

Low Country Health Care System, Inc.
Financial Statements
November 30, 2019 and 2018
(With Independent Auditor's Report Thereon)

Low Country Health Care System, Inc.

Table of Contents

Financial Statements:	<u>Page No.</u>
Independent Auditor’s Report.....	1
Statement of Financial Position.....	3
Statement of Activities and Changes in Net Assets.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7
Supplemental Information	
Schedule of Expenditures of Federal Awards.....	17
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.....	19
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	21
Schedule of Findings and Questioned Cost.....	23
Summary Schedule of Prior Year Audit Findings.....	25



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

Independent Auditor's Report

The Governing Board
Low Country Health Care System, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Low Country Health Care System, Inc. (the Organization) which comprise the statements of financial position as of November 30, 2019 and 2018, and the related statements of activities and changes in net assets, 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 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

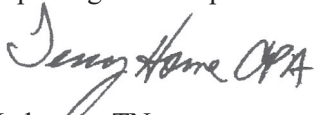
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Low Country Health Care System, Inc. as of November 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 March 6, 2020 on our consideration of Low Country Health Care System, 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 Low Country Health Care System, Inc.'s internal control over financial reporting and compliance.



Lebanon, TN

March 6, 2020

Low Country Health Care System, Inc.

Statements of Financial Position

November 30, 2019 and 2018

	2019	2018
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 2,089,224	\$ 2,334,629
Certificates of Deposit	158,537	157,905
Assets Limited to Use - USDA Escrow	102,792	102,792
Accounts Receivable Net	1,078,277	899,459
Grants and Other Receivables	689,435	674,025
Inventory	129,693	126,528
Prepaid Expenses	217,603	231,508
<i>Total Current Assets</i>	4,465,561	4,526,846
Certificate of Deposit	723,687	719,358
Property, Plant and Equipment, Net	5,167,890	4,920,502
Investment in Equity Investee	45,324	50,206
Total Assets	\$ 10,402,462	\$ 10,216,912
LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable and Other Accrued Liabilities	\$ 439,352	\$ 520,033
Accrued Payroll and Payroll Expenses	459,250	445,803
Accrued Compensated Absences	184,880	163,288
Deferred Revenue	11,751	209,911
Current Portion of Long Term Debt	126,689	93,490
<i>Total Current Liabilities</i>	1,221,922	1,432,525
<i>Long-Term Liabilities</i>		
Notes Payable	2,249,516	1,966,126
Less Current Portion	(126,689)	(93,490)
<i>Total Long-Term Liabilities</i>	2,122,827	1,872,636
Total Liabilities	3,344,749	3,305,161
<i>Net Assets</i>		
Net Assets Without Donor Restrictions	7,057,713	6,911,751
<i>Total Net Assets</i>	7,057,713	6,911,751
Total Liabilities and Net Assets	\$ 10,402,462	\$ 10,216,912

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

Low Country Health Care System, Inc.
Statements of Activities and Changes in Net Assets
For the Years Ended November 30, 2019 and 2018

	2019	2018
Support and Revenues:		
Net Patient Revenue	\$ 12,918,797	\$ 11,658,700
Public Support - Federal Revenue	3,907,911	3,122,606
Other Grants and Contracts	1,039,028	1,407,762
Other Revenue	193,688	152,719
Total Support and Revenues	18,059,424	16,341,787
Expenses:		
Program Services	14,092,857	12,279,830
General and Administrative	4,045,587	3,739,746
Total Expenses	18,138,444	16,019,576
Change in Net Assets from Operations	(79,020)	322,211
Other Income and (Expenses):		
State Grants for Acquisition of Property and Equipment	0	462,045
Federal Grants for Acquisition of Property and Equipment	203,957	129,718
Gain (Loss) on Disposal of Property and Equipment	19,696	0
Interest Income	6,211	5,337
Gain (Loss) on Investment in Equity Investee	(4,882)	4,735
Total Other Income and (Expenses)	224,982	601,835
Change in Net Assets	\$ 145,962	\$ 924,046
Net Assets Without Donor Restrictions:		
Increase (Decrease)	\$ 145,962	\$ 924,046
Beginning of Year	6,911,751	5,987,705
End of Year	\$ 7,057,713	\$ 6,911,751

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

Low Country Health Care System, Inc.
 Statements of Functional Expenses
 For the years ended November 30, 2019 and 2018

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2019 Total</u>
Salaries and Wages	\$ 7,831,751	\$ 2,303,402	\$ 10,135,153
Fringe Benefits	1,685,421	495,700	2,181,121
Purchased Services and Professional Fees	931,071	544,705	1,475,776
Supplies	2,255,805	271,175	2,526,980
Depreciation	212,170	33,002	245,172
Equipment and Building Rent	107,048	26,762	133,810
Travel, Communication, and Other	1,069,591	370,841	1,440,432
Total	<u>\$ 14,092,857</u>	<u>\$ 4,045,587</u>	<u>\$ 18,138,444</u>

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2018 Total</u>
Salaries and Wages	\$ 6,679,465	\$ 2,020,488	\$ 8,699,953
Fringe Benefits	1,459,495	441,486	1,900,981
Purchased Services and Professional Fees	943,845	604,147	1,547,992
Supplies	1,863,540	221,517	2,085,057
Depreciation	180,086	20,733	200,819
Equipment and Building Rent	80,715	20,179	100,894
Travel, Communication, and Other	1,072,684	411,196	1,483,880
Total	<u>\$ 12,279,830</u>	<u>\$ 3,739,746</u>	<u>\$ 16,019,576</u>

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

Low Country Health Care System, Inc.
Statements of Cash Flows
For the Years Ended November 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 145,962	\$ 924,046
Reconciling Adjustments:		
Depreciation	245,172	200,819
Gain on Sale of Property and Equipment	(19,696)	0
Grants for Acquisition of Property and Equipment	(203,957)	(591,763)
(Gain) Loss on Investment in Equity Investee	4,882	(4,735)
Changes in:		
Certificates of Deposit	(4,961)	(5,010)
Accounts Receivable	(178,818)	(359,566)
Other Receivables	(15,410)	(1,235)
Inventory	(3,165)	(7,872)
Prepaid Assets	13,905	(102,519)
Accounts Payable and Accrued Expenses	(80,681)	256,837
Accrued Payroll and Employee Benefits	13,447	139,102
Accrued Compensated Absences	21,592	24,041
Deferred Revenue	(198,160)	(337,306)
 Cash Provided by Operating Activities	 (259,888)	 134,839
Cash Flows Used in Investing Activities:		
Purchases of Property and Equipment	(524,265)	(1,835,746)
Proceeds from Disposal of Property and Equipment	51,401	0
Grants for Acquisition of Property and Equipment	203,957	591,763
 Cash Used in Investing Activities	 (268,907)	 (1,243,983)
Cash Flows Provided by Financing Activities:		
Proceeds from Issuance of Long Term Debt	376,450	720,100
Principal Payments on Long Term Debt	(93,060)	(78,299)
 Cash Provided in Financing Activities	 283,390	 641,801
 Net Increase (Decrease) in Cash	 (245,405)	 (467,343)
 Cash at Beginning of The Year, Including Restricted Cash	 2,437,421	 2,904,764
 Cash at End of The Year, Including Restricted Cash	 \$ 2,192,016	 \$ 2,437,421
 Supplemental Data:		
Interest Paid in Financing Activities	\$ 80,431	\$ 60,862

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

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

(1) Nature of Activities and Summary of Significant Accounting Policies

(a) Nature of the Business

Low Country Health Care System, Inc. (the Organization) is a not-for-profit corporation organized under the laws of the state of South Carolina. The Organization was organized for charitable purposes, provides outpatient health care services, and qualifies as a Federally Qualified Health Center (FQHC). The Organization is principally funded through payments from Medicare, Medicaid, private insurance and patients. Funding is also obtained through support provided by the Department of Health and Human Services, Health Resource and Services Administration (HRSA) and through other third-party grants and contributions.

(b) Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), using the accrual method of accounting 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.

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

Cash-unrestricted

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 November 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts. As of November 30, 2019, approximately \$796,000 of deposits were not insured by Federal Deposit Insurance Coverage or secured by Federal Securities.

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

(d) Accounts Receivable

Patient accounts receivable include amounts due from federal and state agencies (under the Medicare and Medicaid programs), commercial insurance, and patients. 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.

(e) 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 statements of activities and changes in net assets. Based on computations within industry standards applied to test the reserve for uncollectible patient accounts, the estimates appear reasonable.

(f) 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 \$1,000. 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.

(g) Investments

The Organization reports investments in equity securities having a readily determinable fair value at fair value. The investment in equity investee is reported on the equity method of accounting based on the Organization's participation in and influence over the investee.

(h) 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. As of the date of this report, informational returns for the current and two most recent prior years are available for IRS audit.

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

(i) 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.

(j) 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.

(k) 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.

(l) Concentration of Credit and Market Risk

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution.

(m) Reclassifications and Correction of Prior Year Error

Certain prior year amounts have been reclassified to conform to the current year presentation. In addition, the November 30, 2018 financial statements have been restated to present the Organization's investment in equity investee that was previously unrecorded. The effect on other income for the year ended November 30, 2018 was an increase of \$4,735. The effects on investments and the net assets without donor restrictions at November 30, 2018 were increases of \$50,206. The effect on net assets without donor restrictions as of the beginning of the year ended November 30, 2018 was an increase of \$45,471.

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 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 the fair values.

(3) Availability and Liquidity

The following represents the Organization’s financial assets at November 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 2,089,224	\$ 2,334,629
Certificates of Deposit	882,224	877,263
Accounts Receivable Net	1,078,277	899,459
Grants and Other Receivables	<u>689,435</u>	<u>674,025</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 4,739,160</u>	<u>\$ 4,785,376</u>

The Organization’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$4.4 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. The following is a summary of accounts receivable at November 30:

	<u>2019</u>	<u>2018</u>
Receivables for Services Rendered	\$ 6,711,654	\$ 4,677,346
Less Allowance for Uncollectible Accounts	<u>(5,633,377)</u>	<u>(3,777,887)</u>
Accounts Receivable, Net	<u>\$ 1,078,277</u>	<u>\$ 899,459</u>

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

(5) Grants and Other Receivables

The Organization also has receivables from various contracts. A summary of these other receivables is as follows at November 30:

	<u>2019</u>	<u>2018</u>
Federal CHC Grant Receivable	\$ 132,436	\$ 353,017
Federal Ryan White Grant Receivable	107,075	57,583
Other Grants and Contracts	447,036	260,473
Wrap Payments and Other Receivable	<u>2,888</u>	<u>2,952</u>
Total Grants and Other Receivables	<u>\$ 689,435</u>	<u>\$ 674,025</u>

(6) Inventories and Prepaid Supplies

The Organization records medical 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 November 30, 2019 and 2018, inventory balances reported by the Organization represented pharmaceutical inventories.

(7) Property and Equipment

A summary of property and equipment at November 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Building and building improvements	\$ 5,578,125	\$ 5,528,194
Furniture and equipment	857,378	863,148
Land and land improvements	170,250	170,250
Construction in progress	<u>658,704</u>	<u>264,125</u>
	7,264,457	6,825,717
Less accumulated depreciation	<u>(2,096,567)</u>	<u>(1,905,215)</u>
Property and equipment, net	<u>\$ 5,167,890</u>	<u>\$ 4,920,502</u>

Property and equipment depreciated on a straight-line basis over the estimated useful life. Depreciation expense for the fiscal years ended November 30, 2019 and 2018 was \$245,172 and \$200,819, respectively.

(8) Investment in Equity Investee

The Organization is a partner in Community Integrated Management Services, LLC (CIMS), a joint venture with other South Carolina FQHCs. The Organization has 7.14% ownership in CIMS and receives participation and quality incentives in accordance with a participation agreement with CIMS. During the fiscal years ended November 30, 2019 and 2018, the Organization recorded incentive revenue from CIMS totaling approximately \$373,000 and \$150,000, respectively. At November 30, 2019 and 2018, the Organization reported incentive revenue receivable of approximately \$142,000 and \$38,000 from CIMS in the accompanying statement of financial position.

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

(9) Deferred Revenue

The deferred grant revenue consists of state and/or federal grants received in excess of related grant expenditures. The balances of deferred grant revenue at November 30, 2019 and 2018 were \$11,751 and \$209,911 respectively.

(10) Notes Payable

The Organization issued an \$800,000 note payable to the United States Department of Agriculture Rural Development (USDA) on April 14, 1997. The note requires annual installments of \$49,120, accrues interest at a rate of 4.50% and is collateralized by the land and buildings of Low Country Health Care System, Inc. At November 30, 2019 and 2018, this note had balances of \$352,896 and \$385,045, respectively.

The Organization issued a \$1,050,000 note payable to the USDA/Rural Development on February 12, 2007. This note requires monthly installments of \$4,470, accrues interest at a rate of 4.13%, and is collateralized by the land and buildings of Low Country Health Care System, Inc. At November 30, 2019 and 2018, this note had balances of \$876,300 and \$886,164, respectively.

The Organization issued a \$720,100 note payable to Palmetto Bank on April 26, 2018. This note requires monthly installments of \$5,120, accrues interest at a rate of 2.60%, and is collateralized by the land and buildings of Low Country Health Care System, Inc. At November 30, 2019 and 2018, this note had balances of \$650,320 and \$694,917, respectively.

The Organization issued a \$376,450 note payable to Enterprise Bank on November 21, 2019. This note requires monthly installments of \$4,019, accrues interest at a rate of 5.07%, and is collateralized by the Blackville buildings owned by Low Country Health Care System, Inc. At November 30, 2019, this note had a balance of \$376,450. Debt acquisition costs of \$6,450 were incurred in conjunction with the issuance of this note payable. These costs were capitalized as a reduction of the note payable and are amortized over the term of the note. The balance of the debt acquisition costs at November 30, 2019 was \$6,450.

Interest incurred and expensed under the notes payable totaled \$80,431 and \$60,862 during the fiscal years ended November 30, 2019 and 2018, respectively. The principal balances on the notes payable are due as follows for the years ending November 30:

2020	\$	126,689
2021		131,733
2022		136,992
2023		605,379
2024		98,216
Thereafter		<u>1,156,957</u>
Total	\$	<u>2,255,966</u>
Less: Debt Acquisition Costs		<u>(6,450)</u>
Total Notes Payable		<u><u>2,249,516</u></u>

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

In addition, the Organization is required under certain loan agreements to deposit ten-percent (10%) of the annual installments due into an escrow account. At both November 30, 2019 and 2018, the minimum required balance held in an escrow account was \$102,792.

(11) Operating Leases

The Organization leases clinic facilities and certain administrative space under operating leases. The leased terms range from month-to-month to 36-month with total monthly payments of approximately \$8,500 per month. Total facility rent expense incurred during the fiscal years ended November 30, 2019 and 2018 was \$68,150 and \$45,534, respectively.

Future lease payments are as follows for the years ending November 30:

2020	\$	81,000
2021		77,000
2022		19,250
Thereafter		<u>0</u>
Total	\$	<u>177,250</u>

(12) Federal Grant Support

The Organization received grants from the U.S. Department of Health and Human Services of \$4,111,868 (\$3,907,911 operational and \$203,957 non-operational) and \$3,584,651 (\$3,544,740 operational and \$39,911 non-operational) for the fiscal year ended November 30, 2019 and 2018. These amounts are comprised of the following direct and pass-through grants:

- The Organization received grants from the U.S. Department of Health and Human Services of \$3,782,912 and \$3,544,740 for the fiscal year ended November 30, 2019 and 2018. Under the terms of these grants the Organization is required to comply with certain federal guidelines and the grantor retains a residual interest in assets acquired with grant funds.
- The Organization received grants from the U.S. Department of Health and Human Services pass through grants in the amount of \$328,956 and \$39,911 for the fiscal year ended November 30, 2019 and 2018.

(13) Net Patient 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 to individuals are determined by an income discount scale that is based on the Federal poverty level guidelines. A summary of the net patient service revenue is as follows:

	<u>2019</u>	<u>2018</u>
Gross charges and cost settlements	\$ 22,453,019	\$ 20,019,176
Less revenue adjustments	<u>(9,534,222)</u>	<u>(8,360,476)</u>
Total net revenue	<u>\$ 12,918,797</u>	<u>\$ 11,658,700</u>

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

(14) 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.

(15) 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.

(16) Retirement Plan

The Organization contributes varying amounts to a 403 (b) retirements plan on behalf of participating employees. All employees who have one year of employment, have attained the age of 21, and are full time employees are eligible to participate in the plan. The amount contributed to the retirement plan for the fiscal years ended November 30, 2019 and 2018 were \$209,450 and \$241,060, respectively.

(17) Significant Source of Revenue

During the fiscal years ended November 30, 2019 and 2018, approximately 22% and 19% of the Organization’s revenue was provided by grants from the U.S. Department of Health and Human Services.

(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 charity amount calculation is based on the Organization’s standard billing rates for services provided. These fees approximate the total cost of providing charity care. The amount of charity care for the fiscal years ended November 30, 2019 and 2018 was \$511,578 and \$709,838, respectively.

(19) Subsequent Events

Management has evaluated the events and transactions subsequent to the statement of financial position through March 6, 2020 (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.

Low Country Health Care System, Inc.

Notes to Financial Statements

November 30, 2019 and 2018

(20) 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.”

SUPPLEMENTAL SCHEDULES

Low Country Health Care System, Inc.

Schedule of Expenditures of Federal Awards

For the Year Ended November 30, 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
<u>U.S. Department of Health and Human Services</u>				
<u>Direct DDHS Grants</u>				
Health Center Program Cluster Consolidated Health Centers Program <i>Grant No. H80CS 00092</i>	93.224	N/A	N/A	\$ 860,345
Affordable Care Act-Grants for Expanded Service Under Health Center Program <i>Grant No. H80CS 00092</i>	93.527	N/A	N/A	2,027,197
Affordable Care Act-Health Infrastructure Investment Program <i>Grant No. C8DCS 29712</i>	93.527	N/A	N/A	195,282
Health Center Program (Community Health Centers, Migrant Health, Health Care for the Homeless, and Public Housing Primary Care) <i>Grant No. C13CS 31986</i>	93.224	N/A	N/A	<u>\$ 8,675</u>
Total Health Center Program Cluster				\$ 3,091,499
Outpatient Early Intervention with Respect to HIV Disease <i>Grant No. H76H A00584</i>	93.918	N/A	N/A	<u>\$ 691,413</u>
Total Direct DHHS Grants				\$ 3,782,912
<u>Pass-Through DDHS Grants</u>				
Children's Trust Fund of South Carolina Maternal, Infant, and Early Childhood Home Visiting Program	93.870	X10MC31169	N/A	\$ 202,759
Children's Trust Fund of South Carolina Maternal, Infant, and Early Childhood Home Visiting Program	93.870	X10MC32219	N/A	\$ 37,861

Low Country Health Care System, Inc.

Schedule of Expenditures of Federal Awards (continued)

For the Year Ended November 30, 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
South Carolina Department of Health and Environmental Control Cancer Prevention and Control for State, Territorial and Tribal Organizations	93.898	N/A	N/A	\$ 9,322
Eau Claire Cooperative Health Centers, Inc. Coordinated Services and Access to Research For Women, Infants, Children, and Youth	93.153	N/A	N/A	\$ 79,014
Total Pass-Through DHHS Grants				\$ 328,956
Total Federal Grants				\$ 4,111,868

Notes to Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award (the "Schedule") of Low Country Health Care System, Inc. under programs of the federal government for the year ended November 30, 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 Low Country Health Care System, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Low Country Health Care System, 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. Low Country Health Care System, 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 November 30, 2019:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Facilities Loan	10.766	\$ 352,896
Community Facilities Loan	10.766	\$ 876,300



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

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
Low Country Health Care System, 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 Low Country Health Care System, Inc. which comprise the statement of financial position as of November 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Low Country Health Care System, 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 Low Country Health Care System, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Low Country Health Care System, 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 Low Country Health Care System, 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 Low Country Health Care System, Inc. in a separate letter dated March 6, 2020.

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 black ink that reads "Jenny Home CPA". The signature is written in a cursive style with a large initial "J".

Lebanon, TN
March 6, 2020



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

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

The Governing Board
Low Country Health Care System, Inc.

Report on Compliance for Each Major Federal Program

We have audited Low Country Health Care System, 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 Low Country Health Care System, Inc.'s major federal programs for the year ended November 30, 2019. Low Country Health Care System, 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 the requirements of federal statutes, regulations, 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 Low Country Health Care System, 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 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 Low Country Health Care System, 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 Low Country Health Care System, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Low Country Health Care System, 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 November 30, 2019.

Report on Internal Control Over Compliance

Management of Low Country Health Care System, 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 Low Country Health Care System, 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 Low Country Health Care System, 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
March 6, 2020

Low Country Health Care System, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 2019

Section A-Summary of Auditor's Results

Financial Statements

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

Name of Federal Program

Health Center Program Cluster

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

Auditee qualified as low-risk auditee? _____yes X no

Low Country Health Care System, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended November 30, 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

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

Questioned Costs: None Reported

Low Country Health Care System, Inc.

Summary Schedule of Prior Year Audit Findings

November 30, 2019

Prior Year Finding: 2018-001 Cash Management

The Organization failed to comply with grant guidelines regarding federal grant funds. The grant funds received exceeded the grant authorized expenditures for the period, resulting in excess federal cash on hand.

Status of Finding: Resolved

Low Country Health Care System, Inc.

Report to the Board of Directors

November 30, 2019

Low Country Health Care System, Inc.

Report to the Board of Directors

November 30, 2019

Table of Contents

❖ Transmittal Letter.....	1
❖ Summary of Professional Services.....	2
❖ Required Auditor Communications.....	3
❖ Management Letter.....	6



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

March 6, 2020

To the Board of Directors
Low Country Health Care System, Inc.

We have completed our audit of the financial statements of Low Country Health Care System, Inc. for the year ended November 30, 2019. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated March 6, 2020. 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 Low Country Health Care System, Inc.

Sincerely,

Terry Horne, CPA

Low Country Health Care System, 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 report to management on observations and recommendations for improvements
- ❖ Attendance at board meetings as requested

Low Country Health Care System, Inc.

Required Auditor Communications

We have audited the financial statements of Low Country Health Care System, Inc. (the Organization) for the year ended November 30, 2019, and we will issue our report thereon dated March 6, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 9, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended November 30, 2019. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for uncollectible accounts receivable is based on historical collection rates and an analysis of the collectibility of individual promises. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Low Country Health Care System, Inc.

Required Auditor Communications

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These corrections included decreases in pharmacy receivables and pharmacy revenue, a reduction of rent income and rent expense, and a correction of prior year net assets without donor restrictions for the Organization's investment in a pass-through entity.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representation

We have requested certain representations from management that are included in the management representation letter dated March 6, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Low Country Health Care System, Inc.

Required Auditor Communications

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governing Board and management of Low Country Health Care System, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189

MANAGEMENT LETTER

Board of Directors
Low Country Health Care System, Inc.

In planning and performing our audit of the financial statements of Low Country Health Care System, Inc. for the year ended November 30, 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 several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated March 6, 2020, on the financial statements of Low Country Health Care System, Inc.

I. Accounts Receivable Controls

1. A large amount of the patient accounts receivable balance (60% or over \$3.9 million) is more than 90 days past due. This balance has resulted mainly from unpaid balances due from patients and third-party payors. Aggressive collection efforts should be applied to these large outstanding balances and any uncollectible balance should be removed from the billing system.

Management's Response:

Management concurs. Procedures have been established to increase collection efforts on old outstanding balances and to remove uncollectible balances as recommended above.

II. Revenue Controls

1. The pharmacy revenue is not being reconciled to the general ledger account balances on a monthly and year-to-date basis. The year-to-date revenue report from the pharmacy billing systems should be reconciled to the general ledger each month. The absence of this procedure could result in a misstatement of account balances without being detected.

Management's Response:

Management concurs. Procedures will be established to ensure that the related pharmacy year-to-date revenue balances are reconciled on a monthly basis.

III. Procurement Controls

1. During the audit period the Organization did not verify that vendors paid for services were not listed on the government-wide System for Award Management (SAM) are in accordance with the OMB guidelines. SAM contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority. It is recommended that at least annually the System for Award Management be reviewed and the search results be printed and maintained before purchasing contractual services that exceed \$25,000 to ensure that the entity is in good standing with these federal requirements.

Management's Response:

Management concurs. Procedures will be established to ensure that System for Award Management will be reviewed at least annually for purchases of contractual services equal to or exceeding \$25,000 to ensure that payments will not be made to ineligible parties as listed on SAM website 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.



March 6, 2020