

Carolina Health Centers, Inc.

Report on Financial Statements

For the years ended May 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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

Supplementary 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*, 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 3, 2017 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.

A handwritten signature in black ink that reads "Manley Garvin, LLC". The signature is written in a cursive, flowing style.

Greenwood, South Carolina
August 3, 2017

Carolina Health Centers, Inc.**Statements of Financial Position****May 31, 2017 and 2016**

	2017	2016
Assets		
Cash and cash equivalents	\$ 3,074,172	\$ 2,242,195
Patient accounts receivable - net	1,634,106	1,539,610
Grant receivables	84,516	143,582
Other accounts receivable	21,083	73,103
Inventory	547,690	571,565
Other assets	46,130	49,837
Property and equipment - net	7,503,799	7,692,659
Total assets	<u>\$ 12,911,496</u>	<u>\$ 12,312,551</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 249,937	\$ 300,133
Accrued expenses	686,820	650,979
Accrued leave	341,391	291,717
Deferred revenue	106,744	177,030
Long-term debt	2,255,192	3,184,229
Total liabilities	<u>3,640,084</u>	<u>4,604,088</u>
Net assets		
Unrestricted	9,144,544	7,579,465
Temporarily restricted	126,868	128,998
Total net assets	<u>9,271,412</u>	<u>7,708,463</u>
Total liabilities and net assets	<u>\$ 12,911,496</u>	<u>\$ 12,312,551</u>

See Notes to Financial Statements

Carolina Health Centers, Inc.**Statements of Activities****For the years ended May 31, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	2017 Total	Unrestricted	Temporarily Restricted	2016 Total
Revenues and support						
Grant revenue	\$ -	\$ 5,633,389	\$ 5,633,389	\$ -	\$ 5,301,890	\$ 5,301,890
Patient revenue - net	12,870,274	-	12,870,274	12,702,201	-	12,702,201
Pharmacy sales - net	11,948,125	-	11,948,125	11,528,184	-	11,528,184
Rental and other income	44,661	-	44,661	144,425	-	144,425
Net assets released from restrictions	5,635,519	(5,635,519)	-	5,584,198	(5,584,198)	-
Total revenues and support	30,498,579	(2,130)	30,496,449	29,959,008	(282,308)	29,676,700
Expenses						
Program services						
Health care services	14,580,045	-	14,580,045	13,916,638	-	13,916,638
Cost of pharmacy sales	7,917,685	-	7,917,685	7,661,218	-	7,661,218
Supporting services	6,436,297	-	6,436,297	6,110,003	-	6,110,003
Total expenses	28,934,027	-	28,934,027	27,687,859	-	27,687,859
Excess/(deficit) of revenues and support over/(under) expenses	1,564,552	(2,130)	1,562,422	2,271,149	(282,308)	1,988,841
Other income and expenses						
Impairment charge on equity investment	-	-	-	(5,792)	-	(5,792)
Loss on disposal of equipment	(165)	-	(165)	(2,973)	-	(2,973)
Investment income	692	-	692	171	-	171
Total other income and expenses	527	-	527	(8,594)	-	(8,594)
Changes in net assets	1,565,079	(2,130)	1,562,949	2,262,555	(282,308)	1,980,247
Net assets, beginning of year	7,579,465	128,998	7,708,463	5,316,910	411,306	5,728,216
Net assets, end of year	\$ 9,144,544	\$ 126,868	\$ 9,271,412	\$ 7,579,465	\$ 128,998	\$ 7,708,463

See Notes to Financial Statements

Carolina Health Centers, Inc.**Statements of Functional Expenses****For the years ended May 31, 2017 and 2016**

	2017			2016		
	Program Services	Supporting Services	2017 Total	Program Services	Supporting Services	2016 Total
Building rent	\$ 205,831	\$ -	\$ 205,831	\$ 180,206	\$ -	\$ 180,206
Contractual services	518,825	352,278	871,103	589,369	361,461	950,830
Cost of pharmacy sales	7,917,685	-	7,917,685	7,661,218	-	7,661,218
Depreciation	431,864	58,891	490,755	472,820	64,475	537,295
Donated pharmaceuticals	2,130	-	2,130	27,101	-	27,101
Dues and subscriptions	80,893	26,965	107,858	67,382	22,461	89,843
Fringe benefits	1,797,617	699,073	2,496,690	1,746,019	679,007	2,425,026
Insurance	-	110,966	110,966	-	124,064	124,064
Interest and other charges	88,520	31,101	119,621	107,999	37,945	145,944
Miscellaneous	57,507	41,643	99,150	60,743	43,987	104,730
Personnel	8,935,384	4,110,503	13,045,887	8,244,589	3,878,534	12,123,123
Printing and advertising	258,237	95,512	353,749	220,463	81,541	302,004
Professional fees	249,003	96,835	345,838	260,252	101,209	361,461
Repairs and maintenance	518,070	201,910	719,980	407,582	193,413	600,995
Supplies	1,221,662	-	1,221,662	1,326,746	-	1,326,746
Telephone and postage	10,080	238,923	249,003	10,350	246,232	256,582
Travel and training	69,945	356,755	426,700	47,626	259,297	306,923
Utilities	134,477	14,942	149,419	147,391	16,377	163,768
Total expenses	\$ 22,497,730	\$ 6,436,297	\$ 28,934,027	\$ 21,577,856	\$ 6,110,003	\$ 27,687,859

See Notes to Financial Statements

Carolina Health Centers, Inc.**Statements of Cash Flows****For the years ended May 31, 2017 and 2016**

	2017	2016
Operating activities		
Increase/(decrease) in net assets	\$ 1,562,949	\$ 1,980,247
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	490,755	537,295
Loss on disposal of equipment	165	2,973
Changes in assets and liabilities		
Accounts receivable	(280,435)	(511,942)
Allowance for uncollectible accounts	185,939	34,854
Other receivables	111,086	(144,859)
Inventory	23,875	12,720
Other assets	3,707	(6,241)
Accounts payable	(50,196)	7,610
Accrued expenses	35,841	(121,654)
Accrued leave	49,674	26,065
Deferred revenue	(70,286)	(49,851)
Net cash provided by operating activities	<u>2,063,074</u>	<u>1,767,217</u>
Investing activities		
Purchase of property and equipment	(302,060)	(485,527)
Net cash used in investing activities	<u>(302,060)</u>	<u>(485,527)</u>
Financing activities		
Payments on long term debt	(929,037)	(256,809)
Payments on capital lease	-	(289,199)
Net cash used in financing activities	<u>(929,037)</u>	<u>(546,008)</u>
Net increase in cash and cash equivalents	831,977	735,682
Cash and cash equivalents, beginning of year	<u>2,242,195</u>	<u>1,506,513</u>
Cash and cash equivalents, end of year	<u>\$ 3,074,172</u>	<u>\$ 2,242,195</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 119,621</u>	<u>\$ 145,944</u>

See Notes to Financial Statements

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2017 and 2016

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 three classes of net assets as follows:

Unrestricted Net Assets - the part of net assets of the Center that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. 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.

Temporarily Restricted Net Assets - the part of net assets of the Center resulting (a) from contributions and other inflows of assets whose use by the Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Center pursuant to those stipulations.

Permanently Restricted Net Assets - the part of the net assets of the Center resulting (a) from contributions and other inflows of assets whose use by the Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations. The Center has no permanently restricted net assets.

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.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, Continued

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted or permanently 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 temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets 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.

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:

	2017	2016
Medicare	32%	32%
Medicaid	27	27
Commercial insurance (including Blue Cross)	23	23
Self-pay	18	18
	100%	100%

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.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2017 and 2016

Note 1. Summary of Significant Accounting Policies, Continued

Performance indicator:

The performance indicator is operating income. Changes in unrestricted net assets, 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.

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 \$2,000.

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, 2017 or 2016. 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 2014.

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.

Carolina Health Centers, Inc.**Notes to Financial Statements****May 31, 2017 and 2016**

Note 1. Summary of Significant Accounting Policies, ContinuedCompensated 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 \$341,391 and \$291,717 at May 31, 2017 and 2016, respectively.

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, 2017 and 2016, was \$240,268 and \$195,812, 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, 2017, the Center's carrying amount of deposits was \$3,068,509 and the bank balances were \$3,170,093 at various financial institutions. The Center had petty cash totaling \$5,663 as of May 31, 2017. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. At times, carrying amounts of deposits may exceed FDIC limits. Management believes they place deposits with high quality institutions.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2017 and 2016

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, 2017, the Center's investment was \$484,968, consisting of original investment of \$100,000, short term note receivable of \$30,000 and short term advances of \$354,968. For the year ended May 31, 2017, the Center recognized a gain of \$22,591, representing its share of AMICUS's net income for the year. The Center's cumulative share of AMICUS's losses since operations began is \$232,938 as of May 31, 2017. Under the equity method, the cumulative losses reduced the Center's investment in AMICUS to \$252,030. The Center placed an allowance on the remaining amount of the investment to reduce the investment in AMICUS to zero as of May 31, 2017.

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, 2017 and 2016, the investment was accounted for using the cost method of accounting. The carrying value of the investment was \$16,379 at May 31, 2017 and 2016, 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>2017</u>	<u>2016</u>
Patient fees	\$ 3,545,217	\$ 3,711,756
Pharmacy receivables	608,199	452,126
Less: Allowance for contractual adjustments	(617,877)	(908,778)
Allowance for uncollectible accounts	<u>(1,901,433)</u>	<u>(1,715,494)</u>
Patient accounts receivable - Net	<u>\$ 1,634,106</u>	<u>\$ 1,539,610</u>

Note 5. Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Land, building and improvements	\$ 9,557,025	\$ 9,307,987
Furniture and equipment	2,644,765	3,672,811
Automobiles	<u>245,413</u>	<u>246,621</u>
Total	12,447,203	13,227,419
Less: Accumulated depreciation	<u>(4,943,404)</u>	<u>(5,534,760)</u>
Property and equipment - net	<u>\$ 7,503,799</u>	<u>\$ 7,692,659</u>

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2017 and 2016

Note 5. Property and Equipment, Continued

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

Note 6. Long-term Debt and Obligations

Notes payable consist of the following at May 31:

	<u>2017</u>	<u>2016</u>
Note payable to a financial institution in monthly installments of \$3,169 through October 2026, including interest at 4.19%. Collateralized by building and land.	\$ 292,648	\$ 317,654
Note payable to a financial institution in monthly installments of \$4,713 through September 2026, including interest at 4.19%. Collateralized by building and land.	438,195	475,264
Note payable to a financial institution in monthly installments of \$1,302 through October 2026, including interest at 4.19%. Collateralized by a building.	120,404	130,673
Note payable to a financial institution in monthly installments of \$4,631 through September 2018, including interest at 4.15%. Collateralized by building, furniture and fixtures.	71,840	122,907
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.	1,090,960	1,165,311
Note payable to the USDA in monthly installments of \$2,239 through September 2028, including interest at 4.25%. Collateralized by a building.	241,145	257,369
Note payable to a financial institution in monthly installments of \$6,679 including interest at 3.75%, and balloon payment due April 2017. Collateralized by building and land.	-	715,051
Total	<u>\$ 2,255,192</u>	<u>\$ 3,184,229</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 year ending May 31, 2017 but were above those limitations for the year ending May 31, 2016; however, the lender agreed to waive the corresponding covenant for the year ending May 31, 2016.

Carolina Health Centers, Inc.**Notes to Financial Statements****May 31, 2017 and 2016**

Note 6. Long-term Debt and Obligations, Continued

The maturities of these notes payable are as follows:

2018	\$	221,744
2019		193,827
2020		183,044
2021		190,925
2022		199,145
Thereafter		<u>1,266,507</u>
	\$	<u>2,255,192</u>

Note 7. Net Assets - Temporarily Restricted

Temporarily restricted net assets consist of the following at May 31:

	<u>2017</u>	<u>2016</u>
Capital Funds for Laurens County Memorial Hospital Project	\$ 100,000	\$ 100,000
Escrow balances required by USDA loan	26,868	26,868
Pharmaceutical contributions	-	2,130
	<u>\$ 126,868</u>	<u>\$ 128,998</u>

Note 8. Donations

The Center had donated pharmaceuticals from drug manufacturers to be dispensed to indigent patients totaling \$0 and \$2,130 for the years ended May 31, 2017 and 2016, respectively. The value of these donated supplies is based on the retail market price of each item. The contributions are reported on the financial statements as revenue when received and as an expense when the pharmaceuticals are dispensed to the patient. The remaining donated pharmaceuticals were dispensed during the year ending May 31, 2017.

Note 9. Commitments and Contingencies

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>2017</u>	<u>2016</u>
Medicare	25%	34%
Medicaid	19	15
Other commercial insurance	11	12
Self-pay	45	39
	<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, 2017 and 2016**

Note 9. Commitments and Contingencies, 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 and a pediatric office in Laurens under leases which expire in September of 2040 and May of 2018, respectively, with current monthly payments of \$10,833 and \$3,481, respectively. Lease expense was \$205,831 and \$180,206 as of May 31, 2017 and 2016, respectively.

Approximate minimum lease payments at May 31, 2017 are as follows:

	<u>Amount</u>
2018	\$ 177,992
2019	129,996
2020	129,996
2021	129,996
2022	129,996
2023-2027	649,980
2027-2032	649,980
2033-2037	649,980
2038-2041	<u>433,320</u>
Total lease payments	<u>\$ 3,081,236</u>

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, 2017 and 2016, was \$170,435 and \$199,531, 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.

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, 2017 and 2016, there was no activity in the Foundation.

The Center had a note receivable from a related party (AMICUS) in the amount of \$30,000 as of May 31, 2017 and 2016, respectively. The Center also incurred payroll costs for AMICUS that were to be reimbursed by AMICUS. The costs were \$354,968 and \$349,176 as of May 31, 2017 and 2016, respectively. Both amounts due from AMICUS related to the loan and payroll costs were written down to zero by the recognition of the Center's share of AMICUS' loss for the year and the impairment loss (see Note 3).

Carolina Health Centers, Inc.***Notes to Financial Statements******May 31, 2017 and 2016***

Note 13. Subsequent Events

The Center evaluated subsequent events through August 3, 2017, which is the date the financial statements were available to be issued.



**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, 2017 and 2016, 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 3, 2017.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 Garvin, LLC". The signature is written in a cursive, flowing style.

Greenwood, South Carolina
August 3, 2017



**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, 2017. 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, 2017.

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. 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.

A handwritten signature in black ink that reads "Manley Garvin, LLC". The signature is written in a cursive, flowing style.

Greenwood, South Carolina
August 3, 2017

Carolina Health Centers, Inc.***Schedule of Expenditures of Federal Awards******For the year ended May 31, 2017***

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
Health Centers Cluster		
U.S. Department of Health and Human Services		
Direct Awards		
Consolidated Health Centers	93.224	\$ 4,250,431
Total Health Centers Cluster		4,250,431
Other Programs		
U.S. Department of Health and Human Services		
Direct Awards		
Affordable Care Act- Maternal, Infant, and Early Childhood Home		
Visiting Program Formula, Expansion, And Development Grants To States	93.505	1,105,996
Total U.S. Department of Health and Human Services - Other Programs		1,105,996
Total federal assistance expended		\$ 5,356,427

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, 2017. 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. Loans Outstanding

The Center had the following loan balance outstanding at May 31, 2017.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Facilities Loans and Grants	10.766	\$ 241,145

Carolina Health Centers, Inc.

Schedule of Findings and Questioned Costs

May 31, 2017

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 #
93.505

Program / Cluster Name
Affordable Care Act- Maternal, Infant, And Early Childhood
Home Visiting Program Formula, Expansion, And Development
Grants To States

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.

Section III. Federal Award Questioned Costs & Findings

None reported.

Carolina Health Centers, Inc.

Summary Schedule of Prior Audit Findings

May 31, 2017

Prior Audit Findings:

None reported.