current monthly payment of \$11,916. The Center also leases a facility in Greenwood under a lease which expires March 15, 2022 with a current yearly payment of \$30,000. The lease has an option to extend for an additional three years at the conclusion of the initial lease term. Lease expense was \$192,165 and \$175,413 as of May 31, 2020 and 2019, respectively.

Approximate minimum lease payments at May 31, 2020, are as follows:

	<u>Amount</u>
2021	\$ 172,996
2022	167,996
2023	142,996
2024	142,996
2025	142,996
2026-2030	714,980
2031-2035	714,980
2036-2040	714,980
2041-2045	47,664
Total lease payments	<u>\$ 2,962,584</u>

The 2019 novel coronavirus ("COVID-19"), has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Center's and its customer's costs, demand for the Center's products and services, and the U.S. economy. These conditions could adversely affect the Center's business, financial condition and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Center's operations or other businesses of the Center's customers and suppliers, which could significantly disrupt the Center's operations. The extent of the adverse impact of the COVID-19 outbreak on the Center can't be predicted at this time.

Note 10. Retirement Plan

The Center provides a Tax-Sheltered Annuity Retirement Plan for all eligible employees. The Center matches up to 2.5 percent of the first 5.0 percent of employee wages for all employees participating in the plan. Retirement plan expense for the years ended May 31, 2020 and 2019, was \$111,751 and \$213,602, respectively.

Note 11. Medical Malpractice Insurance and Related Claims

As a Federally Qualified Health Center, the Center is covered under the Federal Tort Claims Act and will be defended by the federal government should claims occur.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2020 and 2019

Note 12. Related Party Transactions

The Carolina Health Centers Foundation (the Foundation) is a separate legal entity that exists solely for the benefit of the Center. During the years ended May 31, 2020 and 2019, there was no activity in the Foundation.

The Center incurred payroll costs for AMICUS that were to be reimbursed by AMICUS. The amounts due from AMICUS for payroll were \$0 and \$27,540 as of May 31, 2020 and 2019, respectively.

Note 13. Liquidity and Funds Available

Financial assets:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,379,006	\$ 1,791,971
Patient accounts receivable - net	1,129,154	1,996,457
Grant receivables	177,482	123,832
Other accounts receivable	149,401	41,368
Inventory	<u>770,669</u>	<u>719,879</u>
Financial assets, at year-end	<u>7,605,712</u>	<u>4,673,507</u>
Less those unavailable for general expenditure within one year due to:		
Funds restricted for escrow balances required by USDA loan	<u>(26,868)</u>	<u>(26,868)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,578,844</u>	<u>\$ 4,646,639</u>

Note 14. Subsequent Events

In preparing these financial statements, the Center's management has evaluated events and transactions for potential recognition through the date of the independent auditor's report, the date the financial statements were available for issuance.



**Independent Auditor’s Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
Carolina Health Centers, Inc.
Greenwood, South Carolina

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 Carolina Health Centers, Inc. (the Center), which comprise the statements of financial position as of May 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 26, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ABC 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 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 Center’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Manley Garwin, LLC". The signature is written in a cursive style and is centered within a light gray rectangular box.

Greenwood, South Carolina
August 26, 2020



**Independent Auditor's Report on Compliance for Each Major
Federal Program and Report on Internal Control over Compliance
Required by the Uniform Guidance**

The Board of Directors
Carolina Health Centers, Inc.
Greenwood, South Carolina

Report on Compliance for Each Major Federal Program

We have audited Carolina Health Centers, Inc.'s (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended May 31, 2020. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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 Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2020.

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 2020-001. Our opinion on each major federal program is not modified with respect to this matter.

The Center's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center'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 Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-001, which we consider to be a material weakness.

The Center'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 Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.



Greenwood, South Carolina
August 26, 2020

Carolina Health Centers, Inc.

Schedule of Expenditures of Federal Awards

For the year ended May 31, 2020

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Health Centers Cluster		
U.S. Department of Health and Human Services		
Direct Awards		
Consolidated Health Centers	93.224	\$ 4,503,219
Total Health Centers Cluster		<u>4,503,219</u>
Other Programs		
U.S. Department of Health and Human Services		
Direct Awards		
Maternal, Infant, and Early Childhood Home Visiting	93.870	<u>1,192,677</u>
Total U.S. Department of Health and Human Services - Other Programs		<u>1,192,677</u>
Total federal assistance expended		<u>\$ 5,695,896</u>

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Carolina Health Centers, Inc. under programs of the federal government for the year ended May 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Carolina Health Centers, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Carolina Health Centers, Inc.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Indirect Cost Rates

Carolina Health Centers has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Loans Outstanding

The Center had the following loan balance outstanding at May 31, 2020.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Facilities Loans and Grants	10.766	\$ 188,131

Carolina Health Centers, Inc.
Schedule of Findings and Questioned Costs
 May 31, 2020

Section I. Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

- Material weakness identified? yes no
- Significant deficiency identified? yes none reported

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

CFDA #	Program / Cluster Name
93.870	Maternal, Infant, and Early Childhood Home Visiting

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? yes no

Section II. Financial Statement Findings

None reported.

Carolina Health Centers, Inc.
Schedule of Findings and Questioned Costs, Continued
May 31, 2020

Section III. Federal Award Questioned Costs & Findings

2020-001: Grant Compliance

Information on the federal program: 93.870 Maternal, Infant, and Early Childhood Home Visiting

Criteria or specific requirement: Internal controls should be in place to ensure that all compliance requirements are adhered to for each federal program/award.

Condition: The Center failed to follow the compliance requirement related to annual background checks and sex offender registry checks as required by pass-through organization.

Context: Annual background and sex offender registry checks were not completed for each employee of the Maternal, Infant, and Early Childhood Home Visiting program on an annual basis.

Effect: The Center was not in compliance with the special tests required by the pass-through organization.

Cause: The Center failed to identify the compliance requirement in the grantor document.

Recommendation: We recommend Center personnel review and revise procedures necessary to ensure proper controls are in place related to any applicable laws, regulations, and compliance requirements.

Views of responsible officials and planned corrective actions: The Center's management agrees with the finding and will implement measures to review and revise procedures necessary to ensure proper controls are in place related to any applicable laws, regulations or compliance requirements for each grant received.

Carolina Health Centers, Inc.
Summary Schedule of Prior Audit Findings
May 31, 2020

Prior Audit Findings:

None reported.