

LITTLE RIVER MEDICAL CENTER, INC.

Financial Statements

May 31, 2014 and 2013

(With Independent Auditor's Report Thereon)

LITTLE RIVER MEDICAL CENTER, INC.

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Independent Auditor's Report

The Governing Board
Little River Medical Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Little River Medical Center, Inc. (the Center) which comprise the statement of financial position as of May 31, 2014 and 2013, and the related statements of activities, 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 Little River Medical Center, Inc. as of May 31, 2014 and 2013, 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 Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2014 on our consideration of Little River Medical Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards considering Little River Medical Center, Inc.'s internal control over financial reporting and compliance.



Lebanon, TN
August 15, 2014

LITTLE RIVER MEDICAL CENTER, INC.

Statement of Financial Position

May 31, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
<i>Current Assets</i>		
Cash and Cash Equivalents (Note 3)	\$ 1,584,746	\$ 1,234,238
Accounts Receivable Net (Note 4)	726,446	493,136
Other Receivables (Note 5)	238,193	53,570
Inventory (Note 6)	206,415	174,218
Prepaid Expenses	157,310	129,349
<i>Total Current Assets</i>	2,913,110	2,084,511
<i>Property and Equipment</i>		
Property and Equipment, at cost,		
Net of Accumulated Depreciation (Note 7)	9,811,638	10,103,145
<i>Total Property and Equipment</i>	9,811,638	10,103,145
<i>Other Assets</i>		
Investment	2,500	2,500
Cash - Temporarily Restricted (Note 13)	19,706	11,120
<i>Total Other Assets</i>	22,206	13,620
Total Assets	\$ 12,746,954	\$12,201,276
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 278,948	\$ 194,199
Accrued Compensated Absences	252,937	225,392
Accrued Expenses	444,956	353,826
Deferred Non-Federal Grant Revenue	130,420	56,519
Current Portion of Long Term Debt (Note 8)	55,056	53,297
<i>Total Current Liabilities</i>	1,162,317	883,233
<i>Long-Term Liabilities</i>		
Notes Payable (Note 8)	3,379,033	3,433,265
Less Current Portion	(55,056)	(53,297)
<i>Total Long-Term Liabilities</i>	3,323,977	3,379,968
Total Liabilities	4,486,294	4,263,201
Net Assets - Unrestricted	6,821,787	6,797,887
Net Assets - Internally Designated	1,419,167	1,129,068
Net Assets - Temporarily Restricted (Note 13)	19,706	11,120
Total Net Assets	8,260,660	7,938,075
Total Liabilities and Net Assets	\$ 12,746,954	\$12,201,276

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

LITTLE RIVER MEDICAL CENTER, INC.
Statement of Activities
For the Years Ended May 31, 2014 and 2013

Support and Revenues:	<u>2014</u>	<u>2013</u>
Net Patient Revenue (Note 10)	\$ 8,669,606	\$ 6,432,625
Public Support - U.S. Department of Health and Human Services Operational Grants (Note 11)	5,410,724	4,927,041
Other Grants and Contracts	935,944	472,977
Contributions	37,482	3,316,006
Medical Records and Other Income	29,541	25,112
<i>Total Support and Revenues</i>	<u>15,083,297</u>	<u>15,173,761</u>
Expenses:		
Program Services Expenses	11,862,112	12,479,884
General and Administrative Expenses	2,890,849	3,257,151
<i>Total Expenses</i>	<u>14,752,961</u>	<u>15,737,035</u>
<i>Excess (Deficiency) of Support and Revenues of Operations Over Expenses</i>	<u>330,336</u>	<u>(563,274)</u>
Other Income and (Expenses):		
Public Support - U.S. Department of Health and Human Services Non-Operational Grants (Note 11)	-	2,314,217
Non-Operational Grant Expenses	-	(440,109)
Interest Income	1,850	8,848
Gain (Loss) on Disposal of Asset	(4,637)	(2,432)
<i>Total Other Income and Expenses</i>	<u>(2,787)</u>	<u>1,880,524</u>
<i>Total Excess (Deficiency) of Support and Revenues Over Expenses</i>	<u>\$ 327,549</u>	<u>\$ 1,317,250</u>
Net Assets:		
Increase (Decrease) in Unrestricted Net Assets	\$ 23,900	\$ 1,027,151
Increase (Decrease) in Internally Designated Net Assets	290,099	290,099
Increase (Decrease) in Temporarily Restricted Net Assets	8,586	(12,955)
Net Assets at Beginning of Year	7,938,075	6,633,780
Net Assets at End of Year	<u>\$ 8,260,660</u>	<u>\$ 7,938,075</u>

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

LITTLE RIVER MEDICAL CENTER, INC.

Statement of Functional Expenses

For the Years Ended May 31, 2014 and 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2014 Total</u>	<u>2013 Total</u>
Personnel	\$ 7,308,583	\$ 1,504,419	\$ 8,813,002	\$ 7,592,627
Fringe Benefits	1,304,354	267,157	1,571,511	1,304,861
Contractual Services	497,483	250,778	748,261	509,404
Supplies	1,198,094	161,787	1,359,881	4,183,956
Travel and Training	100,460	56,661	157,121	158,832
Repairs and Maintenance	273,833	160,018	433,851	356,799
Insurance	72,478	31,804	104,282	92,050
Telephone and Postage	150,745	48,898	199,643	168,454
Building and Equipment Rent	158,714	21,844	180,558	175,756
Utilities	202,861	50,715	253,576	232,629
Interest Expense	90,497	22,624	113,121	26,314
Depreciation and Amortization	407,578	185,951	593,529	554,895
Dues, Printing, and Other	96,432	128,193	224,625	380,458
Total	<u>\$11,862,112</u>	<u>\$ 2,890,849</u>	<u>\$ 14,752,961</u>	<u>\$ 15,737,035</u>

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

LITTLE RIVER MEDICAL CENTER, INC.
Statement of Cash Flows
For the Years Ended May 31, 2014 and 2013

Cash Flows From Operating Activities:	<u>2014</u>	<u>2013</u>
Excess of Support and Revenues Over Expenses	\$ 330,336	\$ (563,274)
Adjustments to Reconcile Net Income to Cash Provided From Operations:		
Interest Income	1,850	8,848
Depreciation and Amortization	593,529	554,895
(Increase) Decrease in Certificates of Deposit	-	209,000
(Increase) Decrease in Accounts Receivable	(233,310)	(168,523)
(Increase) Decrease in Other Receivables	(184,623)	223,923
(Increase) Decrease in Inventories	(32,197)	(41,852)
(Increase) Decrease in Prepaid Items	(27,961)	(34,863)
(Increase) Decrease in Other Assets	(13,550)	12,955
Increase (Decrease) in Accounts Payable	84,749	(271,915)
Increase (Decrease) in Accrued Expenses	91,130	49,460
Increase (Decrease) in Accrued Compensated Absences	27,545	6,270
Increase (Decrease) in Deferred Revenue	73,901	36,519
Cash Provided by Operating Activities:	<u>711,399</u>	<u>21,443</u>
Cash Flows Used in Investing Activities:		
Purchases of Property, Plant and Equipment	(311,296)	(2,520,862)
Grant Revenue for Capital Assets	-	2,314,217
Non-Operational Grant related Expenses	-	(440,109)
Loss on Disposal of Assets	4,637	(2,432)
Cash Used in Investing Activities	<u>(306,659)</u>	<u>(649,186)</u>
Cash Flows Provided by Financing Activities:		
Increase (Decrease) in Notes Payable	(54,232)	1,184,349
Cash Provided in Financing Activities	<u>(54,232)</u>	<u>1,184,349</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>350,508</u>	<u>556,606</u>
Cash and Cash Equivalents at Beginning of The Year	1,234,238	677,632
Cash and Cash Equivalents at End of The Year	<u>\$ 1,584,746</u>	<u>\$ 1,234,238</u>
Supplemental Data:		
Interest Paid in Financing Activities	\$ 113,121	\$ 26,314

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

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(1) Summary of Significant Accounting Policies

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

(a) Nature of The Business

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

(b) Financial Statement Presentation

The Center presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as promulgated by the Financial Accounting Standards Board. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, as required by SFAS No. 117, the Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts.

(d) Contributions

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributed property and equipment is recorded at fair value at the date of donation.

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(e) Accounts Receivable

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

(f) Allowance for Uncollectible Receivables

The provision for uncollectible receivables is not recorded as an expense, but is treated as a reduction of the related revenue in the statement of activities. Based on computations within industry standards applied to test the reserve for uncollectible patient accounts, the estimates appear reasonable.

(g) Property and Equipment

Property and equipment acquired with DHHS funds are considered to be owned by the Center 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 Center 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.

(h) 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.

(i) Patient Service Revenue

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

(j) Income Taxes

The Center 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 the current and two most recent prior years are available for IRS audit.

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(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.

(2) Fair Value of Financial Instruments

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

(3) Cash

The Center is required to have collateral for all funds in excess of the FDIC maximum insured limit. As of May 31, 2014, TD Bank has pledged \$1,257,000 in U.S. Government securities to secure deposits in excess of the FDIC coverage. During the audit period all bank account balances were fully secured.

(4) Accounts Receivable

Included in patient receivables are amounts due from Medicare, Medicaid, and private insurance companies. These payments are generally less than established billing rates, the difference being recorded as revenue adjustments.

Accounts receivable balances as of May 31, 2014 and 2013 for patient service fees are:

	<u>2014</u>	<u>2013</u>
Patients fees	\$1,002,228	\$718,067
Less allowance for uncollectible accounts	<u>(275,782)</u>	<u>(224,931)</u>
Accounts receivable, net	<u>\$ 726,446</u>	<u>\$ 493,136</u>

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(5) Other Receivables

The Center also has receivables from other receivables as follows:

	<u>2014</u>	<u>2013</u>
Pharmacy contracted services receivable	\$109,051	\$ -
Access Health receivable	47,990	21,025
Outreach grant receivable	21,058	-
EIS grant receivable	53,519	21,800
Other receivable	<u>6,575</u>	<u>10,745</u>
 Total other receivables	 <u>\$ 238,193</u>	 <u>\$ 53,570</u>

(6) Inventories

The Center records supplies as expenses as acquired. On an annual basis, the Center and all clinical sites conduct a physical inventory. Upon the completion of the physical inventory, the final values are adjusted to the actual inventory per the physical count, which is recorded at cost. The value of the inventory is determined on the First In, First Out Basis (FIFO). At May 31, 2014 and 2013, the physical inventory of items on hand at cost consisted of the following:

	<u>2014</u>	<u>2013</u>
Pharmaceutical inventory	\$64,741	\$50,209
Medical supplies inventory	86,973	75,105
Dental and other inventory	<u>54,701</u>	<u>48,904</u>
Total inventories	<u>\$206,415</u>	<u>\$174,218</u>

(7) Property and Equipment

A summary of property and equipment at May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land, building and improvements	\$ 9,922,645	\$ 9,928,808
Furniture and equipment	2,862,935	2,563,765
Vehicles	481,640	432,453
Construction in process	<u>114,710</u>	<u>240,564</u>
 Total	 13,411,930	 13,165,590
 Less accumulated depreciation	 <u>(3,630,292)</u>	 <u>(3,062,445)</u>
 Property and equipment, net	 <u>\$ 9,781,638</u>	 <u>\$10,103,145</u>

Property and equipment is depreciable on a straight line basis over the estimated useful life. The depreciation for the fiscal years ended May 31, 2014 and 2013 is \$593,529 and \$554,895 respectively.

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(8) Notes Payable

The Center has a note at TD Bank with an original balance of \$1,500,000. This note accrues interest at 3% A.P.R. and is collateralized by land and buildings at the Myrtle Beach location. This note requires monthly payments of \$2,595 and matures on March 24, 2016 with a balloon payment of the unpaid principal balance. As of May 31, 2014, this note has a balance of \$444,421.

The Center has mortgage with United States Department of Agriculture. This note accrues interest at 3.375% A.P.R. and is collateralized by land and building at the Little River location. This note requires payments \$11,292 and matures on May 9, 2053. As of May 31, 2014, this note has a balance of \$2,934,612.

Future principal payments required under the above debt obligations as of May 31, 2014 are as follows:

<u>Years Ending May 31</u>	<u>Bank Notes</u>
2015	\$ 55,056
2016	464,617
2017	39,571
2018	40,927
2019	42,330
Amount due thereafter	<u>2,736,532</u>
	<u>\$3,379,033</u>

(9) Leases

The Center leases clinic facilities under operating leases. The clinics are leased on 12 month to 180 month leases with total monthly payments of \$12,650 per month. Facility rent expense incurred including the value of donated space during the years ended May 31, 2014 and 2013 was \$175,797 and \$168,481 respectively.

Future minimum lease payments are as follows:

Year Ending May 31

2015	\$ 87,405
2016	93,030
2017	95,840
2018	91,842
2019	89,842
Thereafter	<u>782,438</u>
	<u>\$1,240,397</u>

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(10) Net Patient Revenue

A summary of net patient revenue at May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient revenue	\$23,335,383	\$18,077,274
Less: discounts and adjustments	<u>(14,665,777)</u>	<u>(11,644,649)</u>
Total	<u>\$ 8,669,606</u>	<u>\$ 6,432,625</u>

(11) Grant Support

The Center received grants from the U. S. Department of Health and Human Services of \$5,410,724 (operational) and \$7,241,258 (\$4,927,041 operational and \$2,314,217 non-operational) all of which were obligated for the fiscal year ended May 31, 2014 and 2013. The Center also received several smaller grants from various sources during the year ended May 31, 2014. Under the terms of these grants the Center is required to comply with certain federal guidelines and the Federal Government retains a residual interest in assets acquired with grant funds.

(12) Pension Plan

The Center has a 403(b) plan for all eligible employees. Under the arrangement, the Center matches 50% of each employee's contribution up to three percent (3%) of compensation. Pension expense for the years ended May 31, 2014 and 2013 was \$106,564 and \$107,946 respectively.

(13) Temporarily Restricted Net Assets

The Center maintains temporarily restricted net assets (TRNA) for various organizational purposes. As of May 31, 2014 and 2013, the balance of the TRNA was \$19,706 and \$11,120. A summary of those restricted funds are as follows:

	<u>2014</u>	<u>2013</u>
Pediatric Dental Fundraiser	\$ 1,120	\$ 1,120
Bi-Lo Charities Golf Fundraiser	-	10,000
Restricted Employee Contribution	5,036	-
USDA Loan Escrow	<u>13,550</u>	<u>-</u>
Total	<u>\$19,706</u>	<u>\$11,120</u>

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(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 Center 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) Charity Care

The Center provides medical services to patients who qualify under federal guidelines and other corporate policies of the Center at fees less than established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for the fiscal year ended May 31, 2014 and 2013 was \$7,236,834 and \$6,079,321 respectively.

(16) Contingencies

A major portion of the Center’s funding is provided by the U.S. Department of Health and Human Services. In the event that federal funds were ever reduced, this would have a significant impact on future operations. Expenditures related to federal grants and contracts are subject to adjustment based upon review by the granting agencies. The Center does not anticipate that adjustments, if any, arising from such reviews will have a material effect on the financial statements.

(17) Significant Source of Revenue

Approximately 36% of the Center’s revenue was provided by grants from the U.S. Department of Health and Human Services. The Center is dependent on this continued funding and the absence of these grants could have a negative effect on future operations.

(18) Subsequent Events

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

SUPPLEMENTAL SCHEDULES

LITTLE RIVER MEDICAL CENTER, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended May 31, 2014

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Health and Human Services</u>		
Health Center Cluster		
Consolidated Health Centers Program <i>Grant No. H80CS 00700</i>	93.224	\$1,852,981
Affordable Care Act-Grants for Expanded Service Under Health Center Program <i>Grant No. H80CS 00700</i>	93.527	<u>\$ 3,075,067</u>
Total Health Center Cluster		<u>\$ 4,928,048</u>
Ryan White Part C Outpatient EIS Program <i>Grant No.H76HA24735</i>	93.918	<u>\$482,676</u>
Total Federal Grants		<u>\$ 5,410,724</u>

Note to Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of Little River Medical Center, Inc. and is presented in the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

LITTLE RIVER MEDICAL CENTER, INC.

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2014

Section A-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Significant Deficiency disclosed? _____yes X no
Significant Deficiencies reported
as Material Weaknesses? _____yes X no
Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Type of auditor's report issued on compliance
for major programs: Unqualified
Internal Control over major programs:
Significant Deficiency identified? _____yes X no
Significant Deficiencies reported
as Material Weaknesses? _____yes X no
Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section.510(a)? _____yes X no

Identification of major programs:

CFDA Number

93.224

93.527

93.918

Name of Federal Program

Health Centers Cluster-
Consolidated Health Centers Program

Health Centers Cluster-Affordable Care
Act-Grants for Expanded Service
Under Health Center Program

Ryan White Part C Outpatient
EIS Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____yes X no

LITTLE RIVER MEDICAL CENTER, INC.

Schedule of Findings and Questioned Cost

For the Year Ended May 31, 2014

Section B- Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of Government Auditing Standards.

None Reported

Section C-Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a), significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs.

None Reported

Questioned Costs: None Reported



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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

Independent Auditor's Report

The Governing Board
Little River Medical Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Little River Medical Center, Inc. which comprise the statement of financial position as of May 31, 2014, 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 August 15, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Little River Medical Center, Inc. in a separate letter dated August 15, 2014.

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 and is positioned above a light gray rectangular box.

Lebanon, TN
August 15, 2014



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Report on Compliance With Requirements Applicable to Each Major Program
Program And on Internal Control Over Compliance in Accordance with OMB Circular A-133

Independent Auditor's Report

The Governing Board
Little River Medical Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Little River Medical Center, Inc.'s compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Little River Medical Center, Inc.'s major federal programs for the year ended May 31, 2014. Little River Medical Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Little River Medical Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Little River Medical Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Little River Medical Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2014.

Report on Internal Control Over Compliance

Management of Little River Medical Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Little River Medical Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Little River Medical Center, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Lebanon, TN
August 15, 2014

LITTLE RIVER MEDICAL CENTER, INC.

Summary Schedule of Prior Year Audit Findings

May 31, 2014

Prior Year Finding 2013-C1

The Center failed to comply with grant guidelines regarding federal grant draws. The grant draws exceeded the three day cash needs for grant related expenditures.

Status of Finding – Resolved.

Prior Year Finding 2013-C2

Procedures have not been developed to ensure that patients are not being charged more than the Ryan White compliance requirements allow.

Status of Finding – Resolved.

LITTLE RIVER MEDICAL CENTER, INC.

Report to the Board of Directors

May 31, 2014

LITTLE RIVER MEDICAL CENTER, INC.

Report to the Board of Directors

May 31, 2014

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TERRY L. HORNE, CPA

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August 15, 2014

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

We have completed our audit of the financial statements of Little River Medical Center, Inc. for the year ended May 31, 2014. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated August 15, 2014. We are presenting an oral presentation of the financial statements and the results of the compliance audit in accordance with Government Auditing Standards and OMB Circular A-133 to the Governing Board.

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

Sincerely,

Terry Horne, CPA

LITTLE RIVER MEDICAL CENTER, INC.

Summary of Professional Services

- ❖ Annual audit of financial statements
- ❖ Annual compliance audit in accordance with Government Auditing Standards and OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations”
- ❖ Annual federal tax information return
- ❖ Annual Data Collection Form SF-SAC
- ❖ Annual Federal Financial Report
- ❖ Annual report to management on observations and recommendations for improvements
- ❖ Attendance at board meetings as requested

LITTLE RIVER MEDICAL CENTER, INC.

Required Auditor Communications

Items to be Communicated and Auditor's Response

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

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

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

In planning and performing our audit, we considered Little River Medical Center, Inc. (Center) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests in compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133 we examined, on a test basis, evidence about the Center's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the Center's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the Center's compliance with those requirements.

LITTLE RIVER MEDICAL CENTER, INC.

Required Auditor Communications

Items to be Communicated and Auditor's Response

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

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

◇ *There were none.*

❖ **Management judgments and accounting estimates.**

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

Allowance for Doubtful Accounts

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

❖ **Disagreements with management.**

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

◇ *There were no disagreements with management.*

❖ **Consultation with other accountants.**

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

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

LITTLE RIVER MEDICAL CENTER, INC.

Required Auditor Communications

Items to be Communicated and Auditor's Response

❖ **Significant audit adjustments.**

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

- ◇ *The only significant audit adjustment was related to recording contracted pharmacy receivables.*

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

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

- ◇ *There were none.*

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

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

- ◇ *There were none.*

❖ **Uncorrected financial statement misstatements.**

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

- ◇ *There were none.*

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



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MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of Little River Medical Center, Inc. for the year ended May 31, 2014, we considered the Center's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. This letter does not affect our report dated August 15, 2014, on the financial statements of Little River Medical Center, Inc.

I. Accounting Controls

1. The Center has contracts with several vendors for pharmacy services. Currently, these amounts are not being recorded in the general ledger as they are earned. Proper accounting procedures require that these amounts be recorded as a receivable in the general ledger when earned and that any subsequent payments be recorded to offset this receivable account. It is recommended that the Center record the pharmacy revenue and reconcile the related receivable to the general ledger on a monthly basis.

Management's Response:

Management concurs. Procedures will be established to record the contract pharmacy receivable on a monthly basis 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 Center personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

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

August 15, 2014