

**New Horizon Family Health Services, Inc.**

***Report on Financial Statements***

***For the years ended January 31, 2014 and 2013***

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# New Horizon Family Health Services, Inc.

## Contents

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	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1-2
<b>Financial Statements</b>	
Statements of Financial Position.....	3
Statements of Operations and Changes in Net Assets .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6-18
<b>Supplementary Information</b>	
Schedule of Functional Expenses for the year ended January 31, 2014 .....	19
Schedule of Functional Expenses for the year ended January 31, 2013 .....	20
<b>Single Audit Section</b>	
Schedule of Expenditures of Federal Awards .....	21
Notes to Schedule of Expenditures of Federal Awards .....	22
Schedule of Findings and Questioned Costs .....	23-24
Summary Schedule of Prior Audit Findings.....	25
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 <i>Government Auditing Standards</i> .....	26-27
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	28-29



## Independent Auditor's Report

To the Board of Directors  
New Horizon Family Health Services, Inc.  
Greenville, South Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of New Horizon Family Health Services, Inc., (the Organization), which comprise the statement of financial position as of January 31, 2014, and the related statement 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 New Horizon Family Health Services, Inc. as of January 31, 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**

### *Prior Period Financial Statements*

The financial statements of New Horizon Family Health Services, Inc. as of and for the year ended January 31, 2013, were audited by other auditors whose report dated August 22, 2013 expressed an unmodified opinion on those statements.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses and 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*, as listed in the table of contents, are presented for purposes of additional analysis and are 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 4, 2014, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.



Greenville, South Carolina  
August 4, 2014

## New Horizon Family Health Services, Inc.

### Statements of Financial Position

As of January 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 1,426,301	\$ 1,728,082
Assets whose use is limited-employee fund	2,825	1,460
Patient accounts receivable, net	972,352	1,145,649
Estimated retroactive adjustments-third party payors	162,156	141,604
Accounts receivable-other	63,571	328,306
Inventory	335,450	320,158
Prepaid expenses	158,069	59,807
Total current assets	<u>3,120,724</u>	<u>3,725,066</u>
<b>Funds held by bond trustee</b>	<u>12,917,695</u>	<u>15,630,705</u>
<b>Property and equipment, net</b>	<u>7,948,991</u>	<u>4,755,126</u>
<b>Other assets</b>		
Deposits	357	357
Debt issuance costs, net	217,200	275,120
Total other assets	<u>217,557</u>	<u>275,477</u>
Total assets	<u>\$ 24,204,967</u>	<u>\$ 24,386,374</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,216,721	\$ 562,797
Notes payable-current portion	91,775	91,252
Accrued liabilities-payroll	351,609	272,581
Accrued vacation payable	306,927	276,722
Deferred revenue	276,607	456,183
Total current liabilities	<u>2,243,639</u>	<u>1,659,535</u>
<b>Long-term liabilities</b>		
Notes payable, less current portion	17,027,547	17,119,093
Obligation under interest rate swap	38,512	54,676
Total liabilities	<u>19,309,698</u>	<u>18,833,304</u>
<b>Net assets</b>		
Unrestricted	4,108,728	4,816,976
Temporarily restricted	386,541	336,094
Permanently restricted	400,000	400,000
Total net assets	<u>4,895,269</u>	<u>5,553,070</u>
Total liabilities and net assets	<u>\$ 24,204,967</u>	<u>\$ 24,386,374</u>

See Notes to Financial Statements

**New Horizon Family Health Services, Inc.**  
**Statements of Operations and Changes in Net Assets**  
**For the years ended January 31, 2014 and 2013**

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, support and operating gains</b>								
Patient service revenue, net of contractual allowances and discounts	\$ 11,690,072	\$ -	\$ -	\$ 11,690,072	\$ 11,362,018	\$ -	\$ -	\$ 11,362,018
Provision for bad debts	(899,461)	-	-	(899,461)	(1,301,922)	-	-	(1,301,922)
Net patient service revenue	10,790,611	-	-	10,790,611	10,060,096	-	-	10,060,096
Government grants	3,774,654	-	-	3,774,654	4,182,031	-	-	4,182,031
Contributions	-	575,443	-	575,443	-	793,533	-	793,533
Contributed drugs for indigent patients	-	1,537,621	-	1,537,621	-	2,460,703	-	2,460,703
Contributed services	226,763	-	-	226,763	150,469	-	-	150,469
Donated land	-	-	-	-	-	-	(5,000)	(5,000)
Other revenue	47,966	-	-	47,966	238,336	-	-	238,336
Net assets released from restrictions used for operations	2,062,617	(2,062,617)	-	-	3,034,514	(3,034,514)	-	-
Total revenues, support and operating gains	16,902,611	50,447	-	16,953,058	17,665,446	219,722	(5,000)	17,880,168
<b>Expenses</b>								
Healthcare services	13,542,126	-	-	13,542,126	13,850,769	-	-	13,850,769
Supporting services								
General and administrative	4,085,900	-	-	4,085,900	3,897,702	-	-	3,897,702
Total expenses	17,628,026	-	-	17,628,026	17,748,471	-	-	17,748,471
Operating income	(725,415)	50,447	-	(674,968)	(83,025)	219,722	(5,000)	131,697
<b>Non-operating gains and losses</b>								
Interest income	1,003	-	-	1,003	3,485	-	-	3,485
Gain on derivative financial instruments	16,164	-	-	16,164	11,846	-	-	11,846
Total non-operating gains and losses	17,167	-	-	17,167	15,331	-	-	15,331
<b>Change in net assets</b>	(708,248)	50,447	-	(657,801)	(67,694)	219,722	(5,000)	147,028
<b>Net assets, beginning of year</b>	4,816,976	336,094	400,000	5,553,070	4,884,670	116,372	405,000	5,406,042
<b>Net assets, end of year</b>	\$ 4,108,728	\$ 386,541	\$ 400,000	\$ 4,895,269	\$ 4,816,976	\$ 336,094	\$ 400,000	\$ 5,553,070

See Notes to Financial Statements

## New Horizon Family Health Services, Inc.

### Statements of Cash Flows

For the years ended January 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (657,801)	\$ 147,028
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	517,938	488,930
Amortization	57,920	14,480
Provision for bad debts	899,461	1,301,922
Donated land	-	5,000
Gain on derivative financial instruments	(16,164)	(11,846)
Changes in assets and liabilities		
Accounts receivable	(726,164)	(1,194,948)
Estimated retroactive adjustments-third party payors	(20,552)	(2,506)
Inventory	(15,292)	(52,800)
Accounts receivable-other	264,735	(191,317)
Prepaid expenses	(98,262)	31,771
Assets whose use is limited-employee fund	(1,365)	3,492
Accounts payable	(117,058)	(54,016)
Accrued payroll and related expenses	109,233	24,989
Deferred revenue	(179,576)	58,191
Net cash provided by operating activities	<u>17,053</u>	<u>568,370</u>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(2,940,821)	(295,593)
Net cash used by investing activities	<u>(2,940,821)</u>	<u>(295,593)</u>
<b>Cash flows from financing activities</b>		
Proceeds from notes payable	-	16,000,000
Debt issuance costs	-	(289,600)
Change in funds held by bond trustee	2,713,010	(15,630,705)
Repayments of notes payable	(91,023)	(295,988)
Net cash provided by financing activities	<u>2,621,987</u>	<u>73,307</u>
Net (decrease)/increase in cash and cash equivalents	(301,781)	346,084
<b>Cash, beginning of year</b>	<u>1,728,082</u>	<u>1,381,998</u>
<b>Cash, end of year</b>	<u>\$ 1,426,301</u>	<u>\$ 1,728,082</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	<u>\$ 411,360</u>	<u>\$ 112,438</u>
Construction in progress financed through accounts payable	<u>\$ 770,982</u>	<u>\$ -</u>

See Notes to Financial Statements

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## New Horizon Family Health Services, Inc.

### *Notes to Financial Statements*

*January 31, 2014 and 2013*

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#### **Note 1. Summary of Significant Accounting Policies**

##### Nature of activities:

New Horizon Family Health Services, Inc. (the Organization) is a 501(c)(3) not-for-profit corporation. It operates four comprehensive ambulatory, family health care facilities, a dental office, a mobile medical unit and a mobile dental unit. The Organization provides comprehensive health care services to residents of Greenville, South Carolina and the surrounding areas.

##### Financial statement presentation:

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under GAAP, the Organization is required to present a statement of cash flows. Also, the Organization reports information regarding its financial position and activities according to three classes of net assets 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.

**Permanently Restricted** - Net assets that are subject to donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or removed by actions of the Organization.

##### Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted support is reclassified to unrestricted net assets on expiration or fulfillment of the donor restrictions. If the restriction is satisfied in the year of the contribution, it is treated as unrestricted.

##### Donated services:

Donated Services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

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## **New Horizon Family Health Services, Inc.**

### ***Notes to Financial Statements***

***January 31, 2014 and 2013***

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#### **Note 1. Summary of Significant Accounting Policies, Continued**

##### Receivables:

Accounts receivable are stated at the net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustment under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in a future period as final settlements are determined.

Substantially all of the Organization's accounts receivable are related to providing healthcare services to patients. Collection of these accounts receivable is the Organization's primary source of cash and is critical to operating performance. The Organization's primary collection risks relate to uninsured patients and outstanding patient balances for which the primary and secondary insurance has paid some, but not all of the outstanding balance, with the remaining outstanding balance (generally deductibles and copayments) owed by the patient.

The process of estimating the allowance for doubtful accounts requires the Organization to estimate the collectability of patient accounts receivable, which is primarily based on collection history, adjusted for expected recoveries. Collections are impacted by the economic ability of patients to pay and the effectiveness of collection efforts. Significant changes in payor mix, economic conditions, or trends in federal and state governmental healthcare coverage could affect the collection of accounts receivable.

The allowance for doubtful accounts was \$500,261 and \$1,077,407, for the years ended January 31, 2014 and 2013, respectively.

##### Revenue:

##### Grants

The Organization recognizes Federal grant awards when they are 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 grant revenue. Deferred grant revenue balance at the grant program ending date is refundable to the Federal government or may be carried over to the subsequent grant period at the discretion of the Federal government. Deferred grant revenue was \$276,607 and \$0 for the years ended January 31, 2014 and 2013, respectively.

##### Third-party contractual adjustments

Retroactively calculated third-party contractual adjustments are accrued 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.

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## **New Horizon Family Health Services, Inc.**

### ***Notes to Financial Statements***

***January 31, 2014 and 2013***

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#### **Note 1. Summary of Significant Accounting Policies, Continued**

##### *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, including estimated retroactive adjustments under reimbursement agreements with third-party payors. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of uninsured patients will be unable or unwilling to pay for services provided. Thus, the Organization records a significant provision of bad debts related to these services.

##### *Performance indicator:*

The performance indicator is operating income. Changes in unrestricted net assets, which are excluded from operating income, include interest income and the change in the fair value of derivative financial instruments, which is consistent with industry practice.

##### *Charity care:*

The Organization has a policy of providing charity care to patients who are unable to pay. Such patients are identified and related charges are estimated, based on financial information obtained from the patient and subsequent analysis. Since management does not expect payment for charity care, the estimated charges are excluded from net revenue.

##### *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 therefore is subject to Federal regulations. The Organization capitalizes all non-expendable property acquisitions of \$500 or more. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 30 years.

##### *Assets limited as to use:*

Assets whose use is limited consist of a bank account for employee morale. The account is funded primarily from employee contributions.

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## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Property and equipment:

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Property and equipment purchases are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Leasehold improvements are capitalized and depreciated using the shorter of the lease term or estimated life of the assets. Repairs and maintenance are charged to operations. The useful lives are as follows:

Buildings and improvements	7 to 30 years
Furniture and equipment	5 to 15 years
Leasehold improvements	Lease term

##### Inventory:

Purchased inventory, consisting primarily of pharmaceuticals and other supplies, is stated at the lower of cost (first-in, first-out) or market. Donated inventory is stated at estimated fair market value.

##### 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. Management has concluded that no material uncertain tax positions or unrecognized tax benefits exist. The Organization's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2010.

##### Cash and cash equivalents:

Any short-term investment with an original maturity of three months or less is a cash equivalent.

##### Funds held by trustees:

Funds held by trustees at January 31, 2014 and 2013 are unexpended proceeds of the 2012 revenue bond obligation issued by the South Carolina Jobs-Economic Development Authority. Funds will be held in trust at Wells Fargo Bank, NA (the trustee) until expended for the purpose of constructing a new facility. The balance held in trust at January 31, 2014 and 2013 was \$12,917,695 and \$15,630,705, respectively.

## **New Horizon Family Health Services, Inc.**

### ***Notes to Financial Statements***

***January 31, 2014 and 2013***

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#### **Note 1. Summary of Significant Accounting Policies, Continued**

##### *Unamortized debt issuance cost:*

Unamortized debt issuance cost represents the costs related to the issuance of the revenue bond obligation and included in other assets. Substantially all of these amounts are being amortized using the straight-line method over the terms of the related bond obligation. At January 31, 2014 and 2013, net debt issuance cost was \$217,200 and \$275,120, respectively.

##### *Derivative instruments:*

The Organization entered into an interest rate swap agreement to reduce its exposure to variable cash flows from changing interest rates. Accounting principles generally accepted in the United States of America require the Organization to recognize all derivatives as either assets or liabilities on the statement of financial position and measure these instruments at fair value. Changes in the fair value of these instruments are reported in the statement of operations unless criteria for hedge accounting are met. For the years ending January 31, 2014 and 2013, the criteria were not met for hedge accounting. Gains and losses associated with changes in fair value of these derivatives are included as non-operating gains and losses in the statement of operations. See Note 16.

##### *Advertising costs:*

Advertising costs, consisting primarily of advertisement of services offered by the Organization, are expensed as incurred. Advertising expense for the year ended January 31, 2014 and 2013 was \$26,910 and \$14,688, respectively.

##### *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 periodic time and expense studies. 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.

##### *Estimates:*

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

##### *Reclassifications:*

Certain prior year balances have been reclassified to conform to the current year presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

#### Note 2. Estimated Retroactive Adjustments

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 reviewed or audited by the intermediaries. Provision for estimated reimbursement adjustments is reported in the financial statements in the period that the services are provided. The estimated receivable at January 31, 2014 is \$162,156. At January 31, 2013 the estimated receivable was \$141,604.

#### Note 3. Patient Accounts Receivable

Accounts receivable balances for patient service fees are summarized as follows:

	<u>2014</u>	<u>2013</u>
Patient fees	\$ 1,224,130	\$ 1,932,084
Pharmacy receivables	248,483	290,972
Less: Allowance for contractual adjustments and uncollectible accounts	<u>(500,261)</u>	<u>(1,077,407)</u>
Patient accounts receivable, net	<u>\$ 972,352</u>	<u>\$ 1,145,649</u>

#### Note 4. Property and Equipment

A summary of property and equipment are as follows:

	<u>2014</u>	<u>2013</u>
Building and improvements	\$ 4,561,337	\$ 4,561,337
Equipment and software	3,627,803	3,450,181
Furniture and fixtures	229,339	229,339
Leasehold improvements	37,757	37,757
Vehicles	184,754	135,754
Land	532,000	532,000
Land improvements	8,258	8,258
Construction in progress	<u>3,567,150</u>	<u>81,969</u>
	12,748,398	9,036,595
Less: accumulated depreciation	<u>(4,799,407)</u>	<u>(4,281,469)</u>
Property and equipment, net	<u>\$ 7,948,991</u>	<u>\$ 4,755,126</u>

As of January 31, 2014 and 2013, depreciation expense was \$517,938 and \$488,930, respectively. Construction in progress includes capitalized interest of \$380,356 and \$0 at January 31, 2014 and 2013, respectively.

#### Note 5. Funds on Deposit

At year end, the Organization's cash balances were insured under the Federal Deposit Insurance Corporation (FDIC) or secured by pledged collateral.

## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

#### Note 6. Notes Payable

The terms and due dates of the Organization's notes payable are as follows:

	<u>2014</u>	<u>2013</u>
\$955,045 mortgage note payable to Regions Bank with a "fixed to floating" interest rate (2.6% at January 31, 2014), secured by real estate due in monthly installments with a maturity of June 2016 (See Note 15).	\$ 837,290	\$ 884,681
\$582,587 mortgage note payable to Regions Bank with an interest rate of 5.0% per annum, secured by real estate, due in monthly principal and interest installments of \$4,607 with a maturity of June 2016.	282,032	321,921
Note payable to South Carolina Office of Rural Health with an interest rate of 5.5% secured by equipment, due in monthly principal and interest installments of \$488 with a maturity of September 2013.	-	3,743
Mortgage payable to South Carolina Jobs-Economic Development Authority, bearing interest at a rate of 2.20%, maturing in November 2017.	<u>16,000,000</u>	<u>16,000,000</u>
	<u>\$ 17,119,322</u>	<u>\$ 17,210,345</u>

On November 1, 2012, the South Carolina Jobs-Economic Development Authority (SCJEDA) issued \$16,000,000 Series 2012 revenue bonds pursuant to bond purchase and loan agreement dated November 1, 2012, with SCJEDA, Wells Fargo Bank, NA, and the Organization. The Series 2012 bonds are governed by an Indenture of Trust and related agreements. The bond proceeds were loaned, via a note payable, to the Organization for the purpose of constructing a new facility which collateralizes the loan. The note bears interest of 2.20 percent per annum. The terms of the agreement require monthly interest only payments until April 1, 2015. At that time, principal payments of \$200,000 will be due in four installments per year. The bonds are supported by a credit support agreement issued by Greenville Health System Board of Trustees ("GHS"). Under the terms of the credit support agreement, GHS has the option to make payments on behalf of the Organization to prevent default. The Organization would be obligated to repay GHS for any amounts paid on its behalf.

Maturity of notes payable principal balances outstanding at January 31, 2014, is as follows:

2015	\$ 91,775
2016	896,502
2017	1,731,045
2018	<u>14,400,000</u>
	17,119,322
Current portion	<u>91,775</u>
Total notes payable long-term	<u>\$ 17,027,547</u>

## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

#### Note 7. Operating Leases

The Organization leases administrative office space in Greenville, South Carolina on a five-year lease, expiring October 2015 with options to extend, for \$7,699 per month. The Organization also leases a clinic facility in Greer, South Carolina on a fifteen-year lease, expiring September 2027, for \$8,734 per month.

Total operating lease expense for the years ended January 31, 2014 and 2013 was \$223,879 and \$92,388, respectively.

Minimum future lease payments under operating leases are:

2015	\$	197,203
2016		174,105
2017		104,813
2018		104,813
2019		104,813
Thereafter		<u>943,317</u>
Total	\$	<u>1,629,064</u>

#### Note 8. Restricted Net Assets

##### Temporarily restricted net assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Pharmaceuticals for indigent patients	\$ 174,041	\$ 107,094
SC primary healthcare — IT equipment	-	16,500
Electronic health records	<u>212,500</u>	<u>212,500</u>
Total temporarily restricted net assets	<u>\$ 386,541</u>	<u>\$ 336,094</u>

Net assets released from restrictions by incurring expenses satisfying restricted purposes:

	<u>2014</u>	<u>2013</u>
Pfizer Corporation — pharmaceuticals for indigent patients	\$ 1,470,674	\$ 2,453,481
Direct Relief International	-	1,462
United Way — Dental clinic project	95,760	101,762
Electronic health records	-	212,500
General Electric	456,183	241,809
United Way — Traveler's Rest pharmacy	23,500	23,500
SC Primary Healthcare — IT equipment	<u>16,500</u>	<u>-</u>
Totals	<u>\$ 2,062,617</u>	<u>\$ 3,034,514</u>

## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

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#### Note 8. Restricted Net Assets, Continued

##### Permanently restricted net assets:

Permanently restricted net assets consist of land required to be held in perpetuity and used only for medical offices and treatment facilities. Permanently restricted net assets at January 31, 2014 and 2013 were \$400,000.

#### Note 9. Government Grants

Government grants consist of the following:

	<u>2014</u>	<u>2013</u>
U.S. Department of Health and Human Services		
Direct	\$ 3,457,886	\$ 4,127,032
Pass-through AID Upstate	50,416	54,999
State of South Carolina	<u>266,352</u>	<u>-</u>
Totals	<u>\$ 3,774,654</u>	<u>\$ 4,182,031</u>

#### Note 10. 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.

## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

#### Note 11. Concentration of Risk

The Organization has the option to grant credit to its patients. A substantial percentage is insured under third-party payor agreements.

The percentages of receivables from patients and third-party payors were as follows:

	<u>2014</u>	<u>2013</u>
Medicare	31%	25%
Medicaid	32%	20%
Other third-party payors	17%	19%
Patients	<u>20%</u>	<u>36%</u>
	<u>100%</u>	<u>100%</u>

The percentages of revenue from patients and third-party payors were as follows:

	<u>2014</u>	<u>2013</u>
Medicare	9%	9%
Medicaid	17%	17%
Other third-party payors	57%	54%
Patients	<u>17%</u>	<u>20%</u>
	<u>100%</u>	<u>100%</u>

Approximately 20 percent and 22 percent of total revenues, support and gains were attributable to federal awards during the years ending January 31, 2014 and 2013, respectively.

#### Note 12. In-Kind Contributions

Employees of Greenville Hospital Systems, Community Ministries and AID Upstate provided in-kind support services to the patients of New Horizon Family Health Services, Inc. The estimated fair value of the services for the year ended January 31, 2014 and 2013 was \$155,014 and \$139,896, respectively.

Labcorp provided in-kind lab services to the patients of New Horizon Family Health Services, Inc. The estimated fair value of the services for the year ended January 31, 2014 and 2013 was \$71,749 and \$10,573, respectively.

#### Note 13. Retirement Plan

The Organization sponsors a retirement plan through salary reductions for all full-time employees. Employees are immediately eligible to make elective deferrals. The Organization makes discretionary matching contributions of 50 percent of employees' elective deferrals up to 6 percent of compensation. After one year of full-time employment, employees must make elective deferral of at least 1 percent to become eligible for employer match. Pension plan contributions for the years ended January 31, 2014 and 2013, were \$82,574 and \$89,477, respectively.

## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

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#### Note 14. 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 15. Derivatives

The Organization utilizes a derivative financial instrument to reduce its exposure to market risk from changes in interest rates. The instrument used to mitigate this risk is an interest rate swap. See Note 1.

As stated in Note 6, the Organization entered into a "fixed for floating" interest rate swap related to the long-term financing obtained from Regions Bank during 2012. Under the terms of the agreement, the Organization computes its monthly payment amount using a fixed rate of 5.0 percent applied to the outstanding notional amount. Regions Bank, the counterparty, computes its rate at a variable rate equal to the adjusted one month London InterBank Offered Rate (LIBOR) (.265 percent at January 31, 2014). The monthly difference between the amount to be paid by the Organization and the amount to be paid by the counterparty is recorded as an addition to or reduction of current interest expense.

The maturity and interest rate on the interest rate swap is shown in the following table:

Notional Amount	Maturity	Fixed Rate
\$837,290	06/07/2016	5.0%

At all times during the term of the swap, the notional amount on which the monthly payments/receipts are set will equal the balance on the note.

The swap was issued on market terms so that it had no fair value at its inception. The carrying value of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The liability is classified as non-current, since management does not intend to settle it during 2015. All of the adjustment of the swap's carrying amount is reported in the Statements of Operations and Changes in Net Assets.

The year-end fair value of the Organization's interest rate swap was obtained from the counterparty to the transaction. This value represents the estimated amount the Organization would be required to pay to terminate the agreement, taking into consideration the difference between the contract rate of interest and rates currently quoted for agreements of similar terms and maturities. At January 31, 2014 and 2013, the fair value of the Organization's interest rate swap resulted in a liability of \$38,512 and \$54,676, respectively. The Organization recorded the liability in the accompanying Statements of Financial Position.

The Organization is exposed to credit-related losses in the event of nonperformance by the counterparty to the derivative instrument. However, the counterparty to this agreement is a major financial institution, and the risk of loss due to nonperformance is considered by management to be minimal. The Organization does not hold or issue interest rate swaps for trading purposes.

## New Horizon Family Health Services, Inc.

### Notes to Financial Statements

January 31, 2014 and 2013

#### Note 16. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs.

The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and Federal agency securities and Federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.
- Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the years ended January 31, 2014 and 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Obligation under interest rate swap: The fair value of interest rate swap is based on observable current market information as of the reporting date and is included in long-term liabilities on the accompanying Statements of Financial Position.

The following table summarizes assets and liabilities recorded at fair value on a recurring basis:

	<b>Liabilities at Fair Value</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
January 31, 2014:				
Interest rate swap	\$ 38,512	\$ -	\$ 38,512	\$ -
January 31, 2013:				
Interest rate swap	\$ 54,676	\$ -	\$ 54,676	\$ -

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**New Horizon Family Health Services, Inc.**

*Notes to Financial Statements*

*January 31, 2014 and 2013*

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**Note 17. Subsequent Events**

The Organization evaluated subsequent events through August 4, 2014, which is the date the financial statements were available to be issued.

## **Supplementary Schedules**

**New Horizon Family Health Services, Inc.****Schedule of Functional Expenses****For the year ended January 31, 2014**

	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 5,154,843	\$ 2,425,808	\$ 7,580,651
Payroll taxes	367,706	173,038	540,744
Other fringe benefits	603,401	283,954	887,355
Patient care services	466,778	-	466,778
Contributed services	155,014	-	155,014
Donated drugs	1,537,621	-	1,537,621
Contractual services	192,478	494,942	687,420
Training	28,469	13,397	41,866
Supplies	3,752,498	239,521	3,992,019
Equipment rental	-	13,675	13,675
Printing	21,841	10,278	32,119
Occupancy	418,534	26,715	445,249
Travel	30,182	14,204	44,386
Dues and subscriptions	1,785	27,958	29,743
Taxes and licenses	21,476	5,038	26,514
Repairs and maintenance	111,645	7,126	118,771
Telephone	141,405	9,026	150,431
Postage	1,102	17,258	18,360
Recruitment and retention	48,083	-	48,083
Insurance	-	28,640	28,640
Noncapital equipment	42,409	28,272	70,681
Interest	56,718	3,620	60,338
Depreciation	331,480	186,458	517,938
Amortization	37,069	20,851	57,920
Advertising	18,299	8,611	26,910
Board expenses	-	5,518	5,518
Bank charges	-	41,670	41,670
Miscellaneous	1,290	322	1,612
Total	<u>\$ 13,542,126</u>	<u>\$ 4,085,900</u>	<u>\$ 17,628,026</u>

**New Horizon Family Health Services, Inc.****Schedule of Functional Expenses****For the year ended January 31, 2013**

	<u>Healthcare Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 4,814,995	\$ 2,265,880	\$ 7,080,875
Payroll taxes	342,632	161,239	503,871
Other fringe benefits	546,273	257,070	803,343
Patient care services	471,381	-	471,381
Contributed services	139,896	-	139,896
Donated drugs	2,460,703	-	2,460,703
Contractual services	206,057	529,861	735,918
Training	41,032	19,309	60,341
Supplies	3,575,629	228,232	3,803,861
Equipment rental	-	16,994	16,994
Printing	31,812	14,971	46,783
Occupancy	422,612	26,975	449,587
Travel	31,034	14,604	45,638
Dues and subscriptions	1,788	28,010	29,798
Taxes and licenses	28,723	6,737	35,460
Repairs and maintenance	107,981	6,892	114,873
Telephone	123,782	7,901	131,683
Postage	663	10,386	11,049
Recruitment and retention	747	-	747
Insurance	-	25,043	25,043
Noncapital equipment	53,425	35,616	89,041
Interest	105,692	6,746	112,438
Depreciation	312,915	176,015	488,930
Amortization	9,267	5,213	14,480
Advertising	9,988	4,700	14,688
Board expenses	-	5,335	5,335
Bank charges	-	41,038	41,038
Miscellaneous	11,742	2,935	14,677
Total	<u>\$ 13,850,769</u>	<u>\$ 3,897,702</u>	<u>\$ 17,748,471</u>

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**New Horizon Family Health Services, Inc.****Schedule of Expenditures of Federal Awards****For the year ended January 31, 2014**

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<b><u>Federal Grantor/Pass-through Grantor/Program or cluster title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
<b>U.S. Department of Health and Human Services</b>		
Direct programs:		
Health Centers Cluster		
Consolidated Health Centers	93.224	\$ 1,717,086
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	<u>1,080,927</u>
Total Health Centers Cluster		2,798,013
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	<u>659,873</u>
Total Direct Programs		3,457,886
Pass-through AID Upstate HIV Care Formula Grants	93.917	<u>50,416</u>
Total U.S. Department of Health and Human Services		<u>3,508,302</u>
<b>Total expenditures of Federal awards</b>		<b><u>\$ 3,508,302</u></b>

See accompanying notes to schedule of expenditures of Federal awards

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**New Horizon Family Health Services, Inc.*****Notes to the Schedule of Expenditures of Federal Awards******For the year ended January 31, 2014***

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**Note 1. Basis of Presentation**

The schedule of expenditures of federal awards (the Schedule) includes the federal grants activity of New Horizon Family Health Services, Inc. under programs of the federal government for the year ended January 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of New Horizon Family Health Services, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of New Horizon Family Health Services, Inc.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**New Horizon Family Health Services, Inc.**

*Schedule of Findings and Questioned Costs*

*For the year ended January 31, 2014*

**Section I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness identified?  Yes  No
- Significant deficiency identified?  Yes  None reported

Noncompliance material to financial statements noted?

Yes  No

Federal Awards

Internal control over major federal programs:

- Material weakness identified?  Yes  No
- Significant deficiency identified?  Yes  None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

Yes  No

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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

Dollar threshold used to distinguish between Type A and Type B Programs

\$300,000

Auditee qualified as low-risk auditee?

Yes  No

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**New Horizon Family Health Services, Inc.**

*Schedule of Findings and Questioned Costs*

*For the year ended January 31, 2014*

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**Section II. Financial Statement Findings**

None reported.

**Section III. Federal Award Findings and Questioned Costs**

None reported.

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**New Horizon Family Health Services, Inc.*****Summary Schedule of Prior Audit Findings******For the year ended January 31, 2014***

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**Finding: 2013-001 - Inventory Equipment Management**

*Condition/Effect:* While the capital assets of the Organization have been tracked and that record has been reconciled to the general ledger timely, it has been more than two years since the last physical inventory has been taken and reconciled to the capital asset records.

*Recommendation:* A physical inventory of capital assets should be taken at least once every two years and reconciled to the capital asset records.

*Current Status:* The recommendation was adopted during the year ended January 31, 2014. A physical inventory of the capital assets of the Organization has been completed and a process has been established to complete the physical inventory every two years. No similar findings were noted in the 2014 audit.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
New Horizon Family Health Services, Inc.  
Greenville, SC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Horizon Family Health Services, Inc. (the Organization), which comprise the statement of financial position as of January 31, 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 August 4, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization'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 New Horizon Family Health Services, 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 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 the Organization'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*.

## **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.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Greenville, South Carolina  
August 4, 2014



## **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133**

To the Board of Directors  
New Horizon Family Health Services, Inc.  
Greenville, SC

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

We have audited New Horizon Family Health Services, Inc.'s (the Organization) 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 the Organization's major federal programs for the year ended January 31, 2014. The Organization'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 the Organization'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 New Horizon Family Health Services, 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 the Organization's compliance.

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

In our opinion, the Organization 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 January 31, 2014.

## Report on Internal Control Over Compliance

Management of the Organization 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 New Horizon Family Health Services, 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 the Organization'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.



Greenville, South Carolina  
August 4, 2014