

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED NOVEMBER 30, 2014**

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
 Low Country Health Care System, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Low Country Health Care System, Inc. (a nonprofit health care entity), which comprise the statement of financial position as of November 30, 2014, and the related statements of operations and changes in net assets and cash flows for the year 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 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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Low Country Health Care System, Inc. as of November 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by 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 July 16, 2015, on our consideration of Low Country Health Care System, Inc.'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 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 Low Country Health Care System, Inc.'s internal control over financial reporting and compliance.



Columbia, South Carolina  
July 16, 2015

LOW COUNTRY HEALTH CARE SYSTEM, INC.

STATEMENT OF FINANCIAL POSITION

NOVEMBER 30, 2014

Assets	Unrestricted	Temporarily Restricted	Totals
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 640,202		\$ 640,202
Accounts Receivable, Net of Allowance for Doubtful Accounts	1,917,256		1,917,256
Accrued Interest Receivable	1,231		1,231
Estimated Contractual Adjustments Receivable	153,370		153,370
Pharmacy Inventory	99,945		99,945
<b>Total Current Assets</b>	<u>2,812,004</u>	-	<u>2,812,004</u>
<b>Property and Equipment, Net of Accumulated Depreciation and Amortization</b>	<u>2,679,150</u>	\$ 67,310	<u>2,746,460</u>
<b>Other Assets</b>			
Restricted Cash - Reserve Account	61,571		61,571
<b>Total Other Assets</b>	<u>61,571</u>	-	<u>61,571</u>
<b>Total Assets</b>	<u>5,552,725</u>	67,310	<u>5,620,035</u>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Current Portion of Notes Payable	62,531		62,531
Line of Credit	45,136		45,136
Accounts Payable and Accrued Expenses	362,930		362,930
Accrued Vacation	93,094		93,094
<b>Total Current Liabilities</b>	<u>563,691</u>	-	<u>563,691</u>
<b>Long-Term Liabilities</b>			
Notes Payable, Net of Current Portion	1,424,192		1,424,192
<b>Total Long-Term Liabilities</b>	<u>1,424,192</u>	-	<u>1,424,192</u>
<b>Total Liabilities</b>	<u>1,987,883</u>	-	<u>1,987,883</u>
<b>Net Assets</b>			
Unrestricted	3,564,842		3,564,842
Temporarily Restricted		67,310	67,310
<b>Total Net Assets</b>	<u>3,564,842</u>	67,310	<u>3,632,152</u>
<b>Total Liabilities and Net Assets</b>	<u>5,552,725</u>	67,310	<u>5,620,035</u>

The accompanying notes are an integral part of these financial statements.

LOW COUNTRY HEALTH CARE SYSTEM, INC.

STATEMENT OF OPERATIONS  
AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED NOVEMBER 30, 2014

	Unrestricted	Temporarily Restricted	Totals
<b>Revenues</b>			
Patient Service Revenue (Net of Contractual Allowances and Discounts)	\$ 5,323,236		\$ 5,323,236
Provision for Uncollectible Accounts	(796,618)		(796,618)
Net Patient Service Revenue	4,526,618	-	4,526,618
Grants and Reimbursements from Government Agencies	2,466,398		2,466,398
Other Grants and Appropriations	339,177		339,177
Pharmacy Sales	1,745,306		1,745,306
Other Revenue	119,101		119,101
Net Assets Released from Restrictions - Satisfied by Time	2,585	\$ (2,585)	-
<b>Total Revenues</b>	<b>9,199,185</b>	<b>(2,585)</b>	<b>9,196,600</b>
<b>Expenses</b>			
Salaries	4,603,108		4,603,108
Employee Benefits	1,102,911		1,102,911
Recruitment and Retention	4,440		4,440
Patient Care Services	674,813		674,813
Professional Services	191,317		191,317
Conference and Registration	16,016		16,016
Pharmaceutical Supplies	714,972		714,972
Medical Supplies	284,381		284,381
Continuing Education	3,212		3,212
Travel	93,312		93,312
Organizational Insurance	31,506		31,506
Malpractice Insurance	745		745
Dues and Subscriptions	45,767		45,767
Taxes and Licenses	22,400		22,400
Advertising and Printing	4,064		4,064
Maintenance and Repairs	84,005		84,005
Telephone and Cable	110,696		110,696
Office Supplies and Postage	151,957		151,957
Utilities	94,081		94,081
Equipment Rental	74,590		74,590
Computer Support	278,816		278,816
Meals and Entertainment	8,200		8,200
Depreciation and Amortization	152,699		152,699
Charitable Contributions	965		965
Interest Expense	65,823		65,823
Miscellaneous	70,166		70,166
Mini Grant Expense	29,381		29,381
Minor Equipment	21,901		21,901
<b>Total Expenses</b>	<b>8,936,244</b>	<b>-</b>	<b>8,936,244</b>
<b>Gain (Loss) from Operations</b>	<b>262,941</b>	<b>(2,585)</b>	<b>260,356</b>
<b>Other Revenues</b>			
Interest Income	1,558		1,558
Rental Income	20,010		20,010
<b>Total Other Revenues</b>	<b>21,568</b>	<b>-</b>	<b>21,568</b>
<b>Net Revenues Over (Under) Expenses - Changes in Net Assets</b>	<b>284,509</b>	<b>(2,585)</b>	<b>281,924</b>
<b>Net Assets, Beginning of Year</b>	<b>3,280,333</b>	<b>69,895</b>	<b>3,350,228</b>
<b>Net Assets, End of Year</b>	<b>3,564,842</b>	<b>67,310</b>	<b>3,632,152</b>

The accompanying notes are an integral part of these financial statements.

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED NOVEMBER 30, 2014**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>
<b>Cash Flows from Operating Activities</b>			
Changes in Net Assets	\$ 284,509	\$ (2,585)	\$ 281,924
Adjustments to Reconcile Changes in Net Assets to Net Cash Used in Operating Activities:			
Depreciation and Amortization	150,114	2,585	152,699
Write-Off of Software	44,232		44,232
(Increase) Decrease in Accounts Receivable (Net of Allowance)	(895,074)		(895,074)
(Increase) Decrease in Estimated Contractual Adjustments Receivable	(53,703)		(53,703)
(Increase) Decrease in Pharmacy Inventory	(7,730)		(7,730)
Increase (Decrease) in Accounts Payable and Accrued Expenses	109,533		109,533
Increase (Decrease) in Accrued Vacation	26,675		26,675
	(341,444)	-	(341,444)
<b>Net Cash Used in Operating Activities</b>			
<b>Cash Flows from Investing Activities</b>			
Purchase of Software	(43,017)		(43,017)
Increase in Restricted Cash	(276)		(276)
	(43,293)	-	(43,293)
<b>Net Cash Used in Investing Activities</b>			
<b>Cash Flows from Financing Activities</b>			
Increase (Decrease) in Line of Credit	45,136		45,136
Increase (Decrease) in Notes Payable	(9,697)		(9,697)
	35,439	-	35,439
<b>Net Cash Provided by Financing Activities</b>			
<b>Net Decrease in Cash and Cash Equivalents</b>	(349,298)	-	(349,298)
<b>Cash and Cash Equivalents, Beginning of Year</b>	989,500		989,500
<b>Cash and Cash Equivalents, End of Year</b>	640,202	-	640,202
<b>Supplemental Disclosures</b>			
Cash Used for Interest Paid	65,823	-	65,823

The accompanying notes are an integral part of these financial statements.

# LOW COUNTRY HEALTH CARE SYSTEM, INC.

## NOTES TO FINANCIAL STATEMENTS

### Note 1 Summary of Significant Accounting Policies

#### Organization and Nature of Activities

Low Country Health Care System, Inc. (the Organization), was created for the express purpose of planning, establishing, conducting and evaluating the health care needs of the communities served. The Organization was incorporated in the State of South Carolina on January 8, 1997. The Organization has Family Health Practices located in Fairfax, Blackville, Orangeburg, and Barnwell, South Carolina.

#### Financial Statement Presentation

The financial statement presentation follows the recommendations of the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*.

Basis of Accounting – The accompanying financial statements are prepared on the accrual basis of accounting.

The net assets of the Organization are classified and reported as follows:

**Unrestricted** - Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objectives of the Organization.

**Temporarily Restricted** - Net assets that are subject to donor-imposed stipulations that will be met either by the actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of operations and changes in net assets as net assets released from restrictions.

#### Revenue

**Grants** – The Organization recognizes revenue when it is earned. Thus, federal grants awarded are recognized only to the extent that allowable grant expenses have been incurred. Federal grant funds received prior to incurring allowable grant program expenses are recorded as deferred revenue. Deferred revenue balances on the grant program ending date are refundable to the federal government or may be carried over to the subsequent grant period at the discretion of the federal government.

**Third-Party Contractual Adjustments** – The Organization records third-party contractual adjustments on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on final settlements.

**Net Patient Service Revenue** – Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

## Note 1 Summary of Significant Accounting Policies (Continued)

### Revenue (Continued)

**Charity Care** – The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Trade Accounts Receivable** – Accounts receivable are stated at the amount Management expects to collect on outstanding balances. Management maintains an allowance for probable, uncollectible amounts based on its assessment of the current status of individual accounts. A provision for bad debts is made periodically to adjust the allowance for amounts which have not been collected in a reasonable period of time. All balances which have been outstanding over 30 days are considered delinquent.

**Recognition** – Amounts recognized as revenues are subject to retrospective review and laws and regulations that are extremely complex and subject to interpretation; as a result, a reasonable possibility exists that recorded estimates will change by a material amount in the near future.

### Non-Expendable Property

Property acquired is considered owned by the Organization. However, the United States Government has a reversionary interest in property purchased with federal funds or acquired through government appropriations; therefore, its disposition as well as ownership of any proceeds therefrom is subject to federal regulations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 30 years.

### Property and Equipment

The Organization capitalizes property and equipment with individual cost over \$5,000. Lesser amounts are expensed. Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The useful lives are as follows:

Buildings and Improvements	7 to 40 Years
Furniture and Equipment	5 Years

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Gifts of long-lived assets such as land, buildings, or equipment with 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 donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported over the useful life of the asset.

**Note 1 Summary of Significant Accounting Policies (Continued)**

**Income Tax Status**

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal and state income taxes. The Organization is not classified as a private foundation.

**Estimates**

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires the Organization to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimated.

**Advertising Costs**

Non direct-response advertising costs, consisting primarily of advertisement of employment opportunities and services offered by the Organization, are expensed as incurred.

**Expense Allocation**

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of direct salaries or square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

**Note 2 Cash and Cash Equivalents**

The Organization considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

**Note 3 Restricted Cash**

Restricted cash in the amount of \$61,571 is set-aside under the terms of mortgage security agreements with Rural Development. This account is to be used to (1) repair/replace any damage to the facility or (2) fund FMHA approved extensions or improvements to the facility, or (3) make debt service payments.

**Note 4 Financial Instruments**

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair market value of all financial instruments at November 30, 2014, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

***Cash and Cash Equivalents, Accounts Receivable, Accounts Payable and Accruals*** - Fair values approximate respective carrying values due to the short maturities of those instruments.

***Notes Payable*** - Fair values approximate carrying value since borrowing or stated rates are similar to rates currently available to the Organization for bank loans with similar terms and remaining maturities.

**Note 5 Accounts Receivable**

The Organization's accounts receivable balance at November 30, 2014, consists of the following:

	<b>Amount Due</b>	<b>Allowance for Doubtful Accounts</b>	<b>Net Accounts Receivable</b>
Patient Accounts	\$3,459,285	\$2,115,700	\$1,343,585
Pharmacy Accounts	61,742		61,742
Grants and Other	511,929		511,929
<b>Totals</b>	<u>4,032,956</u>	<u>2,115,700</u>	<u>1,917,256</u>

**Note 6 Inventory**

The Organization's inventory consists of pharmaceutical supplies which are valued at lower-of-cost or market on the first-in, first-out method.

**Note 7 Estimated Contractual Adjustments Receivable/Payable**

The Organization provides health care services to Medicare and Medicaid patients. Reimbursements for covered services are based on tentative payment rates. Actual reimbursements are determined after the submission of annual cost reports which are subject to audit by the intermediaries. When information is available, provisions for estimated reimbursement adjustments are reported in the financial statements in the period that the services are provided. The estimated contractual adjustment due from Medicare at November 30, 2014 for the current fiscal year, is \$30,694. The estimated contractual adjustment due from Medicaid at November 30, 2014, is \$122,676.

**Note 8 Property and Equipment**

Property and equipment at November 30, 2014, consist of the following:

Land	\$ 102,285
Buildings and Improvements	3,509,792
Furniture and Equipment	<u>1,259,374</u>
	4,871,451
Less: Accumulated Depreciation and Amortization	<u>(2,124,991)</u>
<b>Net Property and Equipment</b>	<u>2,746,460</u>

**Note 9 Line of Credit**

The Organization assumed a line of credit with First Citizens through the acquisition of Barnwell Pediatrics on May 1, 2014. The line of credit agreement is dated March 5, 2013 with a maximum amount of \$50,000 and an interest rate of 4.50%. As of November 30, 2014, \$45,136 was outstanding.

**Note 10 Notes/Mortgages Payable**

Notes payable consist of the following at November 30, 2014:

U. S. Farmers Home Administration loan dated April 16, 1999, providing funds of \$800,000 at 4.50% interest with annual payments of \$49,120 for thirty years. All real estate owned by the Organization, present and future contract rights, accounts receivable and general intangibles are pledged as security for the loan. \$ 500,989

U. S. Farmers Home Administration loan dated February 12, 2007, providing funds of \$1,050,000 at 4.125% interest with monthly payments of \$4,470, including interest, for forty years. All real estate owned by the Organization, present and future contract rights, accounts receivable and general intangibles are pledged as security for the loan. 955,549

Promissory note in the amount of \$78,034 with OnePlace Capital dated May 27, 2011, assumed May 1, 2014 with the acquisition of Barnwell Pediatrics at an interest rate of 8.25% with monthly payments of \$1,908.02 including interest for sixty months. Equipment purchased under the note as well as all proceeds, rents, accounts, income and profits generated from it and all other property relating thereto are pledged as security for the loan. 30,185

Total Obligations Outstanding 1,486,723

Less: Current Maturities (62,531)

**Total Notes Payable - Long-Term** 1,424,192

**Note 10 Notes/Mortgages Payable (Continued)**

Scheduled principal payments on long-term debt are as follows:

Fiscal Year Ending November 30,	Amount
2015	\$ 62,531
2016	52,828
2017	45,456
2018	47,483
2019	49,600
Thereafter	<u>1,228,825</u>
<b>Total</b>	<u><u>1,486,723</u></u>

**Note 11 Operating Leases**

The Organization leases equipment and a building under various long-term operating lease agreements expiring at various dates through fiscal year 2019. Scheduled minimum rental payments for succeeding fiscal years ending November 30 are as follows:

Fiscal Year Ending November 30,	
2015	\$ 94,409
2016	94,409
2017	50,137
2018	20,435
2019	<u>13,118</u>
<b>Total</b>	<u><u>272,508</u></u>

Rental expense for operating leases was \$62,742.

**Note 12 Uninsured Cash Balance**

Funds on deposit at a bank exceeded the FDIC insured limit by \$316,091 at November 30, 2014. However, the Organization executed a collateral agreement with the bank which collateralizes deposits in excess of the FDIC limit with the bank's investments.

**Note 13 Government Grants**

Government grants consist of the following:

U.S. Department of Health and Human Services – Community Health Centers	\$1,843,184
U.S. Department of Health and Human Services – Ryan White Title III HIV Early Intervention Services Program	587,742
U.S. Department of Health and Human Services – Rural Health Network Development Planning Grant Program	<u>35,472</u>
<b>Total Government Awards</b>	<u><u>2,466,398</u></u>

**Note 14 Net Patient Revenue**

The Organization has agreements with third-party payors that provide payments to the Organization at amounts different from its established rates. A summary of the payment agreements with third-party payors follows:

**Medicare** - Medical services rendered to Medicare program beneficiaries are paid under a cost-based reimbursement system. The Organization is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of the annual cost report by the Organization and audit thereof by the fiscal intermediary.

**Medicaid** - Medical services rendered to Medicaid beneficiaries are paid under a cost-based reimbursement system. The Organization is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of the annual cost report by the Organization and audit thereof by the fiscal intermediary.

**Other Third-Party Payors** - The Organization has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

**Note 15 Pension Plan**

The Organization contributes varying amounts to a Section 403(b) retirement plan on behalf of participating employees. All employees who have one year of employment and have attained the age of 21 are eligible to receive employer contributions. All full-time employees are eligible to participate in the plan. The retirement expense for the year ended November 30, 2014, was \$113,891.

**Note 16 Significant Source of Revenue**

Approximately 27% of revenue was attributable to the federal awards during the period December 1, 2013 through November 30, 2014.

**Note 17 Litigation Claims**

The Organization is subject to claims from litigation such as medical malpractice. Management feels that its professional and general liability insurance is adequate to cover any such claims.

**Note 18 Concentration of Credit Risk**

The Organization provides credit to its patients. A substantial percentage of patients are insured under third-party payor agreements. The percentage receivable from patients and third-party payors for the year ended November 30, 2014, was:

Medicare	18%
Medicaid	20%
Other Third-Party Payor	27%
Patients	<u>35%</u>
	<u>100%</u>

**Note 19 Temporarily Restricted Net Assets**

The Organization received a contribution of a building located in Blackville, South Carolina subject to deed restrictions by a third party. Temporarily restricted net assets consists of the book value of the building which is being depreciated each year over its useful life.

**Note 20 Classification of Expenses**

Expenses incurred during the year ended November 30, 2014, by functional classification, are as follows:

Expenses	Program Services	Management and General	Totals
Salaries	\$ 3,222,176	\$ 1,380,932	\$ 4,603,108
Employee Benefits	772,038	330,873	1,102,911
Recruitment and Retention	4,440		4,440
Patient Care Services	674,813		674,813
Professional Services	133,922	57,395	191,317
Conference and Registration	16,016		16,016
Pharmaceutical Supplies	714,972		714,972
Medical Supplies	284,381		284,381
Continuing Education	3,212		3,212
Travel	65,318	27,994	93,312
Organizational Insurance		31,506	31,506
Malpractice Insurance	745		745
Dues and Subscriptions	32,037	13,730	45,767
Taxes and Licenses	22,400		22,400
Advertising and Printing	2,845	1,219	4,064
Maintenance and Repairs	58,803	25,202	84,005
Telephone and Cable	77,487	33,209	110,696
Office Supplies and Postage	106,370	45,587	151,957
Utilities	65,857	28,224	94,081
Equipment Rental	52,213	22,377	74,590
Computer Support	195,171	83,645	278,816
Meals & Entertainment	5,740	2,460	8,200
Depreciation and Amortization	51,986	100,713	152,699
Charitable Contributions		965	965
Interest	46,076	19,747	65,823
Miscellaneous	49,116	21,050	70,166
Mini Grant Expense	29,381		29,381
Minor Equipment	15,331	6,570	21,901
<b>Totals</b>	<u>6,702,846</u>	<u>2,233,398</u>	<u>8,936,244</u>

**Note 21 Subsequent Events**

The Organization evaluated the effects that subsequent events would have on the financial statements through the date of the auditors' report, which is the date the financial statements were available for issuance.

**Note 22    Income Taxes**

Under the provisions of the Internal Revenue Code and applicable state laws, the Organization is a tax-exempt organization and, therefore, no provision for income tax expense has been included in the accompanying financial statements.

The Organization is not currently undergoing examination of any previously filed tax returns; however, the returns filed for the most recent 3 years remain available for examination by taxing authorities. Management is not aware of any tax positions in the returns which have less than a 50% chance of being affirmed under examination.

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2014**

<b>Federal Grantor/Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>Department of Health and Human Services</b>		
Direct Programs:		
Health Center Cluster		
Consolidated Health Centers	93.224	\$ 805,527 *
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	<u>1,037,657 *</u>
<b>Total Health Center Cluster</b>		<u>1,843,184</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	<u>587,742 *</u>
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provided Quality Improvement Program	93.912	<u>35,472</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>2,466,398</u></u>

See Notes to Schedule of Expenditures of Federal Awards

\* Denotes Major Program

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2014**

**Note 1      Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The Schedule of Expenditures of Federal Awards (Schedule) includes the activity of all federal award programs administered by Low Country Health Care System, Inc.

**(b) Basis of Presentation**

The Schedule presents total federal awards expended for each individual federal program in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Federal award program titles are reported as presented in the Catalog of Federal Domestic Assistance (CFDA). Some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

**(c) Basis of Accounting**

The expenditures for each of the federal financial assistance programs are presented in the Schedule on the same basis of accounting as Low Country Health Care System, Inc.'s financial statements. The financial statements of Low Country Health Care System, Inc. are prepared using the accrual basis of accounting.

**Note 2      Relationship to Federal Financial Reports**

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial assistance reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 1 (c).

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2014**

**Section I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not Considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	None noted

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	None Identified
Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of Major Programs:

- 93.224 Consolidated Health Centers
- 93.527 Affordable Care Act (ACA) Grants for New and Expanded  
Services Under the Health Center Program
- 93.918 Grants to Provide Outpatient Early Intervention Services  
with Respect to HIV Disease Control

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

Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	Yes
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**LOW COUNTRY HEALTH CARE SYSTEM, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2014**

**Section II: Financial Statement Findings**

**Finding 2014-001 (Internal Control - Significant Deficiency)**

**Department of Health and Human Services/Outpatient Early Intervention Services  
with Respect to HIV Disease/CFDA Number 93.918**

**Criteria:**

Section 8M of Attachment B of the OMB Circular A-122 indicates specific requirements for the support of federal salaries and wages. The distribution of salaries and wages to awards must be supported by personal activity reports, including an after-the-fact determination of the actual activity of each employee and the signature of the employee or supervisor.

**Condition/Effect:**

The Organization did not have required documentation to support all wages charged to the Outpatient Early Intervention Services with Respect to HIV Disease Control Program, a major federal program. The reimbursement for amounts not supported by the required documentation is subject to being disallowed.

**Causes:**

Procedures to ensure the Organization complied with Section 8M of Attachment B of the OMB Circular A-122 were not adhered to.

**Questioned Costs:**

Not Determined

**Recommendation:**

Current procedures should be added which requires monitoring of the required documentation for personnel allocated to the federal program and at least quarterly, comparison of actual costs to budgeted distributions based on the monthly activity reports should be made.

**Auditee's Response:**

An additional process has been implemented to ensure that employees are reporting time spent on grant activities for each payroll period. This new timesheet is filled out for each payroll and signed by the employee. This situation is not expected to be present during the subsequent periods.

**LOW COUNTRY HEALTH CARE SYSTEM, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED NOVEMBER 30, 2014**

**Section II: Financial Statement Findings (Continued)**

**Compliance and Other Matters**

**Finding 2014-001**

Repeat of Internal Control Finding 2014-001 as it relates to Compliance.

**Section III: Federal Awards Findings and Questioned Costs**

**Finding 2014-001**

Repeat of Internal Control Finding 2014-001 as it relates to Compliance.

**LOW COUNTRY HEALTH CARE SYSTEM, INC.  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED NOVEMBER 30, 2014**

**Summary of Prior Year Findings**

None Reported

<b>C.C. McGregor, CPA</b> 1906–1968	<b>PARTNERS</b>			<b>ASSOCIATES</b>		
	W.C. Stevenson, CPA	D.L. Richardson, CPA	D.K. Strickland, CPA	V.K. Laroche, CPA	J.R. Matthews II, CPA	M.L. Goode, CPA
	B.T. Kight, CPA	E.C. Inabinet, CPA	J.P. McGuire, CPA	G.N. Mundy, CPA	G.P. Davis, CPA	B.A.G. Felch, CPA
	G.D. Skipper, CPA	S.S. Luoma, CPA	L.H. Kelly, CPA	M.L. Layman, CPA	H.J. Darver, CPA	H.S. Mims, CPA
	L.R. Leaphart, Jr, CPA	T.M. McCall, CPA		P.A. Betette, Jr, CPA	D.M. Herpel, CPA	
	M.J. Binnicker, CPA	H.D. Brown, Jr, CPA		S. Wo, CPA	H.O. Crider, Jr, CPA	
W.W. Francis, CPA	L.B. Salley, CPA		C.D. Hincee, CPA	F.C. Gillam, CPA		

## 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*

Board of Directors  
 Low Country Health Care System, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Low Country Health Care System, Inc. (a nonprofit health care entity), which comprise the statement of financial position as of November 30, 2014, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 16, 2015.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Low Country Health Care System, Inc.’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 Low Country Health Care System, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2014-001).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Low Country Health Care System, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-001.

### **Low Country Health Care System, Inc.'s Response to Findings**

Low Country Health Care System, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbia, South Carolina  
July 16, 2015

C.C. McGregor, CPA 1906-1968	<b>PARTNERS</b>			<b>ASSOCIATES</b>		
	W.C. Stevenson, CPA	D.L. Richardson, CPA	D.K. Strickland, CPA	V.K. Laroche, CPA	J.R. Matthews II, CPA	M.L. Goode, CPA
	B.T. Kight, CPA	E.C. Inabinet, CPA	J.P. McGuire, CPA	G.N. Mundy, CPA	G.P. Davis, CPA	B.A.G. Felch, CPA
	G.D. Skipper, CPA	S.S. Luoma, CPA	L.H. Kelly, CPA	M.L. Layman, CPA	H.J. Darver, CPA	H.S. Mims, CPA
	L.R. Leaphart, Jr, CPA	T.M. McCall, CPA		P.A. Betette, Jr, CPA	D.M. Herpel, CPA	
	M.J. Binnicker, CPA	H.D. Brown, Jr, CPA		S. Wo, CPA	H.O. Crider, Jr, CPA	
W.W. Francis, CPA	L.B. Salley, CPA		C.D. Hincee, CPA	F.C. Gillam, CPA		

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors  
Low Country Health Care System, Inc.

### Report on Compliance for Each Major Federal Program

We have audited Low Country Health Care System, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Low Country Health Care System, Inc.'s major federal programs for the year ended November 30, 2014. Low Country Health Care System, Inc.'s major federal programs are identified in the summary of auditors' 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Low Country Health Care System, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Low Country Health Care System, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Low Country Health Care System, Inc.'s compliance.

### Opinion on Each Major Federal Program

In our opinion, Low Country Health Care System, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2014.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

Low Country Health Care System, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control over Compliance**

Management of Low Country Health Care System, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Low Country Health Care System, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Low Country Health Care System, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

## **Low Country Health Care System, Inc.'s Response to Finding**

Low Country Health Care System, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*M<sup>s</sup> Meyer + Co., LLP*

Columbia, South Carolina  
July 16, 2015