

**LITTLE RIVER MEDICAL CENTER, INC.**

Financial Statements

May 31, 2019 and 2018

(With Independent Auditor's Report Thereon)

# LITTLE RIVER MEDICAL CENTER, INC.

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## Independent Auditor's Report

The Governing Board  
Little River Medical Center, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Little River Medical Center, Inc. (the Organization) which comprise the statements of financial position as of May 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the fiscal 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

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

***Other Matters***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2019 on our consideration of Little River Medical Center, Inc.'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* considering Little River Medical Center, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Jerry Home CPA".

Lebanon, TN  
August 30, 2019

**Little River Medical Center, Inc.**  
**Statements of Financial Position**  
**May 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash	\$ 3,747,068	\$ 3,634,488
Assets Limited to Use	151,513	112,432
Accounts Receivable, Net	1,421,792	1,197,638
Other Receivables	1,126,676	617,053
Inventory	389,166	327,493
Prepaid Expenses	412,132	355,712
<i>Total Current Assets</i>	7,248,347	6,244,816
<i>Property and Equipment</i>		
Property and Equipment, at cost, Net of Accumulated Depreciation	16,059,709	15,829,272
<i>Total Property and Equipment</i>	16,059,709	15,829,272
<i>Other Assets</i>		
Investments	45,324	2,500
<i>Total Other Assets</i>	45,324	2,500
<b>Total Assets</b>	<b>\$ 23,353,380</b>	<b>\$ 22,076,588</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<i>Current Liabilities</i>		
Accounts Payable	\$ 967,440	\$ 493,124
Accrued Payroll Liabilities	433,932	331,755
Accrued Compensated Absences	476,393	447,812
Deferred Non-Federal Grant Revenue	214,029	113,951
Line of Credit	750,000	0
Current Portion of Long Term Debt	362,655	356,687
<i>Total Current Liabilities</i>	3,204,449	1,743,329
<i>Long-Term Liabilities</i>		
Notes Payable	8,080,775	8,439,085
Less Current Portion	(362,655)	(356,687)
<i>Total Long-Term Liabilities</i>	7,718,120	8,082,398
<b>Total Liabilities</b>	10,922,569	9,825,727
Net Assets - Without Donor Restrictions	12,388,756	12,213,472
Net Assets - With Donor Restrictions	42,055	37,389
<b>Total Net Assets</b>	12,430,811	12,250,861
<b>Total Liabilities and Net Assets</b>	<b>\$ 23,353,380</b>	<b>\$ 22,076,588</b>

The accompanying notes are an integral part of this financial statement.

**Little River Medical Center, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**For the Years Ended May 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Support and Revenues:</b>		
Net Patient Revenue	\$ 18,757,462	\$ 15,770,590
Public Support - Federal Grants	8,019,380	7,732,719
Other Grants and Contracts	4,090,064	4,329,805
Contributions	29,468	109,189
Medical Records and Other Income	7,514	27,738
Release of Net Assets with Donor Restriction	2,134	0
<b>Total Support and Revenues</b>	<b>30,906,022</b>	<b>27,970,041</b>
<b>Expenses:</b>		
Program Services Expenses	26,251,505	23,054,688
General and Administrative Expenses	4,884,293	4,126,057
<b>Total Expenses</b>	<b>31,135,798</b>	<b>27,180,745</b>
<b>Change in Net Assets From Operations</b>	<b>(229,776)</b>	<b>789,296</b>
<b>Other Income (Expenses):</b>		
Interest Income	50,887	6,643
Gain (Loss) on Disposal of Asset	(336)	(24,837)
Federal Grants for Acquisition of Property	205,525	0
Non-Federal Grants for Acquisition of Property	106,160	0
Investment Income	42,824	0
<b>Total Other Income and Expenses</b>	<b>405,060</b>	<b>(18,194)</b>
<b>Total Change in Net Assets Without Donor Restrictions</b>	<b>175,284</b>	<b>771,102</b>
<b>Net Assets With Donor Restrictions:</b>		
Contributions	6,800	14,193
Net Assets Released from Restriction	(2,134)	0
<b>Increase in Net Assets With Donor Restrictions</b>	<b>4,666</b>	<b>14,193</b>
Total Change in Net Assets	179,950	785,295
Net Assets, Beginning of Year	12,250,861	11,465,566
<b>Net Assets, End of Year</b>	<b>\$ 12,430,811</b>	<b>\$ 12,250,861</b>

The accompanying notes are an integral part of this financial statement.

**Little River Medical Center, Inc.**  
**Statements of Functional Expenses**  
For the Years Ended May 31, 2019 and 2018

<b>2019</b>	<b>Program Services</b>	<b>General and Administrative</b>	<b>2019 Total</b>
Salaries and Wages	\$ 14,617,145	\$ 2,279,548	\$ 16,896,693
Fringe Benefits	3,230,710	503,830	3,734,540
Purchased Services and Professional Fees	2,543,860	635,965	3,179,825
Supplies	3,065,494	766,374	3,831,868
Depreciation	687,333	171,833	859,166
Travel, Communication, and Other	2,106,963	526,743	2,633,706
<b>Total</b>	<b>\$ 26,251,505</b>	<b>\$ 4,884,293</b>	<b>\$ 31,135,798</b>

<b>2018</b>	<b>Program Services</b>	<b>General and Administrative</b>	<b>2018 Total</b>
Salaries and Wages	\$ 13,730,385	\$ 2,084,445	\$ 15,814,830
Fringe Benefits	2,948,067	447,554	3,395,621
Purchased Services and Professional Fees	1,555,062	388,765	1,943,827
Supplies	2,235,952	558,988	2,794,940
Depreciation	669,196	167,299	836,495
Travel, Communication, and Other	1,916,026	479,006	2,395,032
<b>Total</b>	<b>\$ 23,054,688</b>	<b>\$ 4,126,057</b>	<b>\$ 27,180,745</b>

The accompanying notes are an integral part of this financial statement.

**Little River Medical Center, Inc.**  
**Statements of Cash Flows**  
For the Years Ended May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Operating Activities:</b>		
Change in Net Assets	\$ 179,950	\$ 785,295
<i>Adjustments to Reconcile Change in Net Assets to Cash Provided From Operations:</i>		
Depreciation and Amortization	859,166	836,495
Loss (Gain) on Sale of Property and Equipment	337	24,837
Grants for Acquisition of Property and Equipment	(311,685)	0
Undistributed Investment Income Reported by Pass-Through Entity	(42,824)	0
Changes in:		
Accounts Receivable, Net	(224,154)	(242,809)
Other Receivables	(509,623)	101,420
Inventory	(61,673)	(37,809)
Prepaid Expenses	(56,420)	(84,638)
Accounts Payable	474,316	58,829
Accrued Payroll Liabilities	102,177	45,195
Accrued Compensated Absences	28,581	55,483
Deferred Non-Federal Grant Revenue	100,078	(93,330)
Net Cash from Operating Activities:	<u>538,226</u>	<u>1,448,968</u>
<b>Investing Activities:</b>		
Purchases of Property, Plant and Equipment	(1,089,940)	(1,912,338)
Net Cash from Investing Activities	<u>(1,089,940)</u>	<u>(1,912,338)</u>
<b>Financing Activities:</b>		
Grants for Acquisition of Property and Equipment	311,685	0
Draws (Paydowns) on Line of Credit	750,000	0
Proceeds from Issuance of Notes Payable	0	925,000
Principal Payments on Long Term Debt	(358,310)	(158,415)
Net Cash from Financing Activities	<u>703,375</u>	<u>766,585</u>
Net Increase (Decrease) in Cash	<u>151,661</u>	<u>303,215</u>
Cash at Beginning of The Year, including Restricted Cash	3,746,920	3,443,705
<b>Cash at End of The Year, including Restricted Cash</b>	<u><u>\$ 3,898,581</u></u>	<u><u>\$ 3,746,920</u></u>
Supplemental Data:		
Interest Paid in Financing Activities	\$ 303,727	\$ 265,529

The accompanying notes are an integral part of this financial statement.



# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

### (1) Summary of Significant Accounting Policies

The financial statements of Little River Medical Center, Inc. have been prepared on an accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

#### (a) Nature of The Business

Little River Medical Center, Inc. was established as a non-profit corporation pursuant to the laws and regulations of the State of South Carolina on July 9, 1978, to assess the medical needs and develop a comprehensive program designed to improve primary medical care services to Little River, South Carolina and the surrounding area of Horry County. Since being established, the Organization has received federal funds to service the needs of this area. The Organization extends credit to patients served.

#### (b) Basis of Presentation

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors. At May 31, 2019 and 2018, net assets without donor restrictions included \$2,668,814 and \$2,740,707, respectively, of net assets designated by the Organization's board of directors for future capital expansion.

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

#### (c) Cash and Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At May 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts. As of May 31, 2019, all deposits were insured by Federal Deposit Insurance Coverage or secured by Federal Securities.

At May 31, 2019 and 2018, the Organization had cash of \$151,513 and \$112,432, respectively, that was restricted under a loan covenant with the United States Department of Agriculture.

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

(d) Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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 are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

(e) Accounts Receivable

Included in patient receivables are amounts due from Medicare, Medicaid and private insurance companies. These payments are generally less than established billing rates, the difference being charged against revenue as revenue adjustments at the time the fee for service is recorded. Amounts from these agencies are determined under cost reimbursement formulas and redetermination by the agencies. Accounts receivables from patient fees, other than the above, may be reduced using a sliding fee scale due to a patient's inability to pay. These adjustments are based on income level and number of family members applied to the Federal poverty guidelines

(f) Allowance for Uncollectible Receivables

The provision for uncollectible receivables is not recorded as an expense but is treated as a reduction of the related revenue in the statement of activities. Management applies computations within industry standards to establish the estimated reserve for uncollectible patient accounts.

(g) Property and Equipment

Property and equipment acquired with DHHS funds are considered to be owned by the Organization while used in the program or in future authorized programs. However, DHHS retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets. Accordingly, the Organization may not transfer, mortgage, assign, lease or in any other manner encumber certain property items without the prior approval of DHHS.

Property and equipment are depreciated on the straight-line method over estimated useful lives of the assets. Expenditures for maintenance and repairs are expenses when incurred. Expenditures for renewals or betterments are capitalized. The threshold for capitalization is \$5,000. When property is retired or sold, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

(h) Investments

Investments are presented at fair value in accordance with prescribed measurement principles. Unrealized capital gains and losses are recorded for changes in fair values, and a realized capital gains and losses are recorded when the investments are sold.

(i) Recognition of Grant Income

Grant income is recognized over the grant period in relation to the expenditures incurred and services provided, as outlined in the grant documents. Cash received in excess of grant expenditures to date is recorded as deferred revenue, and an account receivable is recorded when allowable expenditures exceed cash received.

(j) Patient Service Revenue

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

(k) Expense Allocation

Some expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

(l) Income Taxes

The Organization is a non-profit corporation as described in Section 501c (3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 (1) of the Code. The Organization's tax and information returns are subject to examination by the applicable taxing and regulatory authorities, generally for a period of three years after a return is filed. As of the date of this report, the Organization considers its open tax years to include the returns filed for three most recent prior years, as well as the return that will be filed for the year ended May 31, 2019.

(m) Estimated Amounts

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

(n) Reclassifications

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

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

(2) Fair Value of Financial Instruments

- A. Cash – The carrying amount reported is the reconciled bank account balances which are considered to be fair values.
- B. Accounts Receivable – The carrying amount reported is the estimated net collectible amount which is considered the fair value.
- C. Accounts Payable and Other Liabilities – The carrying amounts reported are the amounts equaled to the required payments. The reported amounts are considered fair values.

(3) Availability and Liquidity

The following represents the Organization’s financial assets at May 31, 2019 and 2018 that were available for general expenditures:

	<b>2019</b>	<b>2018</b>
Cash and Cash Equivalents	\$ 3,705,013	\$ 3,597,099
Accounts Receivable Net	1,421,792	1,197,638
Contracts and Other Receivable	1,126,676	617,053
 Financial assets available to meet general expenditures over the next twelve months	 \$ 6,253,481	 \$ 5,411,790

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$7.5 million). As part of its liquidity plan, excess cash may be invested in short-term investments, including money market accounts and certificates of deposit.

(4) Accounts Receivable

Included in patient receivables are amounts due from patients, Medicare, Medicaid, and private insurance companies. These payments are generally less than established billing rates, the difference being recorded as revenue adjustments at the time the fee for service payment is recorded. Accounts receivable balances are as follows at May 31:

	<b>2019</b>	<b>2018</b>
Patient Fees and Third-Party Settlements	\$ 3,610,045	\$ 2,979,852
Less: Allowance for Uncollectible Accounts	(2,188,253)	(1,782,214)
 Accounts Receivable, net	 \$ 1,421,792	 \$ 1,197,638

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

### (5) Other Receivables

The Organization is funded through grants and contracts with various organizations. Receivables related to these grants and contracts are comprised of the following as of May 31:

	<b>2019</b>	<b>2018</b>
340B Receivables	\$ 283,328	\$ 269,996
South Carolina DHEC Grant Receivable	200,686	53,847
WIC Grant Receivable	67,690	82,069
Access Health Grant Receivable	92,475	95,803
CHC Grant Receivable	80,145	0
Ryan White Part C Grant Receivable	23,760	43,371
Ryan White Part D Grant Receivable	39,483	15,674
USDA Distance, Learning, and Technology Receivable	205,525	0
South Carolina Distance, Learning, and Technology Receivable	106,160	0
Other Receivables	27,424	56,293
Other Receivable	\$ 1,126,676	\$ 617,053

### (6) Inventory

The Organization records supplies as expenses as acquired. On an annual basis, the Organization and all clinical sites conduct a physical inventory. Upon the completion of the physical inventory, the final values are adjusted to the actual inventory per the physical count, which is recorded at cost. The value of the inventory is determined on the First In, First Out Basis (FIFO). At May 31, 2019 and 2018, the physical inventory of items on hand at cost consisted of the following:

	<b>2019</b>	<b>2018</b>
Pharmaceuticals	\$ 150,149	\$ 124,410
Medical Supplies	193,751	154,230
Dental and Other	45,266	48,853
Total Inventory	\$ 389,166	\$ 327,493

### (7) Property and Equipment

A summary of property and equipment at May 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Land, Building, and Building Improvements	\$ 17,618,347	\$ 16,990,295
Furniture and Equipment	3,863,860	3,725,131
Vehicles	583,971	583,971
Construction in Process	649,063	410,246
Total	22,715,241	21,709,643
Less: Accumulated Depreciation	(6,655,532)	(5,880,371)
Property and Equipment, net	\$ 16,059,709	\$ 15,829,272

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

Property and equipment is depreciated on a straight-line basis over the estimated useful life of the asset. The depreciation expense for the fiscal years ended May 31, 2019 and 2018 was \$859,166 and \$836,495 respectively.

### (8) Investments

The Organization has adopted the Fair Value Measurement and Disclosure topic of the FASB ASC, which establishes a framework for measuring value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2019 and 2018.

*Ownership in Pass-through Entity:* Valued at capital balance reported by partnership.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

The following table sets forth by level, within fair value hierarchy, the Organization's investments at fair value as of May 31, 2019 and 2018.

<b>Assets at Fair Value as of May 31, 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Ownership Interests in Pass-through Entity	\$ <u>0</u>	\$ <u>0</u>	\$ <u>45,324</u>	\$ <u>45,324</u>
Total Investments, at Fair Value	\$ <u>0</u>	\$ <u>0</u>	\$ <u>45,324</u>	\$ <u>45,324</u>

<b>Assets at Fair Value as of May 31, 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Ownership Interests in Pass-through Entity	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,500</u>	\$ <u>2,500</u>
Total Investments, at Fair Value	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,500</u>	\$ <u>2,500</u>

The following table summarizes the changes in the fair value of the Organization's Level 3 financial assets for the years ended May 31:

	<b>2019</b>	<b>2018</b>
Balance, Beginning of Year	\$ 2,500	\$ 2,500
Purchases and Contributions	0	0
Sales and Distributions	0	0
Net Investment Performance	<u>42,824</u>	<u>0</u>
Balance, End of Year	<u>\$ 45,324</u>	<u>\$ 2,500</u>

### (9) Deferred Revenue

The deferred grant revenue consists of grants received in excess of related grant expenditures. The balance of deferred grant revenue as of May 31, 2019 and 2018 was \$214,029 and \$113,951 respectively. A summary of deferred grant revenue is as follows at May 31:

	<b>2019</b>	<b>2018</b>
New Morning Foundation Grant	\$ 144,074	\$ 48,951
Duke Endowment	42,455	0
National Council on Aging Grant	0	45,000
Medicaid Managed Care HMO	20,000	20,000
Other Grants	<u>7,500</u>	<u>0</u>
Total Deferred Grant Revenue	<u>\$ 214,029</u>	<u>\$ 113,951</u>

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

### (10) Notes Payable

The Organization has a note at TD Bank with an original balance of \$1,500,000. This note accrues interest at 3.79% and is collateralized by land and buildings at the Myrtle Beach location. This note requires monthly payments of \$2,595 and matures on March 24, 2026 with a balloon payment of the unpaid principal balance. At May 31, 2019 and 2018, the balances of this note were \$349,025 and \$375,358, respectively.

The Organization has a mortgage with the United States Department of Agriculture. This note accrues interest at 3.5% and is collateralized by land and buildings of the Organization. This note requires monthly payments of \$21,276 and matures on July 18, 2044. As of May 31, 2019 and 2018, this note had balances of \$4,255,495 and \$4,359,855, respectively.

The Organization also has a second mortgage with the United States Department of Agriculture. This note accrues interest at 3.375% and is collateralized by land and buildings of the Organization. This note requires monthly payments of \$11,292 and matures on May 9, 2053. As of May 31, 2019 and 2018, this note had balances of \$2,736,255 and \$2,778,872, respectively.

The Organization issued a \$925,000 note payable to Wells Fargo to purchase land. This note accrues interest at 4.75% and requires four annual payments of \$185,000, as well as interest payments that are to be paid quarterly. This loan matures on May 5, 2023 with a final payment of the unpaid principal and interest due on the maturity date. At May 31, 2019 and 2018, the balances of this note were \$740,000 and \$925,000, respectively.

Total interest expensed during the fiscal years ended May 31, 2019 and 2018 was \$297,858 and \$270,945, respectively. Principal payments on the outstanding notes payable at May 31, 2019 are scheduled as follows for the years ending May 31:

2020	\$	362,655
2021		368,830
2022		375,220
2023		381,833
2024		202,811
Thereafter		<u>6,389,426</u>
Total	\$	<u>8,080,775</u>

The Organization has a revolving line of credit with TD Bank. The line of credit accrues interest at LIBOR plus 2.5% and requires the Organization to maintain a debt services ratio of one to one. At May 31, 2019 and 2018, the outstanding balances of the line of credit were \$750,000 and \$0, respectively.



# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

### (11) Operating Leases

The Organization leases clinic facilities under operating leases. The clinics are leased on terms ranging from month-to-month to 180-month leases with total monthly payments of \$18,385 per month. Facility rent expense incurred, including the value of donated space, during the fiscal years ended May 31, 2019 and 2018 was \$237,649 and \$162,394 respectively. Donations of space included in rent expense was \$24,000 for each of the fiscal years ended May 31, 2019 and 2018.

Future lease payments are as follows for the years ending May 31:

2020	\$	226,846
2021		226,846
2022		226,846
2023		239,084
2024		134,549
Thereafter		<u>647,311</u>
Total	\$	<u>1,701,482</u>

### (12) Net Assets With Donor Restrictions

Net assets with donor restrictions consist of cash amounts with use restricted by the donor. During the this fiscal years ended May 31, 2019 and 2018, donations of \$6,800 and \$14,193 were received for indigent care under the pharmacy and pediatric dental programs. During the fiscal year ended May 31, 2019, \$2,134 were earned in accordance with the donations. There were no restricted donations earned during the fiscal year ended May 31, 2018. The total amount of net assets with donor restrictions at May 31, 2019 and 2018 was \$42,055 and \$37,389, respectively.

### (13) Net Patient Revenue

A summary of net patient revenue is as follows for the fiscal years ended May 31:

	<u>2019</u>	<u>2018</u>
Gross Charges	\$ 47,670,216	\$ 38,881,340
Less: Discounts and Adjustments	<u>(28,912,754)</u>	<u>(23,110,750)</u>
Net Patient Revenue	<u>\$ 18,757,462</u>	<u>\$ 15,770,590</u>

### (14) Federal Grant Support

The Organization received federal grants of \$8,224,905 (\$8,019,380 of operational and \$205,525 of nonoperational) and \$7,732,719 (all operational) during the fiscal years ended May 31, 2019 and 2018, respectively, all of which were obligated. Under the terms of these grants the Organization is required to comply with certain federal guidelines and the Federal Government retains a residual interest in assets acquired with grant funds.

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

### (15) 340B Revenue

The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. The Organization participates in the 340B “Drug Discount Pricing Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of the in-house pharmacy sales and reimbursement from the network of participating pharmacies.

	<u>2019</u>	<u>2018</u>
Gross Receipts	\$ 6,127,173	\$ 4,937,823
Drug Replenishment and Other Costs	<u>(3,140,695)</u>	<u>(2,273,528)</u>
Net 340B Revenue	<u>\$ 2,986,478</u>	<u>\$ 2,664,295</u>

The 340B gross receipts are included in other grants and contracts and patient revenue in the statements of activities and changes in net assets. The drug replenishment is included in supplies on the statement of functional expenses. The in-house pharmacy costs are included in their respective financial statement line items. The net 340B pharmacy revenue from this program is used in furtherance of the Organization’s mission.

### (16) Pension Plan

The Organization has a 403(b) plan for all eligible employees. Under the arrangement, the employer matches all employee contributions up to 4% of employee compensation. The employer contribution is \$0.50 for every \$1.00 the employee contributes to the pension plan up to the maximum employer contribution of 4% of gross wages. Pension expense for the years ended May 31, 2019 and 2018 was \$358,610 and \$307,831, respectively.

### (17) Medical Malpractice Coverage

The Bureau of Primary Health Care, in accordance with Section 224 of the Public Health Service Act, provides liability protection to the Organization under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. The FTCA coverage is comparable to an “occurrence” policy without a monetary cap.

### (18) Charity Care

The Organization provides medical services to patients who qualify under federal guidelines and other corporate policies of the Organization at fees less than established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for the fiscal years ended May 31, 2019 and 2018 was \$14,765,771 and \$10,870,425, respectively.

# LITTLE RIVER MEDICAL CENTER, INC.

## Notes to Financial Statements

May 31, 2019 and 2018

(19) Contingencies

The Organization's management is of the opinion that its insurance coverage is adequate to cover any potential losses on asserted claims and is unaware of any incidents, which would ultimately result in loss in excess of the Organization's insurance coverage.

(20) Significant Source of Revenue

Approximately 26% and 28% of the Organization's revenue was provided by federal grants for the fiscal years ended May 31, 2019 and 2018, respectively. The Organization is dependent on this continued funding and the absence of these grants could have a negative effect on future operations.

(21) Related Party Transactions

The Organization is required by its federal grantor to maintain a governing board of individuals of which more than 50% are users of the Organization. Therefore, the Organization does have related party transactions with those directors. These transactions were not material to the operation of the Organization and were conducted at "arms-length."

(22) Subsequent Events

Management has evaluated the events and transactions subsequent to the statement of financial position through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

**SUPPLEMENTAL SCHEDULES**

**LITTLE RIVER MEDICAL CENTER, INC.**

Schedule of Expenditures of Federal Awards

For the Year Ended May 31, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b><u>U.S. Department of Health and Human Services (DHHS)</u></b>				
<b>Health Center Program Cluster</b>				
Health Center Program (Community Health Centers, Migrant Health, Health Care for the Homeless, and Public Housing Primary Care) <i>Grant No. H80CS 00700</i>	93.224	N/A	N/A	\$ 2,450,430
Grants for New and Expanded Service Under the Health Center Program <i>Grant No. H80CS 00700</i>	93.527	N/A	N/A	\$ 4,105,680
Health Center Program (Community Health Centers, Migrant Health, Health Care for the Homeless, and Public Housing Primary Care) <i>Grant No. C13CS 32056</i>	93.224	N/A	N/A	\$ <u>17,664</u>
Total Health Center Program Cluster				\$ <b>6,573,774</b>
Grants to Provider Outpatient Early Intervention Services with Respect to HIV Disease <i>Grant No. H76HA 24735</i>	93.918	N/A	N/A	\$ 334,103
Grants to Provider Outpatient Early Intervention Services with Respect to HIV Disease <i>Grant No. P06HA31400</i>	93.918	N/A	N/A	\$ <u>150,000</u>
Total Direct DHHS Grants				\$ <b>7,057,877</b>
U.S. Department of Agriculture Distance Learning and Telemedicine <i>Grant No.-N/A</i>	10.855	N/A	N/A	\$ <u>205,525</u>
<b>Total Direct Grants</b>				\$ <b><u>7,263,402</u></b>

**LITTLE RIVER MEDICAL CENTER, INC.**

Schedule of Expenditures of Federal Awards

For the Year Ended May 31, 2019

Childrens Trust Fund of South Carolina Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	S-MIEC-C 2017-16-1	N/A	\$ 179,151
University of South Carolina Colorectal Cancer Screening	93.800	16-3055	N/A	\$ 37,500
National Center on Aging Medicare Enrollment Assistance Program	93.071	1197	N/A	\$ 90,000
South Carolina Department of Health and Environmental Control Well Integrated Screening and Evaluation for Women	93.094	WW-8-750	N/A	\$ 26,131
Eau Claire Cooperative Health Center Coordinated Services and Access to Research For Women, Infants, Children, and Youth	93.153	H12HA3110	N/A	\$ <u>167,831</u>
<b>Total Pass-Through DHHS Grants</b>				<b>\$ 500,613</b>
 <b><u>Other Pass-Through Grants</u></b>				
 <b><u>U.S. Department of Agriculture</u></b>				
South Carolina Department of Health and Environmental Control Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	WC-7-382	N/A	\$ 328,019
 <b><u>Center for Disease Control</u></b>				
South Carolina Department of Health and Environmental Control National Cancer Prevention and Control Program	93.898	BC-9-515	N/A	\$ <u>132,871</u>
<b>Total Federal Grants</b>				<b>\$ <u>8,224,905</u></b>

# LITTLE RIVER MEDICAL CENTER, INC.

## Note to Schedule of Expenditures of Federal Awards

For the Year Ended May 31, 2019

### Note A- Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award (the "Schedule") of Little River Medical Center, Inc. under programs of the federal government for the year ended May 31, 2019. 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 Little River Medical Center, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Little River Medical Center, Inc.

### Note B-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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Little River Medical Center, Inc. has elected not to use the 10 percent de minimus indirect cost rate allowed under Uniform Guidance.

### Note C- Loans Outstanding

The Organization had the following loan balance outstanding at May 31, 2019:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Facilities Loan	10.766	\$ 4,255,495
Community Facilities Loan	10.766	\$ 2,736,255



TERRY L. HORNE, CPA

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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 Governing Board  
Little River Medical Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Little River Medical Center, Inc. which comprise the statements of financial position as of May 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Little River Medical Center, Inc. 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 Little River Medical Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Little River Medical Center, Inc.'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 Little River Medical Center, Inc.'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*.**

We noted certain matters that we reported to management of Little River Medical Center, Inc. in a separate letter dated August 30, 2019.

### Purpose of this Report

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

A handwritten signature in cursive script that reads "Jerry Home CPA".

Lebanon, TN  
August 30, 2019



TERRY L. HORNE, CPA

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

The Governing Board  
Little River Medical Center, Inc.

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

We have audited Little River Medical Center, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Little River Medical Center, Inc.'s major federal programs for the fiscal year ended May 31, 2019. Little River Medical Center, Inc.'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 Little River Medical Center, Inc.'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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 Little River Medical Center, Inc.'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 Little River Medical Center, Inc.'s compliance.

***Opinion on Each Major Federal Program***

**In our opinion, Little River Medical Center, Inc. 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, 2019.**

## Report on Internal Control Over Compliance

Management of Little River Medical Center, Inc. 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 Little River Medical Center, Inc.'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 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 Little River Medical Center, Inc.'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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Lebanon, TN  
August 30, 2019

**LITTLE RIVER MEDICAL CENTER, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2019

**Section A-Summary of Auditor's Results**

Type of auditor's report issued: Unmodified  
Internal control over financial reporting:  
Material Weakness(es) identified? \_\_\_\_\_yes X no  
Significant Deficiency(ies) identified? \_\_\_\_\_yes X none reported  
Noncompliance material to financial statements noted? \_\_\_\_\_yes X no

Federal Awards

Internal Control over major programs:  
Material Weakness(es) identified? \_\_\_\_\_yes X no  
Significant Deficiency(ies) identified? \_\_\_\_\_yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_yes X no

Identification of major programs:

CFDA Number

93.224 & 93.527

93.918

Name of Federal Program

Health Center Program Cluster

Grants to Provider of Outpatient Early Intervention Services with Respect to HIV Disease

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

Auditee qualified as low-risk auditee? X yes \_\_\_\_\_no

# **LITTLE RIVER MEDICAL CENTER, INC.**

## **Schedule of Findings and Questioned Costs**

For the Year Ended May 31, 2019

### **Section B- Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the financial statements for which Government Auditing Standards requires reporting.

None Reported

### **Section C-Federal Award Findings and Questioned Costs**

This section identifies the audit findings required to be reported by 2 CFR 200.516(a), significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse.

None Reported

**Questioned Costs: None Reported**

**LITTLE RIVER MEDICAL CENTER, INC.**

Summary Schedule of Prior Year Audit Findings

May 31, 2019

There were no findings in the prior year audit. However, there were certain matters involving internal controls that were reported to the management of Little River Medical Center, Inc. in a separate letter. These matters were reviewed, and it was determined that the necessary corrective action had been taken to improve these related controls, with the exception of two matters which are repeated in the current year.

**LITTLE RIVER MEDICAL CENTER, INC.**

**Report to the Board of Directors**

**May 31, 2019**

# LITTLE RIVER MEDICAL CENTER, INC.

## Report to the Board of Directors

May 31, 2019

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**TERRY L. HORNE, CPA**

732 West Main Street  
Lebanon, TN 37087  
Office (615) 444-7293  
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August 30, 2019

To the Board of Directors  
Little River Medical Center, Inc.

We have completed our audit of the financial statements of Little River Medical Center, Inc. for the year ended May 31, 2019. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated August 30, 2019. We are presenting an oral presentation of the financial statements and the results of the compliance audit in accordance with Government Auditing Standards and Uniform Guidance to the Governing Board.

We appreciate the courtesies extended to us during the audit and the assistance provided by the staff of Little River Medical Center, Inc.

Sincerely,

A handwritten signature in black ink that reads "Terry Horne CPA". The signature is written in a cursive, flowing style.

Terry Horne, CPA

# **LITTLE RIVER MEDICAL CENTER, INC.**

## Summary of Professional Services

- ❖ Annual audit of financial statements
- ❖ Annual compliance audit in accordance with Government Auditing Standards and Uniform Guidance, “Audits of States, Local Governments, and Non-Profit Organizations”
- ❖ Annual federal tax information return
- ❖ Annual Data Collection Form SF-SAC
- ❖ Annual Federal Financial Report
- ❖ Annual report to management on observations and recommendations for improvements
- ❖ Attendance at board meetings as requested

# LITTLE RIVER MEDICAL CENTER, INC.

## Required Auditor Communications

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### Items to be Communicated and Auditor's Response

❖ **The auditor's responsibility under generally accepted auditing standards.**

The auditors should communicate the level of responsibility assumed for internal control, illegal acts, and other matters under generally accepted auditing standards.

- ◇ *Our responsibility, as described by professional standards, is to plan and perform our audit to obtain **reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.** Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.*

*In planning and performing our audit, we considered **Little River Medical Center, Inc. (Organization) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.** We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Uniform Guidance.*

*As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we **performed tests in compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance 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. Also, in accordance with Uniform Guidance we **examined, on a test basis, evidence about the Organization's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the Organization's compliance with those requirements.** While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the Organization's compliance with those requirements.*

# LITTLE RIVER MEDICAL CENTER, INC.

## Required Auditor Communications

---

### Items to be Communicated and Auditor's Response

❖ **Significant accounting policies and unusual transactions.**

The auditors should determine that the Board is informed about the initial selection of and changes in significant accounting policies as well as the methods used to account for significant unusual transactions.

◇ *There were none.*

❖ **Management judgments and accounting estimates.**

The Board should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditors' conclusions regarding the reasonableness of these estimates.

*Allowance for Doubtful Accounts*

◇ *The estimate of uncollectible patient accounts receivable is based on historical collection experience and analysis of the types of accounts comprising the balance. Based on our review of accounts receivable, we conclude that the allowance for doubtful accounts is reasonably stated.*

❖ **Disagreements with management.**

Disagreements with management, whether satisfactorily resolved, about matters that could be significant to the entity's financial statements or the auditors' report should be communicated to the Board.

◇ *There were no disagreements with management.*

❖ **Consultation with other accountants.**

When the auditors are aware that management has consulted with other accountants about significant accounting or auditing matters, the auditors' views about the subject of the consultation should be communicated to the Board.

◇ *To our knowledge, there were no consultations made by management.*

# LITTLE RIVER MEDICAL CENTER, INC.

## Required Auditor Communications

---

### Items to be Communicated and Auditor's Response

❖ **Significant audit adjustments.**

All significant adjustments arising from the audit should be communicated to the Board.

- ◇ *The only significant audit adjustments were related to adjusting accounts payable, accrued expenses, and the related expense accounts.*

❖ **Major issues discussed with management prior to retention.**

Any major issues that were discussed with management in connection with our initial or recurring retention should be communicated to the Board.

- ◇ *There were none.*

❖ **Difficulties encountered in performing the audit.**

Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of the Board.

- ◇ *There were none.*

❖ **Uncorrected financial statement misstatements.**

Any uncorrected financial statement misstatements should be disclosed to the Board.

- ◇ *There were none.*

This report is intended solely for the use of the Board of Directors.



**TERRY L. HORNE, CPA**

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## **MANAGEMENT LETTER**

Board of Directors  
Little River Medical Center, Inc.  
4303 Live Oak Drive  
Little River, South Carolina 29566

In planning and performing our audit of the financial statements of Little River Medical Center, Inc. for the fiscal year ended May 31, 2019, we considered the Organization's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. This letter does not affect our report dated August 30, 2019, on the financial statements of Little River Medical Center, Inc.

### **I. Accounting Controls**

1. The Organization has several grants and contracts with other organizations. Currently, these amounts are not being accurately recorded in the general ledger as they are earned. Proper accounting procedures require that these amounts be recorded as a receivable in the general ledger when earned and that any subsequent payments be recorded to offset this receivable account. It is recommended that the Organization utilize the accounts receivable module in the general ledger software to ensure that all revenue is invoiced and recorded on a monthly basis. The related accounts receivable aging reports should be reviewed monthly to ensure that all payments are received.

Management's Response:

Management concurs. Procedures will be established to ensure that reimbursements for grants and contracts are recorded as a receivable on the general ledger as earned as recommended above.

2. During the audit it was noted that multiple grant and contract amounts are posted in a single general ledger account. It is recommended that each grant or contract over \$25,000 be posted to a individual general ledger account in order for revenue amounts be easily tracked for accuracy.

Management's Response:

Management concurs. Procedures will be established to ensure that grant and contract revenue is individually tracked on the general ledger as recommended above.

3. Procedures have not been established to ensure that grants revenue, grants receivable and the related deferred grant revenue are reconciled to grant financial summaries on a monthly basis. It is recommended that grant revenue earned be evaluated and reconciled each month to grant financial summaries to determine if any grant receivables or deferrals have occurred. This monthly reconciliation of grant revenue receivables and deferrals will ensure that grant revenue is correctly recorded in the period it is earned.

Management's Response:

Management concurs. Procedures will be established to reconcile grant revenue, receivables and deferrals on a monthly basis as recommended above.

## II. Cash Controls

1. During the audit it was noted that bank reconciliations are not being prepared in the accounting software. Proper accounting procedures recommend using the bank reconciliation module in the accounting software to ensure accuracy and help eliminate errors. Efforts should be made to transition to reconcile all bank accounts in the accounting software as soon as possible.

Management's Response:

Management concurs. Procedures will be established to begin reconciling all bank accounts in the accounting software as recommended above.

## III. Revenue Controls

1. During the audit it was noted that 340B revenue is being recorded in the general ledger net of the contractor fees instead of at gross pharmacy revenue. Proper accounting procedures require that revenue be recorded at the gross amount and that fees be separately recorded as an expense regardless of if withheld from payment or paid separately by the Organization.

Management Response:

Management concurs. Efforts will be made to record the 340B pharmacy income at gross revenue and to separately record the contractor fee as recommended above.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the board of trustees, management and others within the Organization.



August 30, 2019