
CareSouth Carolina, Inc.

Financial Statements with Independent Auditor's Report
for the year ended May 31, 2019

Organizational Data

May 31, 2019

Board of Directors

Mr. Jay Hodge, Chairperson
Mr. Ennis Bryant, Vice Chairperson
Mrs. Bonnie J. Seals, Secretary
Mrs. Ernestine Powe, Asst. Secretary
Dr. Flossie Jackson, Treasurer
Mr. Trudy Drawhorn
Mrs. Mary Garvin
Representative Patricia Henegan
Mrs. Dorothy S. Joyner
Ms. Deloris LeGrant
Mrs. Teresa Gainey
Ms. Quinetta Buterbaugh

Management

Ms. Ann Lewis, Chief Executive Officer
Mr. Tim Walters, Chief Financial Officer

TABLE OF CONTENTS

Pages

INDEPENDENT AUDITOR’S REPORT 1

BASIC FINANCIAL STATEMENTS:

Statement of Financial Position 3
Statement of Operations and Changes in Net Assets..... 4
Statement of Functional Expenses 5 – 6
Statement of Cash Flows 7
Notes to Financial Statements 8

SINGLE AUDIT REQUIREMENTS:

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 *Governmental Auditing Standards* 20
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance 22
Schedule of Expenditures of Federal Awards 24
Schedule of Findings and Questioned Costs 25
Notes to Schedule of Expenditures of Federal Awards 27

SUPPLEMENTARY INFORMATION:

Statement of Functional Expenses – Community Health Center..... 28
Statement of Functional Expenses – Area Agency on Aging..... 30
Statement of Functional Expenses – Ryan White..... 31

BROWN CPA, LLC

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
CareSouth Carolina, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of CareSouth Carolina, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2019 and 2018, and the related statements of operations 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 opinions on these financial statements based on our audit. We conducted our audit 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 opinions.

Opinion

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

www.browncpallc.com | P.O. Box 3288 | Irmo, SC 29063 | 803-315-3029

Other Matters

Supplementary and Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2020, on our consideration of CareSouth Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CareSouth Carolina's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CareSouth Carolina's internal control over financial reporting and compliance.

BROWN CPA, L.L.C.

Irmo, South Carolina
February 27, 2020

CareSouth Carolina, Inc.
Statement of Financial Position

	May 31, 2019	May 31, 2018
Assets		
Current Assets:		
Cash	\$ 2,505,645	\$ 2,156,389
Cash Restricted	1,108,234	2,160,153
Accounts Receivable Patients, net of Allowance	2,846,399	1,954,037
Grant, Contracts, and Other Receivables	444,764	456,566
Due from Lieutenant Governor's Office	287,848	535,193
Settlements due from Medicare and Medicaid	997,326	2,060,000
Inventory of Pharmaceuticals	771,689	579,840
Employee Loan Receivable	2,462	2,462
Total Current Assets	8,964,367	9,904,640
Noncurrent Assets:		
Property and Equipment, Net	16,216,729	11,217,888
Employee Loan Receivable	4,971	12,512
Investments	50,206	50,206
Other Assets	52,430	48,022
Total Noncurrent Assets	16,324,336	11,328,628
Total Assets	\$ 25,288,703	\$ 21,233,268
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	\$ 408,389	\$ 811,998
Accrued Interest & Penalties	108,332	108,332
Employee Compensation	2,143,455	2,031,096
Withheld and Accrued Payroll Taxes	26,664	25,313
Current Maturity of Long-Term Debt	805,045	774,820
Total Current Liabilities	3,491,885	3,751,559
Noncurrent Liabilities:		
Compensated Absences	199,145	216,005
Long Term Debt, Less Current Maturity	3,557,906	4,091,951
Total Noncurrent Liabilities	3,757,051	4,307,956
Total Liabilities	7,248,936	8,059,515
Net Assets:		
Without Donnor Restriction	16,936,343	11,013,601
With Donor Restriction	1,103,424	2,160,152
Total Net Assets	18,039,767	13,173,753
Total Liabilities and Net Assets	\$ 25,288,703	\$ 21,233,268

See independent auditors report and notes to the financial statements.

CareSouth Carolina, Inc.
Statement of Operations and Changes in Net Assets
For the Years Ended

	May 31, 2019			May 31, 2018		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Revenues and Other Support						
Public Support						
Federal grant - Community Health Center	\$ 8,260,395	\$ -	\$ 8,260,395	\$ 7,903,455	\$ -	\$ 7,903,455
Federal grant - Quality Improvement	251,797	-	251,797	260,816	-	260,816
Federal grant - Ryan White	267,426	-	267,426	270,471	-	270,471
Federal and State Grants - AAA programs	2,173,486	-	2,173,486	2,099,236	-	2,099,236
State Grants	1,264,184	-	1,264,184	695,014	-	695,014
Patient Revenue, net	14,339,934	-	14,339,934	18,924,178	-	18,924,178
Pharmacy Income	23,898,004	-	23,898,004	19,151,486	-	19,151,486
Other Income	833,395	-	833,395	1,241,358	-	1,241,358
Donations	77,371	3,402,000	3,479,371	304,541	2,406,000	2,710,541
Net Assets Released from Restrictions	4,458,728	(4,458,728)	-	1,605,513	(1,605,513)	-
Total Revenues and Other Support	55,824,720	(1,056,728)	54,767,992	52,456,068	800,487	53,256,555
Expenses						
Program Services						
Community Health Center	36,030,011	-	36,030,011	34,319,787	-	34,319,787
Area Agency on Aging	3,529,008	-	3,529,008	3,027,133	-	3,027,133
Ryan White	384,906	-	384,906	445,907	-	445,907
Supporting Services						
Administration	6,989,123	-	6,989,123	6,510,390	-	6,510,390
Physical Plant	3,300,508	-	3,300,508	3,998,568	-	3,998,568
Total Expenses	50,233,556	-	50,233,556	48,301,785	-	48,301,785
Operating Income (Loss)	5,591,164	(1,056,728)	4,534,436	4,154,283	800,487	4,954,770
Non-Operating Income (Loss)						
(Loss) Gain on Sale of Asset	(12,488)	-	(12,488)	2,640	-	2,640
Investment Income	319,257	-	319,257	456,476	-	456,476
Interest Income	24,809	-	24,809	7,609	-	7,609
Total Non-Operating Income (Loss)	331,578	-	331,578	466,725	-	466,725
Change in Net Assets	5,922,742	(1,056,728)	4,866,014	4,621,008	800,487	5,421,495
Net Assets at Beginning of Year	11,013,601	2,160,152	13,173,753	6,392,593	1,359,665	7,752,258
Net Assets at End of Year	\$ 16,936,343	\$ 1,103,424	\$ 18,039,767	\$ 11,013,601	\$ 2,160,152	\$ 13,173,753

See independent auditors report and notes to the financial statements.

CareSouth Carolina, Inc.
Statement of Functional Expenses
For the Year Ended
May 31, 2019

	Program Services				Supporting Services			Total Expenses
	Community Health Center	Agency on Aging	Ryan White	Total	Admin-istration	Physical Plant	Total	
Personnel	\$ 20,486,763	283,119	226,061	20,995,943	2,811,218	(211,233)	\$ 2,599,985	\$ 23,595,928
Fringe benefits	4,014,877	80,223	52,085	4,147,185	593,290	145,756	739,046	4,886,231
Deprec & amortization	68,149	-	-	68,149	234,696	353,116	587,812	655,961
Travel	163,587	9,290	14,908	187,785	91,426	-	91,426	279,211
Supplies	1,708,359	-	34,895	1,743,254	407,666	192,991	600,657	2,343,911
Contractual services	357,839	3,151,167	-	3,509,006	2,058,845	798,366	2,857,211	6,366,217
Patient care services	8,265,958	-	31,392	8,297,350	51,665	-	51,665	8,349,015
Training	225,207	3,140	25,565	253,912	205,295	-	205,295	459,207
Insurance	-	-	-	-	17,000	137,548	154,548	154,548
Telephone	-	-	-	-	-	718,378	718,378	718,378
Postage	-	-	-	-	-	43,951	43,951	43,951
Utilities	-	-	-	-	-	245,382	245,382	245,382
Interest and penalties	-	-	-	-	142,848	166,243	309,091	309,091
Mtgs, public relations	275,379	-	-	275,379	50,761	-	50,761	326,140
Rental	295,798	-	-	295,798	-	541,023	541,023	836,821
Dues, mbrshp & subscript	2,805	-	-	2,805	94,984	-	94,984	97,789
Repairs and maintenance	73,095	-	-	73,095	-	151,408	151,408	224,503
Printing and advertising	5,108	2,069	-	7,177	179,132	-	179,132	186,309
Taxes and licenses	87,087	-	-	87,087	25,649	17,579	43,228	130,315
Recruitment and retention	-	-	-	-	-	-	-	-
Bad Debts	-	-	-	-	24,648	-	24,648	24,648
	<u>\$ 36,030,011</u>	<u>\$ 3,529,008</u>	<u>\$ 384,906</u>	<u>\$ 39,943,925</u>	<u>\$ 6,989,123</u>	<u>\$ 3,300,508</u>	<u>\$ 10,289,631</u>	<u>\$ 50,233,556</u>

See independent auditors report and notes to the financial statements.

CareSouth Carolina, Inc.
Statement of Functional Expenses
For the Year Ended
May 31, 2018

	Program Services				Supporting Services			Total Expenses
	Community Health Center	Agency on Aging	Ryan White	Total	Admin-istration	Physical Plant	Total	
Personnel	\$ 19,167,751	277,402	292,401	19,737,554	2,869,538	636,668	\$ 3,506,206	\$ 23,243,760
Fringe benefits	3,470,548	72,701	50,003	3,593,252	537,700	136,092	673,792	4,267,044
Deprec & amortization	68,149	-	-	68,149	210,786	283,778	494,564	562,713
Travel	145,311	4,228	18,879	168,418	66,435	-	66,435	234,853
Supplies	1,605,346	-	46,935	1,652,281	394,329	304,213	698,542	2,350,823
Contractual services	381,337	2,666,572	-	3,047,909	1,606,704	674,794	2,281,498	5,329,407
Patient care services	8,755,413	-	30,884	8,786,297	49,203	-	49,203	8,835,500
Training	147,720	3,230	6,805	157,755	268,557	-	268,557	426,312
Insurance	-	-	-	-	14,357	108,452	122,809	122,809
Telephone	-	-	-	-	-	749,460	749,460	749,460
Postage	-	-	-	-	-	43,189	43,189	43,189
Utilities	-	-	-	-	-	220,483	220,483	220,483
Interest and penalties	-	-	-	-	130,075	180,785	310,860	310,860
Mtgs, public relations	163,945	-	-	163,945	36,464	-	36,464	200,409
Rental	285,737	-	-	285,737	-	580,522	580,522	866,259
Dues, mbrshp & subscript	6,974	-	-	6,974	85,601	-	85,601	92,575
Repairs and maintenance	66,558	-	-	66,558	-	66,054	66,054	132,612
Printing and advertising	7,423	3,000	-	10,423	184,700	1,784	186,484	196,907
Taxes and licenses	47,575	-	-	47,575	30,941	12,294	43,235	90,810
Recruitment and retention	-	-	-	-	-	-	-	-
Bad Debts	-	-	-	-	25,000	-	25,000	25,000
	<u>\$ 34,319,787</u>	<u>\$ 3,027,133</u>	<u>\$ 445,907</u>	<u>\$ 37,792,827</u>	<u>\$ 6,510,390</u>	<u>\$ 3,998,568</u>	<u>\$ 10,508,958</u>	<u>\$ 48,301,785</u>

See independent auditors report and notes to the financial statements.

CareSouth Carolina, Inc.
Statement of Cash Flows
For the Year Ended

	<u>May 31, 2019</u>	<u>May 31, 2018</u>
Cash flows from Operating Activities:		
Increase (decrease) in net assets	\$ 4,866,014	\$ 5,421,495
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	655,961	562,713
Loss (Gain) on disposal of property and equipment	12,488	(2,640)
Increase in allowances on patient accounts receivables	25,936	25,000
Changes in operating assets and liabilities:		
(Increase) decrease in assets		
Patient accounts receivable	(918,298)	725,050
Grant and contract receivables	11,802	45,720
Due from Lieutenant Governor's Office	247,345	(63,191)
Due from Medicare and Medicaid	1,062,674	(1,450,607)
Inventory of pharmaceuticals	(191,849)	(153,519)
Other assets	(4,408)	(45,471)
Increase (decrease) in liabilities		
Accounts payable and accruals	(403,609)	(63,827)
Employee compensation	95,499	446,591
Payroll taxes withheld and accrued	1,351	(269,587)
Net cash provided by operating activities	<u>5,460,906</u>	<u>5,177,727</u>
Cash flows from Investing Activities:		
Additions to property and equipment	(5,667,290)	(3,021,386)
Employee loan	-	(16,000)
Employee loan repayment	7,541	1,026
Acquisition of investments	-	(4,735)
Net cash used in investing activities	<u>(5,659,749)</u>	<u>(3,041,095)</u>
Cash flows from Financing Activities		
Proceeds from issuance of long-term debt	304,007	1,113,326
Long-term debt payments	(807,827)	(752,683)
Net cash provided by (used in) financing activities	<u>(503,820)</u>	<u>360,643</u>
Net increase in cash	(702,663)	2,497,275
Cash and cash equivalents, beginning of year	<u>4,316,542</u>	<u>1,819,267</u>
Cash and cash equivalents, end of year	<u>\$ 3,613,879</u>	<u>\$ 4,316,542</u>
Cash at the end of the year is presented as:		
Cash and cash equivalents, unrestricted	\$ 2,505,645	\$ 2,156,389
Cash and cash equivalents, restricted	1,108,234	2,160,153
	<u>\$ 3,613,879</u>	<u>\$ 4,316,542</u>
Supplemental Disclosure:		
Interest paid	\$ 309,092	\$ 310,860
Noncash acquisition of property and equipment	\$ 90,581	\$ 90,000

See independent auditors report and notes to the financial statements.

Note 1: Description of Organization

CareSouth Carolina, Inc. (the Organization) consists of clinics providing primary, preventative and integrated behavioral health care services to the medically underserved residents of Lee, Chesterfield, Marlboro, Dillon and Darlington counties in South Carolina. The Organization is grantee of the Department of Health and Human Services Grants H80CS00654, H76HAO0713 and C8CC527663 and through the Governor's Office of the State of South Carolina receives Federal and State revenues as an Area Agency on Aging; also, through the South Carolina Department of Health and Human Services a Capital Improvement Funding grant. The organization impacts lives through three primary service areas:

- I. Community Health Center – This consists of the various locations and associated supporting personnel that provide medical and dental services.
- II. Area Agency on Aging – The Organization has been designated as an Area Agency on Aging and receives funds from the South Carolina Lieutenant Governor's Office on Aging for delivery to local service providers. An amount of \$287,848 is shown as due from the Lieutenant Governor's Office related to grant activity thru May 31, 2019.

The amount represents pass-through funds as well as amounts earned for administrative services which had not been received for the grant period ending June 30, 2019. The funds earned include both Federal and State sources. Funds under the Older Americans Act of 1965 include Title III-B (Social Services), Title III-C (Nutrition Program), Title III-D (Services to Frail Elderly), Title III-E (Family Caregiver Services), Title VII (Elder Abuse), and NSIP (Meal Program). State Funds include ACE/Bingo (Alternative Care for the Elderly) and Community Services (In Home Services).

- III. Ryan White – This consists of the various locations and associated supporting personnel that provide medical and dental services to individuals with Acquired Immune Deficiency Syndrome.

Note 2: Summary of Significant Accounting Policies

The organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for NFPs. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

The Organization records its financial transactions on the accrual basis of accounting. All expenses are recorded at the time the liabilities are incurred. Patient accounts receivable and revenues are recorded when patient services are provided.

Performance Indicator

The performance indicator is operating income. Changes in unrestricted net assets, which are excluded from operating income, include investment income, gain or loss on disposal of fixed assets, and interest income which is consistent with industry practice.

Financial Statement Presentation

Under accounting standards, not-for-profit organizations are required to provide a statement of financial position, a statement of activities, and a statement of cash flows. Also, voluntary health and welfare organizations are required to provide a statement of functional expenses that reports expenses by both functional and natural classifications. Also required is the classification of an organization's net assets and its revenue, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions.

Amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - are displayed in a statement of financial position, and the amounts of change in each of those classes of net assets are displayed in a statement of operations and changes in net assets. The Organization has had no permanently restricted net assets.

Donated Services and Supplies

The Organization recognizes donated services of individuals if the services create or enhance nonfinancial assets or if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No donated services were recognized during the current audit period.

Physician/Specialist Contracts

The Organization sometimes contracts with physician/specialists, such contracts are generally for one year and start and end at various periods during the fiscal year. The organization has no physician/specialists compensated as independent contractors.

Expense Allocation

Expenses are charged directly to program and supporting services as appropriate. Administration and physical plant expenses include those expenses that are not directly identifiable with a specific function but provide overall support and direction.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not have any income it considers to be subject to tax on unrelated business income. The Organization believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Cash and Cash Equivalents

The amounts shown in the financial statements as “cash and cash equivalents” represent cash on hand, deposits in banks, and short-term investments. Cash deposits are reported at carrying amount which reasonably estimates fair value. CareSouth considers all highly liquid deposit accounts and investments with original maturities of three months or less at the time of acquisition to be cash equivalents.

Cash Restricted

The amounts shown in the financial statements as “cash restricted” represent cash on hand, deposits in banks, and short-term investments. These amounts are considered restricted because it was received with a donor stipulation that the cash be spent for a specific purpose and CareSouth has not yet satisfied that restriction.

Accounts Receivable and Revenue

CareSouth receives proceeds from various federal, state, and private grants and or entitlements. Accounts receivable represent monies expended under various contracts for which payment will be received after the fiscal year end. The Organization provides an allowance for doubtful receivables equal to the estimated future losses on year-end receivables. The estimated losses are based on local experience in the health care industry along with a review of the current status of the existing receivables.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from

restrictions. Support that is restricted by the donor, including federal grant awards, is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Inventories

Maintenance, operating, medical and office supplies are not inventoried, but are charged to operations when the expense is incurred. Inventory of pharmaceuticals are valued at cost, on a first in - first out basis.

Property and Equipment, Depreciation, and Amortization

CareSouth's property, plant, and equipment with useful lives of more than one year are stated at historical cost if purchased or fair value if contributed. It is the policy to record contributions of cash restricted by the donor as temporarily restricted until such time as the restriction has been lifted by complying with the donors specified purpose in the contribution. When restricted contributions have been received and the restriction has been satisfied in the same fiscal year CareSouth records such transactions as unrestricted. Certain property and equipment have been acquired thru bank financing and is subject to a lender lien. Additionally, certain property and equipment has been acquired thru donation to the organization. Donated assets typically require that the assets be used for a specific purpose specified by the donor. CareSouth does not have any donated assets where title may revert to another party such as the donor. Additionally, CareSouth does not have any donor imposed or legal limitation on the use of property and equipment or the proceeds from the disposition of property and equipment. Donated assets are stated at fair value on the date donated. CareSouth generally capitalizes assets with cost or donor value of \$5,000. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Investments

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

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

Employee Loan

As part of the recruitment of providers, the Organization from time to time will make an advance to the provider to be repaid via payroll deductions. Generally, any such advances are repaid over a three-year period or less.

Accrued Compensated Absences and Related Benefits

CareSouth employees are entitled to accrue and carry forward at calendar year end a maximum of 45 days sick leave and 240 hours annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave, but are not entitled to any payment for unused sick leave. CareSouth calculates the gross compensated absences based on recorded balances of unused leave for which it expects to compensate employees for the benefits through paid time off or cash payments. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments. The net change in the liability is recorded in the current year in the applicable payroll expense.

Net Assets: Temporarily restricted net assets are those whose use by CareSouth has been limited by donors or there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, laws, or regulations of governments to a specific time period or purpose. Temporarily restricted net assets are generally available to fund designated capital expenditures and specific health care programs of CareSouth.

Donor-restricted Gifts

Unconditional promises to give cash and other assets are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met, and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. To the extent that restricted resources from multiple donors are available for the same purpose, CareSouth expends such gifts on a first-in, first-out basis.

Income Taxes

CareSouth has obtained an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no income taxes have been accrued in the financial statements. CareSouth must annually file a form 990 with the IRS; this return is subject to examination for the proceeding three years from the date filed.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates and assumptions.

Significant estimates include, but are not limited to, accounts receivable allowances, third-party payer receivables and payables, and useful lives assigned to capital assets.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates associated with these programs will change by a material amount in the near term.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* defers the effective date of Update 2014-09 for all entities by one year. ASU 2014-9 provides a five-step analysis of transactions to determine when and how revenue is recognized that consists of: i) identify the contract with

the customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations, and v) recognize revenue when or as each performance obligation is satisfied. The changes are intended to increase comparability, as well as simplify preparation of financial statements and provide more useful information to users through improved disclosures. The standard is effective for annual reporting periods beginning after December 15, 2017. CareSouth has not determined any impacts on the consolidated financial statements that might result from application of this new standard. ASU 2014-09 (as revised) is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Early application is allowed, but no earlier than annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which makes targeted improvements in the recognition, measurement, presentation, and disclosure of financial instruments. For nonprofit organizations, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Generally, nonprofit organizations may adopt the provisions of the ASU earlier as of fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. However, the ASU allows nonprofit organizations the option to (1) adopt the presentation guidance in FASB ASC 825-10-45-5 through 45-7 regarding financial liabilities for which the fair value option is elected and (2) not disclose the information regarding the fair value of financial instruments set forth in FASB ASC 825-10-50 in financial statements of fiscal years or interim periods that have not yet been made available for issuance. Users should refer to the ASU for the specific transition and disclosure requirements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which, among other things, requires the recognition of lease assets and lease liabilities on the statement of financial position of lessees for operating leases, along with the disclosure of key information about leasing arrangements. When effective, the ASU will supersede FASB ASC 840, *Leases*, and add FASB ASC 842, *Leases*, to the FASB ASC. It will also amend and/or supersede a number of other requirements in the FASB ASC. The ASU is effective for most nonprofit organizations for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted.

Reclassifications

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

Note 2: Liquidity and Funds Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise of the following as of May 31:

	May 31, 2019	May 31, 2018
Cash	\$ 2,505,645	\$ 2,156,389
Accounts Receivable, Net	2,846,399	1,954,037
Grant, Contracts, & Other	444,764	456,565
Due from Lt. Governor's Office	287,848	535,193
Settlement due	997,326	2,060,000
Inventory	771,689	579,840
Accounts Receivable, Net	<u>\$ 7,853,671</u>	<u>\$ 7,742,024</u>

Note 3: Investments

The Organization also has an investment in the common stock of Community Integrated Management Services, LLC (CIMS), a nonpublic entity. CIMS was formed to develop and implement clinical and financial protocols that will provide enhanced clinical services to the patients that each member services, participate in managed care contracts on behalf of its members, and provide more efficient clinical services to the patients of each member through standardized clinical protocols and outcomes. As the Organization owned less than 20 percent of the common stock at May 31, 2019 and 2018, the investment was accounted for using the cost method of accounting. The carrying value of the investment was \$50,206 at May 31, 2019 and \$50,206 at May 31, 2018. There has not been an impairment in the fair value of a cost-method investment as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment and the Organization determined, in accordance with paragraphs 16–19 of FASB ASC 825-10-50, that it is not practicable to estimate the fair value of the investment. Income from the investment in CIMS was approximately \$319,257 and \$456,476 for the years ended May 31, 2019 and 2018.

Note 4: Revenue and Patient Accounts Receivable (Significant Estimate)

Certain amounts accrued as receivables are estimated amounts to be received.

Accounts receivable were as follows:

	May 31, 2019	May 31, 2018
Patient Fees	\$ 2,569,807	\$ 1,734,467
Pharmacy	912,528	2,729,570
	<u>4,464,037</u>	<u>3,289,087</u>
Less Allowance	(635,936)	(2,510,000)
Accounts Receivable, Net	<u>\$ 2,846,399</u>	<u>\$ 1,954,037</u>

Note 5: Property and Equipment

Property and equipment is depreciated on the straight line basis. Amounts and depreciable lives were as follows:

	May 31, 2019	May 31, 2018	
Land	\$ 2,366,247	\$ 2,359,577	n/a
Buildings & Improvements	7,661,450	7,171,455	7 – 50
Leasehold Improvements	289,335	266,159	10 – 30
Furniture & Equipment	1,355,636	1,089,140	5 – 10
Office Equipment	2,221,263	2,221,263	5 – 20
Vehicles	748,950	649,523	5 – 7
Construction in Process	1,941,389	–	n/a
	<u>16,577,600</u>	<u>13,567,117</u>	
Accumulated Depreciation	(5,359,712)	(4,810,542)	
Property & Equipment, Net	<u>\$ 11,217,888</u>	<u>\$ 8,756,575</u>	

Depreciation expense for the year ended May 31, 2019 and 2018 was \$655,960 and \$562,712, respectively.

Construction in Process consisted of the following at May 31, 2019:

Project McColl – This project includes the construction of a new freestanding medical office building of approximately 30,000 square feet in McColl South Carolina with an estimated total construction cost of approximately \$6,008,155, the project is being paid for thru donations being received as construction progresses from a local foundation which has indicated their intent to reimburse CareSouth for the entire cost of construction. During the current year CareSouth received approximately \$3,402,000 from the donor towards construction costs of approximately \$4,091,851, with the unspent donation plus the beginning cash balance of \$680,887 resulting in an ending cash balance of \$1,036 reported as restricted cash and temporarily restricted net assets. The project was completed in June, 2019. At May 31, 2019 overall project construction costs totaled approximately \$6,000,000.

Project Hartsville Pharmacy – This project includes the construction of a new freestanding pharmacy building of approximately 2,343 square feet in Hartsville South Carolina with an estimated total construction cost of approximately \$359,000, the project is being paid for thru a combination of corporate cash and a new loan. During the year ended May 31, 2018 CareSouth borrowed \$300,000 to finance cost of construction. It is anticipated that construction will be completed October 2019. At May 31, 2019 construction related costs, drawings and such, totaled approximately \$28,800.

Project Chesterfield – This project includes the construction of a new freestanding medical office building of approximately 17,020 square feet in Chesterfield South Carolina with an estimated total construction cost of approximately \$4,080,470. The project is being paid for thru a combination of 1) temporarily restricted cash totaling \$678,350, and, 2) a construction loan from a commercial bank totaling \$3,315,000 a 5% fixed rate of interest. The board of directors at their November 2018 board meeting approved the project construction cost and associated loan. It is anticipated that construction will be completed March 2020. At May 31, 2019 construction costs totaled approximately \$335,400.

Project Dillon – This project includes the construction of a new freestanding medical office building of approximately 17,020 square feet in Dillon South Carolina. Architectural plans have been approved and in December 2018 CareSouth purchased the land for approximately \$6,000. It is estimated that total project costs will be approximately 4,000,000. The project is expected to be paid for thru a combination of 1) temporarily restricted cash totaling \$500,000, and, 2) a construction loan from a commercial bank. It is anticipated that construction will be completed September 2020. At May 31, 2019 construction costs totaled approximately \$11,675.

Note 6: Lease Commitments

At May 31, 2019, future minimum payments under noncancelable operating leases with remaining terms in excess of one year were as follows:

Fiscal Year Ending May 31:	
2020	\$ 373,385
2021	152,322
2022	103,875
2023	73,774
2024	70,098
Thereafter	130,080
Total	<u>\$ 903,534</u>

Certain equipment or facilities are leased on a month to month basis and not included in the above schedule. Total lease expense for the fiscal year ended May 31, 2019 was approximately \$836,821.

Note 7: Long-Term Debt

Long Term Debt

The Organization's long-term debt is as follows:

	May 31, 2019	May 31, 2018
Real estate note payable to a commercial lender in monthly installments of principal and interest of \$7,126 maturing November 2018.	\$ —	\$ 30,076
Term note payable to a commercial lender in monthly installments of principal and interest of \$11,686 maturing November 2021. Interest is at a variable rate of 7.69% at year-end. Secured by a lien against the associated building and land with a carrying value of \$898,753.	308,562	425,535
Term note payable to a health care organization collateralized by land and buildings with a carrying value of \$2,539,485 payable in monthly installments totaling \$21,420, including interest at 5.5% with final maturity is scheduled for September 2028.	1,870,162	2,019,885
Term note payable to the US Government, through the US Department of Agriculture, collateralized by a mobile dental vehicle with a carrying value of \$0 payable in monthly payments of \$1,996 including interest at 4% per year. Final maturity is scheduled for September 2020.	30,983	53,211
Term note payable to a commercial lender collateralized by land and buildings with a carrying value of \$2,539,485 (with existing mortgages to a healthcare organization), payable in monthly installments of \$22,138, including interest at a variable rate of 6.9% per year. Final maturity is scheduled for December 2021.	589,692	810,967
Term note payable to a commercial lender collateralized by "all accounts and other rights to payments" payable in monthly installments of \$4,879 including interest at 6.9% per year.	257,618	296,926
Term notes payable to a vendor collateralized by equipment with a carrying value of \$44,797 payable in monthly installments of principal and interest totaling \$1,681 with final maturity scheduled for May 2019.	—	25,556
Term notes payable to a commercial lender, collateralized by automobiles with a carrying value of \$0 paid in monthly installments of principal and interest of \$1,025, with interest at 4.5% with final maturity scheduled for October 2018.	—	4,168

Term note payable to a commercial lender collateralized by medical equipment with a carrying value of \$41,762 paid in monthly installments of \$1,630 including interest at 5.25% with final maturity is scheduled for May 2019.	–	18,817
Term note payable to a commercial lender paid in monthly installments of principal and interest of \$420 with interest rates of 3.65% with final maturity scheduled for January 2020.	3,486	8,302
Term note payable to a commercial lender, collateralized by an automobile with a carrying value of \$4,576 paid in monthly installments of principal and interest of \$420 with interest at 3.85% with final maturity scheduled for January 2020.	4,530	9,295
Term note payable to a commercial lender, collateralized by an automobile with a carrying value of \$19,811 paid in monthly installments of principal and interest of \$560 with interest at 3.85% with final maturity scheduled for August 2021.	14,434	20,471
Term note payable to a commercial lender, collateralized by equipment with a carrying value of \$60,430 paid in monthly installments of principal and interest of \$1,400, with a variable interest rate of 3.25% with final maturity scheduled for February 2022.	45,158	60,026
Term note payable to a commercial lender, collateralized by equipment with a carrying value of \$17,115, paid in monthly installments of principal and interest of \$525 with a variable interest rate of 3.25% with final maturity scheduled for March 2022.	17,191	22,832
Term note payable to a commercial lender collateralized by real property and a building with a carrying value of \$457,353 paid in monthly installments of principal and interest of \$2,500 with a variable interest rate of 5.50% with a balloon payment of approximately \$287,481 scheduled for July 2022.	327,527	339,230
Term note payable to a commercial lender, collateralized by equipment with a carrying value of \$82,915, paid in monthly installments of principal and interest of \$3,000, with a variable interest rate of 4.50% with final maturity scheduled for July 2020.	41,676	75,156
Term note payable to a commercial lender, collateralized by a vehicle with a carrying value of \$35,308 paid in monthly installments of principal and interest of \$875 with a variable interest rate of 4.50% with a final	31,963	40,815

maturity scheduled for August 2022.		
Term note payable to a commercial lender collateralized by three vehicles with a carrying value of \$48,223 paid in monthly installments of principal and interest of \$1,300 with a variable interest rate of 4.50% scheduled for October 2022.	49,927	62,971
Term note payable to a commercial lender collateralized by real property with a carrying value of \$110,000 paid in monthly installments of principal and interest of \$750 with a variable interest rate of 5.50% with a balloon payment of approximately \$93,320 scheduled for November 2022.	105,341	108,637
Term note payable to a commercial lender collateralized by equipment with a carrying value of \$54,988 paid in monthly installments of principal and interest of \$1,850 with a variable interest rate of 4.00% and a scheduled maturity of March 2021.	39,425	59,606
Term note payable to a commercial lender, collateralized by equipment with a carrying value of \$70,654 paid in monthly installments of principal and interest of \$1,465 with a fixed interest rate of 4.25% with a final maturity scheduled for April 2023.	63,412	77,958
Term note payable to a commercial lender collateralized by two vehicles and equipment with a carrying value of \$125,064 paid in monthly installments of principal and interest of \$2,000 with a variable interest rate of 4.75% and a balloon payment of approximately \$42,340 scheduled for July 2023.	125,625	0
Term note payable to South Carolina Office of Rural Health, collateralized by real property with a carrying value of \$110,000 paid in monthly installments of principal and interest of \$2,219, with a fixed interest rate of 4.00% and a scheduled maturity for February 2033.	281,281	296,331
Term note payable to a commercial lender collateralized by office equipment with a carrying value of \$161,952 paid in monthly installments of principal and interest of \$4,950 with a fixed rate of interest of 5.75% and a scheduled maturity of March 2022.	154,959	0
	<u>4,362,951</u>	<u>4,866,771</u>
Less: current portion of long-term debt	(805,045)	(774,820)
Long-term debt	<u>\$ 3,557,906</u>	<u>\$ 4,091,951</u>

Future maturities of long-term debt are as follows:

2020	\$ 805,045
2021	797,592
2022	552,788
2023	683,613
2024	311,313
Thereafter	1,212,600
	<u>\$ 4,362,951</u>

Note 8: Net Assets

Rrestricted net assets are as follows:

	May 31, 2019	May 31, 2018
1 – DHHS Building Grant Chesterfield	\$ 342,981	\$ 678,350
2 – DHHS Building Grant Dillon	481,655	500,000
3 – Donation for new building in McColl	1,036	690,887
4 – Loan proceeds for Hartsville Pharmacy	277,752	290,915
Total	<u>\$ 1,103,424</u>	<u>\$ 2,160,152</u>

1. South Carolina Department of Health and Human Services (DHHS) grant in the amount of \$750,000. This grant is to construct a building in Chesterfield County to provide medical services. At May 31, 2019, land had been purchased in the amount of \$63,650 and land improvements for \$8,000, and other construction activity leaving \$342,981 temporarily restricted.

2. South Carolina Department of Health and Human Services (DHHS) grant in the amount of \$500,000. This grant is to construct a new primary care facility in Dillon, South Carolina. At May 31, 2019 construction had not commenced; the entire grant amount is temporarily restricted.

3. Amounts received from a donor for construction of a new medical facility in McColl, SC.

4. Amounts received from South Carolina Office of Rural Health for construction of a new pharmacy building in Hartsville, SC.

Note 9: Concentration of Risk

Substantially all net income for the fiscal year ended May 31, 2019 was a result of sales from the Pharmacy sales as a result of CareSouth’s participation in the Federal Government’s 340B program.

Note 10: Contingencies

The Organization is a provider of services under the Medicare and Medicaid programs. Under these programs, the Clinic is entitled to reimbursement of certain patient charges by the federal and state governments. The reimbursement is at contracted rates and is generally different from established billing rates. Differences between established billing rates and contract based reimbursements are recorded as allowances and contractual adjustments to patient service revenues. Revenues received from the Medicare and Medicaid programs are subject to review by appropriate governmental authorities or their agents. Both the Medicare and Medicaid program settlements are complete through May 31, 2019. Settlements due from Medicare and Medicaid in the amount of \$997,326 shown on the statement of financial condition include reimbursement amounts due from managed care organizations (MCOs.)

The Organization participates in federal and state grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grant, refunds of any money received may be required and the collectability of any related receivables at May 31, 2019 may be impaired.

Litigation – The Organization is from time to time involved in various litigation matters as either plaintiff or defendant. After considering known and potential litigation outstanding at May 31, 2019 management does not expect to have a material adverse effect on the Organization’s future financial position, or results of operations.

Note 11: Employee Benefit Programs

The Organization maintains a tax-sheltered annuity program which is available to all employees on a voluntary basis. Also, a Section 125 (Cafeteria) Plan is available which provides certain benefits on a pre-tax basis. The Organization has been designated a state-covered entity by South Carolina, and therefore employees may participate in State Sponsored deferred compensation programs, long-term disability, medical and dependent care spending accounts and supplemental health insurance programs.

Note 12: Related Party Transactions

On July 14, 2003, CareFirst Carolina Foundation, Inc. was incorporated under the laws of the State of South Carolina as a nonprofit corporation. The intent of this organization is to develop and implement fundraising activities for the benefit of CareSouth. During the year ended May 31, 2019, CareSouth Carolina, Inc. incurred an estimated \$25,000 of expenses (payroll, supplies, printing, etc.) associated with support for the Foundation.

Note 13: Patient Revenue

Patient revenue, not including deductions for bad debts, which are recorded as an administrative expense, was as follows:

	May 31, 2019	May 31, 2018
Patient Revenue	\$ 36,490,109	\$ 40,251,880
Medicare & Medicaid Adjustments	(8,036,872)	(7,809,955)
Sliding Fee Scale Adjustments	(7,635,575)	(7,998,298)
Other Adjustments	(6,477,728)	(5,519,449)
Accounts Receivable, Net	<u>\$ 14,339,934</u>	<u>\$ 18,924,178</u>

Note 14: Nonmonetary Transaction

During the year ended May 31, 2019 the Organization received from a donor land and building in Bishopville South Carolina. Based upon an appraisal performed it was determined that the land was worth \$20,000 and the building was \$70,000 at the time of donation.

Note 15: Subsequent Events Review

Management has reviewed the activity of CareSouth subsequent to year-end through February 27, 2020, the date the statements were available to be issued, for items of significance that would be required by professional standards to be disclosed in these statements. No items of significance were noted.

SINGLE AUDIT ACT REQUIREMENTS

BROWN CPA, LLC

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*

To the Board of Directors
CareSouth Carolina, Inc.
Hartsville, SC

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 CareSouth Carolina, Inc.’s (“CareSouth” a nonprofit organization) which comprise the statement of financial position as of May 31, 2019, and the statements of activities, functional expenses, and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated February 27, 2020.

Internal Control over Financial Reporting

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

www.browncpallc.com | P.O. Box 3288 | Irmo, SC 29063 | 803-315-3029

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 organization'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.

BROWN CPA, L.L.C.

Irmo, South Carolina
February 27, 2020

BROWN CPA, LLC

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

To the Board of Directors
CareSouth Carolina, Inc.
Hartsville, SC

Report on Compliance for Each Major Federal Program

We have audited CareSouth Carolina, Inc.'s ("CareSouth") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CareSouth Carolina's major federal programs for the year ended May 31, 2019. CareSouth Carolina'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 CareSouth Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 CareSouth Carolina'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 CareSouth Carolina's compliance.

Opinion on Each Major Federal Program

In our opinion, CareSouth 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.

www.browncpallc.com | P.O. Box 3288 | Irmo, SC 29063 | 803-315-3029

Report on Internal Control over Compliance

Management of CareSouth Carolina is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the CareSouth Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CareSouth Carolina'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 are considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BROWN CPA, L.L.C.

Irmo, South Carolina
February 27, 2020

CareSouth Carolina, Inc.
Schedule of Expenditure of Federal Awards
For the Year Ended
May 31, 2019

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
Direct Program			
Department of Health and Human Services			
<u>Health Center Program Cluster</u>			
Health Center Program (Community Health Centers, Migrant Health Centers, etc.)	93.224	N/A	\$ 8,260,395
<i>Total Health Center Program Cluster</i>			<u>8,260,395</u>
Small Health Care Provider Quality Improvement	93.912	N/A	251,797
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	267,426
Total Direct Programs			<u>8,779,618</u>
Indirect Programs			
Department of Health and Human Services			
S.C. Lieutenant Governor's Office on Aging			
<u>Aging Cluster</u>			
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	N/A	694,611
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	N/A	804,063
Nutrition Services Incentive Program	93.053	N/A	214,244
<i>Total Aging Cluster</i>			<u>1,712,918</u>
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	N/A	4,495
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	N/A	28,033
Special Programs for the Aging Title IV and Title II Discretionary Projects / Senior Medicare Patrol	93.048	N/A	24,379
National Family Caregiver Support, Title III, Part E	93.052	N/A	314,644
Medicare Enrollment Assistance Program	93.071	N/A	39,596
State Health Insurance Assistance Program	93.324	N/A	49,421
			<u>460,568</u>
Total Indirect Programs			<u>2,173,486</u>
Total Federal Expenditures			<u>\$ 10,953,104</u>

The accompanying notes are an integral part of this schedule.

CareSouth Carolina, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended
May 31, 2019

Section I - Summary of Auditors Results

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified?	_____ Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified?	_____ Yes	<u> X </u> None reported	
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	<u> X </u> No	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
93.052	National Family Caregiver Support, Title III, Part E

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Status of Comments from 2018 Audit

There were no financial statement findings or findings and questioned costs for major Federal awards programs report prior year end in the prior year ended May 31, 2018.

Note 1 Description

CareSouth has adopted *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 were adopted to fulfill the financial and compliance audit requirements of federal grantor agencies. For purposes of implementing Uniform Guidance, federal grant awards were made susceptible to audit and are included in the Schedule of Expenditures of Federal Awards.

Note 2 Summary of Significant Accounting Policies

The financial activity shown on the Schedule of Expenditures of Federal Awards reflects amounts recorded by CareSouth during its fiscal year June 1 2018, through May 31, 2019, and accordingly does not include a full year's financial activity for grants awarded or terminated on dates not coinciding with CareSouth Carolina's fiscal year. CareSouth reports these on the accrual basis of accounting. CareSouth has not elected to use the 10 percent de minimis cost rate as covered in 2 CFR 200.414 when applicable.

Other Information

CareSouth Carolina, Inc. - Community Health Center Division
Statement of Functional Expense by Department
For the Year Ended May 31, 2019

	Medical	Dental	Social Services	Lab	Radi- ology	Pharmacy	Medical Social Work	Outreach	Patient Records
Personnel	\$ 13,522,833	\$1,080,795	\$ -	\$ 720,984	\$229,358	\$ 2,861,564	\$ 941,025	\$237,762	\$427,750
Fringe benefits	2,611,706	181,686	-	212,624	52,325	494,639	177,874	65,751	130,945
Deprec & amortization	68,149	-	-	-	-	-	-	-	-
Travel	127,754	7,324	1,976	629	1,103	1,060	4,309	6,491	-
Supplies	1,009,762	199,989	-	346,463	28,414	123,731	-	-	-
Contractual services	286,723	2,522	-	-	-	68,594	-	-	-
Patient care services	157,877	-	-	212,985	31,765	7,857,501	-	-	5,830
Training	190,475	11,576	-	-	2,296	12,741	940	2,673	-
Insurance	-	-	-	-	-	-	-	-	-
Telephone	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Interest and penalties	-	-	-	-	-	-	-	-	-
Mtgs, public relations	-	-	-	-	-	-	-	-	-
Rental	264,844	994	-	-	-	-	-	-	29,960
Dues, mbrshp & subscript	2,545	-	-	-	-	260	-	-	-
Repairs and Maintenance	63,083	10,012	-	-	-	-	-	-	-
Printing and advertising	3,971	-	-	-	-	1,137	-	-	-
Taxes and licenses	71,295	2,666	-	1,190	554	11,382	-	-	-
Recruitment and retention	-	-	-	-	-	-	-	-	-
Bad Debts	-	-	-	-	-	-	-	-	-
	<u>\$ 18,381,017</u>	<u>\$1,497,564</u>	<u>\$ 1,976</u>	<u>\$1,494,875</u>	<u>\$345,815</u>	<u>\$ 11,432,609</u>	<u>\$1,124,148</u>	<u>\$312,677</u>	<u>\$594,485</u>

CareSouth Carolina, Inc. - Community Health Center Division
Statement of Functional Expense by Department
For the Year Ended May 31, 2019

	Mar- keting	Adminis- tration	Physical Plant	Total
Personnel	\$464,692	\$ 2,653,570	\$ (211,233)	\$ 22,929,100
Fringe benefits	87,327	567,144	145,756	4,727,777
Deprec & amortization	-	234,311	353,116	655,576
Travel	12,941	69,244	-	232,831
Supplies	-	392,006	192,100	2,292,465
Contractual services	-	2,058,845	794,570	3,211,254
Patient care services	-	51,665	-	8,317,623
Training	4,506	199,858	-	425,065
Insurance	-	17,000	137,548	154,548
Telephone	-	-	706,195	706,195
Postage	-	-	43,737	43,737
Utilities	-	-	240,190	240,190
Interest and penalties	-	142,818	166,243	309,061
Mtgs, public relations	275,379	48,720	-	324,099
Rental	-	-	524,703	820,501
Dues, mbrshp & subscript	-	93,954	-	96,759
Repairs and Maintenance	-	-	151,408	224,503
Printing and advertising	-	179,132	-	184,240
Taxes and licenses	-	25,649	17,039	129,775
Recruitment and retention	-	-	-	-
Bad Debts	-	24,648	-	24,648
	<u>\$ 844,845</u>	<u>\$ 6,758,564</u>	<u>\$ 3,261,372</u>	<u>\$ 46,049,947</u>

CareSouth Carolina, Inc. - Area Agency on Aging Division
Statement of Functional Expense by Department
For the Year Ended May 31, 2019

	<u>Medical</u>	<u>Community Services</u>	<u>Outreach</u>	<u>Mar- keting</u>	<u>Adminis- tration</u>	<u>Physical Plant</u>	<u>Total</u>
Personnel	\$ -	\$ 72,144	\$ 210,976	\$ -	\$ 157,648	\$ -	\$ 440,768
Fringe benefits	-	19,540	60,683	-	26,146	-	106,369
Deprec & amortization	-	-	-	-	385	-	385
Travel	-	4,293	4,997	-	22,182	-	31,472
Supplies	-	-	-	-	9,004	891	9,895
Contractual services	429,250	2,721,916	-	-	-	3,796	3,154,962
Patient care services	-	-	-	-	-	-	-
Training	-	3,140	-	-	5,437	-	8,577
Insurance	-	-	-	-	-	-	-
Telephone	-	-	-	-	-	8,076	8,076
Postage	-	-	-	-	-	214	214
Utilities	-	-	-	-	-	5,192	5,192
Interest and penalties	-	-	-	-	30	-	30
Mtgs, public relations	-	-	-	-	2,041	-	2,041
Rental	-	-	-	-	-	13,920	13,920
Dues, mbrshp & subscript	-	-	-	-	1,030	-	1,030
Repairs and Maintenance	-	-	-	-	-	-	-
Printing and advertising	-	-	-	2,069	-	-	2,069
Taxes and licenses	-	-	-	-	-	540	540
Recruitment and retention	-	-	-	-	-	-	-
Bad Debts	-	-	-	-	-	-	-
Loss on sale of fixed assets	-	-	-	-	-	-	-
	<u>\$ 429,250</u>	<u>\$ 2,821,033</u>	<u>\$ 276,656</u>	<u>\$ 2,069</u>	<u>\$ 223,903</u>	<u>\$ 32,629</u>	<u>\$ 3,785,540</u>

CareSouth Carolina, Inc. - Ryan White Division
Statement of Functional Expense by Department
For the Year Ended May 31, 2019

	<u>Medical</u>	<u>Dental</u>	<u>Lab</u>	<u>Pharmacy</u>	<u>Social</u> <u>Services</u>	<u>Medical</u> <u>Social</u> <u>Work</u>	<u>Adminis-</u> <u>tration</u>	<u>Physical</u> <u>Plant</u>	<u>Total</u>
Personnel	\$ 61,077	\$ -	\$ -	\$ -	\$ 164,984	\$ -	\$ -	\$ -	\$ 226,061
Fringe benefits	13,960	-	-	-	38,125	-	-	-	52,085
Deprec & amortization	-	-	-	-	-	-	-	-	-
Travel	9,527	-	-	-	5,381	-	-	-	14,908
Supplies	17,871	-	17,024	-	-	-	6,656	-	41,551
Contractual services	-	-	-	-	-	-	-	-	-
Patient care services	13,400	4,747	13,245	-	-	-	-	-	31,392
Training	25,565	-	-	-	-	-	-	-	25,565
Insurance	-	-	-	-	-	-	-	-	-
Telephone	-	-	-	-	-	-	-	4,107	4,107
Postage	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Interest and penalties	-	-	-	-	-	-	-	-	-
Mtgs, public relations	-	-	-	-	-	-	-	-	-
Rental	-	-	-	-	-	-	-	2,400	2,400
Dues, mbrshp & subscript	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-	-	-	-	-
Printing and advertising	-	-	-	-	-	-	-	-	-
Taxes and licenses	-	-	-	-	-	-	-	-	-
Recruitment and retention	-	-	-	-	-	-	-	-	-
Bad Debts	-	-	-	-	-	-	-	-	-
Loss on sale of fixed assets	-	-	-	-	-	-	-	-	-
	<u>\$ 141,400</u>	<u>\$ 4,747</u>	<u>\$ 30,269</u>	<u>\$ -</u>	<u>\$ 208,490</u>	<u>\$ -</u>	<u>\$ 6,656</u>	<u>\$ 6,507</u>	<u>\$ 398,069</u>