

SANDHILLS MEDICAL FOUNDATION, INC.

Financial Statements

May 31, 2014 and 2013

(With Independent Auditor's Report Thereon)

SANDHILLS MEDICAL FOUNDATION, INC.
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Independent Auditor's Report

The Governing Board
Sandhills Medical Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Sandhills Medical Foundation, Inc. (the Organization) which comprise the statement of financial position as of May 31, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sandhills Medical Foundation, Inc. as of May 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2014 on our consideration of Sandhills Medical Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards considering Sandhills Medical Foundation, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is positioned above the typed name and date.

Lebanon, TN
August 22, 2014

SANDHILLS MEDICAL FOUNDATION, INC.

Statement of Financial Position

May 31, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
<i>Current Assets</i>		
Cash	\$ 2,138,023	\$ 1,632,164
Accounts Receivable Net (Note 5)	648,742	616,910
Inventory (Note 4)	283,061	276,688
Contracts and Other Receivables (Note 6)	271,032	53,161
Prepaid Expenses	60,731	68,653
<i>Total Current Assets</i>	<u>3,401,589</u>	<u>2,647,576</u>
<i>Property and Equipment</i>		
Property and Equipment, at Cost, Net of Accumulated Depreciation (Note 6)	4,394,175	4,387,718
<i>Total Property and Equipment</i>	<u>4,394,175</u>	<u>4,387,718</u>
<i>Other Assets</i>		
CIMS Investment	2,500	2,500
Amicus Health, LLC Investment	125,000	100,000
Cash USDA Escrow - Temporarily Restricted (Note 10)	74,242	58,789
<i>Total Other Assets</i>	<u>201,742</u>	<u>161,289</u>
Total Assets	<u><u>\$ 7,997,506</u></u>	<u><u>\$ 7,196,583</u></u>
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 207,151	\$ 218,916
Accrued Compensated Absences	148,462	133,413
Accrued Wages	172,615	162,675
Accrued Payroll Liabilities	15,779	16,746
Deferred Revenue	112,996	7,000
Current Portion of Long Term Debt (Note 9)	64,529	62,400
<i>Total Current Liabilities</i>	<u>721,532</u>	<u>601,150</u>
<i>Long-Term Liabilities</i>		
Mortgages Payable (Note 9)	3,121,936	3,100,372
Less Current Portion of Long Term Debt	<u>(64,529)</u>	<u>(62,400)</u>
<i>Total Long-Term Liabilities</i>	<u>3,057,407</u>	<u>3,037,972</u>
Total Liabilities	<u>3,778,939</u>	<u>3,639,122</u>
<i>Net Assets</i>		
Net Assets -Unrestricted	4,144,325	3,498,672
Net Assets -Temporarily Restricted (Note 10)	74,242	58,789
<i>Total Net Assets</i>	<u>4,218,567</u>	<u>3,557,461</u>
Total Liabilities and Net Assets	<u><u>\$ 7,997,506</u></u>	<u><u>\$ 7,196,583</u></u>

The accompanying notes are an integral part of this financial statement

SANDHILLS MEDICAL FOUNDATION, INC.
Statement of Activities
For The Years Ended May 31, 2014 and 2013

Support and Revenues:	<u>2014</u>	<u>2013</u>
Net Patient Revenue (Note 11)	\$ 7,461,413	\$ 6,340,603
Public Support - U.S. DHHS		
Operational Grants (Note 12)	1,412,063	1,394,290
Other Grants and Contracts	568,768	437,423
Cost Settlements	99,086	357,982
Rent and Other Revenue	28,833	26,604
 <i>Total Support and Revenues</i>	 <u>9,570,163</u>	 <u>8,556,902</u>
 Expenses:		
Program Services Expenses	7,122,986	6,801,825
General and Administrative Expenses	1,786,715	1,594,818
 <i>Total Expenses</i>	 <u>8,909,701</u>	 <u>8,396,643</u>
 Excess (Deficiency) of Support and Revenues Over Expenses From Operations	 <u>660,462</u>	 <u>160,259</u>
 Other Income (Expenses):		
Interest Earned	2,322	2,290
Gain (Loss) on Sale of Asset	(1,678)	(151,014)
 <i>Total Other Income (Expenses)</i>	 <u>644</u>	 <u>(148,724)</u>
 Total Excess (Deficiency) of Support and Revenues Over Expenses	 <u>\$ 661,106</u>	 <u>\$ 11,535</u>
 Net Assets:		
Increase (Decrease) in Unrestricted Net Assets	\$ 645,653	\$ 457
Increase (Decrease) in Temporarily Restricted Net Assets	15,453	11,078
Net Assets at Beginning of Year	3,557,461	3,545,926
 Net Assets at End of Year	 <u><u>\$ 4,218,567</u></u>	 <u><u>\$ 3,557,461</u></u>

The accompanying notes are an integral part of this financial statement

SANDHILLS MEDICAL FOUNDATION, INC.
Statement of Functional Expenses
For The Years Ended May 31, 2014 and 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2014 Total</u>	<u>2013 Total</u>
Personnel	\$ 3,351,146	\$ 919,671	\$ 4,270,817	\$ 3,933,719
Fringe Benefits	477,859	255,389	733,248	682,455
Contractual Services	526,110	187,583	713,693	751,077
Supplies	2,157,257	72,724	2,229,981	2,182,409
Travel and Training	57,181	68,745	125,926	105,018
Insurance	40,024	4,447	44,471	33,735
Telephone and Postage	82,768	59,452	142,220	123,239
Building and Equipment Rent	5,441	55,543	60,984	54,234
Utilities	56,642	6,294	62,936	56,553
Depreciation	140,602	22,541	163,143	181,979
Maintenance and Repairs	55,570	17,423	72,993	63,123
Dues, Printing and Other	67,696	105,271	172,967	102,464
Interest	104,690	11,632	116,322	126,638
Total	<u>\$ 7,122,986</u>	<u>\$ 1,786,715</u>	<u>\$ 8,909,701</u>	<u>\$ 8,396,643</u>

The accompanying notes are an integral part of this financial statement

SANDHILLS MEDICAL FOUNDATION, INC.

Statement of Cash Flows

For The Years Ended May 31, 2014 and 2013

Cash Flows from Operating Activities:

	<u>2014</u>	<u>2013</u>
Excess (Deficiency) of Support and Revenues Over Expenses	\$ 660,462	\$ 162,549
Adjustments to Reconcile Net Income to Cash Provided from Operations:		
Depreciation	163,143	181,979
(Increase) Decrease in Accounts Receivable	(31,832)	38,695
(Increase) Decrease in Other Receivables	(217,871)	14,174
(Increase) Decrease in Inventory	(6,373)	(47,539)
(Increase) Decrease in Prepaid Items	7,922	(39,266)
(Increase) Decrease in Other Assets	(40,453)	(61,078)
Increase (Decrease) in Accrued Liabilities	(967)	(26,201)
Increase (Decrease) in Accounts Payable	(11,765)	(89,072)
Increase (Decrease) in Accrued Wages	9,940	78,006
Increase (Decrease) in Accrued Compensated Absences	15,049	3,849
Increase (Decrease) in Deferred Revenue	105,996	-
Net Cash Provided by Operating Activities:	<u>653,251</u>	<u>216,096</u>

Cash Flows Used in Investing Activities:

Purchases of Property and Equipment	(174,002)	(25,644)
Book Value of Assets Disposed	4,403	151,014
Proceeds from Asset Sale	2,321	0
Gain (Loss) on Asset Disposal	(1,678)	(151,014)
Cash Used in Investing Activities	<u>(168,956)</u>	<u>(25,644)</u>

Cash Flows Used in Financing Activities:

Additional Draws on Existing Loans	86,804	269,535
Increase (Decrease) in Long Term Debt	(65,240)	(50,080)
Cash Used in Financing Activities	<u>21,564</u>	<u>219,455</u>
Net Increase (Decrease) in Cash	<u>505,859</u>	<u>409,907</u>
Cash at Beginning of The Year	1,632,164	1,222,257
Cash at End of The Year	<u><u>\$ 2,138,023</u></u>	<u><u>\$ 1,632,164</u></u>

Supplemental Data:

Interest Paid in Financing Activities	\$ 116,322	\$ 126,638
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The accompanying notes are an integral part of this financial statement

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(1) Summary of Significant Accounting Policies

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

(a) Nature of The Business

Sandhills Medical Foundation, Inc. (the Organization) operates community medical service centers. The Organization provides comprehensive health care services at several locations in South Carolina.

(b) Financial Statement Presentation

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

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with maturities of 90 days or less.

(d) Accounts Receivable

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

(e) Allowance for Uncollectible Receivables

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

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(f) Property and Equipment

Property and equipment acquired with DHHS funds are considered to be owned by the Organization while used in the program or in future authorized programs. However, DHHS retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets. Accordingly, the Organization may not transfer, mortgage, assign, lease or in any other manner encumber certain property items without the prior approval of DHHS.

Property and equipment are depreciated on the straight-line method over estimated useful lives of the assets.

(g) Recognition of Grant Income

Grant income is recognized over the grant period in relation to the expenditures incurred and services provided, as outlined in the grant documents. Cash received in excess of grant expenditures to date is recorded as deferred revenue, and a receivable is recorded when allowable expenditures exceed cash received.

(h) Patient Service Revenue

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

(i) Contributions

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

(j) Income Taxes

The Organization is a non-profit corporation as described in Section 501c (3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 (1) of the Code. As of the date of this report the current and two most recent prior years are available for IRS audit.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(k) Estimated Amounts

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

(l) Concentration of Credit and Market Risk

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

(2) Fair Value of Financial Instruments

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

(3) Cash

The Organization maintains its cash accounts with banks located in South Carolina. Total cash balances are insured by the FDIC up to \$250,000 per financial institution. The Organization has cash balances which exceed the standard FDIC limit. The Organization has security agreements with financial institutions up to \$1,214,948. As of May 31, 2014 the Organization's cash balance was in excess of the FDIC and security agreements by \$392,573.

(4) Inventories

The Organization records all pharmaceuticals as inventory items when purchased. On a monthly basis, inventory is adjusted for the items dispensed to patients. The value of the inventory is determined on the First In, First Out Basis (FIFO). All other supplies are not considered to be material and are expensed as they are purchased. Therefore, there is no inventory reported in the financial statement for these items.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(5) Accounts Receivable

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

Accounts receivable balances as of May 31, 2014 and 2013 are:	<u>2014</u>	<u>2013</u>
Services rendered	\$1,437,207	\$1,039,576
Less allowance for uncollectible accounts	<u>(788,465)</u>	<u>(422,666)</u>
Accounts receivable, net	<u>\$ 648,742</u>	<u>\$616,910</u>

(6) Other Receivables

The Organization also has receivables from cost report settlements from Medicaid and other receivables as follows:

	<u>2014</u>	<u>2013</u>
Medicaid cost report receivable	\$ 63,570	\$ -
Amicus note receivable	180,000	-
Kershaw Access contract receivable	19,073	49,833
Other receivables	<u>8,389</u>	<u>3,328</u>
Total other receivables	<u>\$ 271,032</u>	<u>\$ 53,161</u>

(7) Property and Equipment

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

	<u>2014</u>	<u>2013</u>
Building	\$ 4,679,645	\$ 4,653,653
Leasehold improvements	156,865	156,865
Equipment	821,790	680,872
Land	<u>145,095</u>	<u>145,095</u>
Total	\$ 5,803,395	\$ 5,636,485
Less accumulated depreciation	<u>(1,409,220)</u>	<u>(1,248,767)</u>
Property and equipment, net	<u>\$ 4,394,175</u>	<u>\$ 4,387,718</u>

Property and equipment is depreciated on a straight line basis over the estimated useful life. The depreciation expense for the fiscal years ended May 31, 2014 and 2013 was \$163,143 and \$181,979.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(8) Deferred Revenue

Deferred revenue consists of the following:

Affordable Care Act-Grants for Expanded Service Under Health Center Program	\$66,136
South Carolina Indigent Care Fund	31,100
Medicare FQHC Demonstration Funds	8,760
Pharmacy Rent	<u>7,000</u>
Total Deferred Revenue	<u>\$112,996</u>

(9) Leases and Notes Payable

I. Operating Leases

The Organization leases clinic space from the Kershaw County Medical Center for \$2,435 per month on a one year lease, which auto renews each year unless notified. This lease was renewed began on April 1, 2013 and ends May 31, 2014.

The Organization leases clinic space from the Santee-Wateree Community Mental Health for \$630 per month on a month-to-month lease. This lease began on July 1, 2011 and requires a 60 day notice of termination.

II. Notes Payable

The Organization entered into a loan agreement with the US Department of Agriculture on May 24, 2008 for \$1,528,200. This loan accrues interest at a rate of 4.25% and matures on May 24, 2046. This note is collateralized by the McBee building and requires monthly payments of \$6,633. As of May 31, 2014, this note had a balance of \$1,378,093.

The Organization entered into a loan agreement with the US Department of Agriculture on December 12, 2013 for \$1,508,101. This loan accrues interest at a rate of 3.5% and matures on December 12, 2052. This note is collateralized by the Lugoff building and requires monthly payments of \$6,251. As of May 31, 2014, this note had a balance of \$1,470,559.

The Organization also has a note payable to First Citizens Bank that matures on March 15, 2019, accruing interest at a rate of 4.25%. This note is collateralized by the Sumter building and requires monthly payments of \$2,305 with a balloon payment of the balance due at maturity. This note had a balance of \$273,284 as of May 31, 2014.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

The following is a schedule of future minimum debt payments required under these obligations as of May 31, 2014:

<u>Years Ending May 31</u>	<u>Loan Payable</u>
2015	\$ 64,529
2016	64,437
2017	67,035
2018	69,740
2019	256,513
Thereafter	<u>2,599,682</u>
Total	<u>\$ 3,121,936</u>

(10) Net Assets-Temporarily Restricted

A portion of the net assets is restricted by a USDA loan agreement requiring an escrow balance to be held by the Organization. As of May 31, 2014 the escrow balance requirement was \$74,242. This escrow account is to be maintained for the entire life of the related loan. This restriction is considered temporary.

(11) Net Patient Revenue

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

	<u>2014</u>	<u>2013</u>
Total gross revenue	\$16,931,184	\$11,931,408
Less adjustments	<u>(9,469,771)</u>	<u>(5,590,805)</u>
Net revenue	<u>\$7,461,413</u>	<u>\$6,340,603</u>

(12) Grant Support

The Organization received grants from the U.S. Department of Health and Human Services in the amount of \$1,412,063 and \$1,394,290 of which all was obligated for the years ended May 31, 2014 and 2013 respectively. Under the terms of these grants the Organization is required to comply with certain federal and state guidelines and the grantor retains a residual interest in assets acquired with grant funds.

(13) Contingencies

The Organization's management is of the opinion that its insurance coverage is adequate to cover any potential losses on asserted claims and is unaware of any incidents, which would ultimately result in loss in excess of the Organization's insurance coverage.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(14) Retirement Plan

The Organization sponsors a 401(k) pension plan. All employees with one year of service and 18 years of age are eligible to participate in the plan. The Organization matches employee's elective contributions up to three percent (3%) of employee's compensation. The pension plan matching contributions paid net of forfeitures for the year ended May 31, 2014 and 2013 were \$65,139 and \$58,952.

(15) Significant Source of Revenue

Approximately 15% of the Organization's revenue was provided by grants from various sources. The Organization is dependent on this continued funding and the absence of these grants could possibly have a negative effect on operations.

(16) Medical Malpractice Coverage

The Bureau of Primary Health Care, in accordance with Section 224 of the Public Health Service Act, provides liability protection to the Organization under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. The FTCA coverage is comparable to an "occurrence" policy without a monetary cap.

(17) Charity Care

The Organization provides medical services to patients who qualify under federal guidelines and other corporate policies of the Organization at fees less than established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The charity amount calculation is based on the Organization's standard billing rates for services provided. These fees approximate the total cost of providing charity care. The amount of charity care for the fiscal year ended May 31, 2014 and 2013 was \$3,883,496 and \$2,964,812 respectively.

(18) Related Party Transaction

Nature of Relationship – Sandhills Medical Foundation, Inc. owns 33% of Amicus, LLC, which was established to provide contracted laboratory services to Federally Qualified Health Centers in South Carolina. Related party transactions consist of the following:

Investment in ownership of LLC	\$125,000
Amount paid during the current audit period for contracted laboratory services	69,142
Loan to Amicus during the current audit period	<u>180,000</u>
Total	<u>\$374,142</u>

The loan amount of \$180,000 with Amicus, LLC consists of \$150,000 under a promissory note due by October 6, 2015 at an interest rate of 5%, and \$30,000 under no promissory agreement.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

(19) Subsequent Events

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

SUPPLEMENTAL SCHEDULES

SANDHILLS MEDICAL FOUNDATION, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended May 31, 2014

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Health and Human Services</u>		
Health Center Cluster		
Consolidated Health Centers Program <i>Grant No.H80CS 00501</i>	93.224	\$427,111
Affordable Care Act-Grants for Expanded Service Under Health Center Program <i>Grant No.H80CS 00501</i>	93.527	<u>699,468</u>
Total Health Center Cluster		<u>\$1,126,579</u>
Ryan White Title III <i>Grant No.H76HA 00813</i>	93.918	\$285,484
Total Federal Grants		<u>\$1,412,063</u>
U.S Department of Agriculture Loan	10.766	\$86,804

Note to Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation

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

SANDHILLS MEDICAL FOUNDATION, INC.

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2014

Section A-Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal Control over major programs:
 Significant Deficiency identified? _____yes X no
 Significant Deficiencies reported
 as Material Weaknesses? X yes _____no

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

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section.510(a)? X yes _____no

Identification of major programs:

CFDA Number

93.224

93.527

93.918

Name of Federal Program

Health Centers Cluster-
Consolidated Health Centers Program

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

Ryan White Title III

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

Auditee qualified as low-risk auditee? _____yes X no

SANDHILLS MEDICAL FOUNDATION, INC.

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2014

Section B- Financial Statement Findings

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

None Reported

Section C-Federal Award Findings and Questioned Costs

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

Material Weaknesses

Finding: 2014-001- Patient Income-Ryan White Program

Federal Program Identification: U.S. Department of Health and Human Services
Ryan White Title III, CFDA 93.918
Grant No.H76HA 00813

Condition: Procedures have not been developed to ensure that patients are not being charged more than the Ryan White compliance requirements allow. During the audit, the following errors were noted:

- Twelve instances where documentation was not maintained to support that patient charges are no more than the applicable percentage (0%, 5%, 7%, 10%) of the patient's income in any calendar year and that the patient received the correct discount.
- Five patients were charged fees which exceeded the maximum charge allowed
- Three patients were provided an incorrect discount

Criteria: OMB Circular A-133 Compliance Supplement, Ryan White compliance requirements

Context: Thirty Ryan White Program transactions were selected for review. Subsequent tests and analysis revealed significant errors noted above.

Cause: Procedures are not developed to ensure that amounts charged to Ryan White patients do not exceed compliance amounts in a calendar year.

Effect: The failure to comply with these requirements could result in patients being charged more the applicable percentage allowed by Ryan White compliance requirements.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

Recommendation: We recommend the following changes to the Ryan White Program to improve compliance with federal requirements:

The Ryan White certification letter should document the following:

- Annual income
- Expected payment due on each visit
- The maximum annual amount of medical expense the patient is required to pay
- Patient and case worker's signature and date
- Notification of certification expiration date December 31

Auditee's Response and Corrective Action Plan: Management concurs with the above audit finding. Procedures will be established to implement the corrective actions recommended above.

Contact Person: Chris Dixon, CEO

Anticipated Date of Completion: October 31, 2014

Finding: 2014-002- Cash Management- Federal Grant Draws

Federal Program Identification: U.S. Department of Health and Human Services
Health Center Cluster, CFDA 93.527
Grant Number H80CS 00501

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

Criteria: OMB Circular A-133 Compliance Supplement, OMB Circular A-110 Uniform Administrative Requirements for Grants

Context: The Organization drew down \$66,136 of federal funds during the fiscal year that were not disbursed resulting in excess federal cash held. This amount is reported as a liability on the current year financial statement.

Cause: Failure to develop written policies and procedures regarding grant draw restrictions related to the grant approved disbursements and ensuring federal cash is held.

Effect: Federal funds were drawn in excess of program expenditures resulting in federal funds being held more than three days.

Recommendation: It is recommended that before the Organization makes a draw of federal funds, a report of year to date program expenditures as well as year to date funds drawn be reviewed to ensure that no excess federal funds are drawn down and that grant funds are used for grant approved disbursements only.

Auditee's Response and Corrective Action Plan: Management concurs with the above audit finding. This excess draw of grant funds was an oversight by management and these funds were not purposely drawn to fund operations. Management will fully review all grant award terms and restrictions to ensure that funds are drawn in accordance with awards.

SANDHILLS MEDICAL FOUNDATION, INC.

Notes to Financial Statements

May 31, 2014 and 2013

Contact Person: Chris Dixon, CEO

Anticipated Date of Completion: October 31, 2014

Questioned Costs: None Reported



TERRY L. HORNE, CPA

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Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards

Independent Auditor's Report

The Governing Board
Sandhills Medical Foundation, 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 Sandhills Medical Foundation, Inc. which comprise the statement of financial position as of May 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 22, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Sandhills Medical Foundation, Inc. in a separate letter dated August 22, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is centered within a light gray rectangular box.

Lebanon, TN
August 22, 2014



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

Independent Auditor's Report

The Governing Board
Sandhills Medical Foundation, Inc.

Report on Compliance for Each Major Federal Program

We have audited Sandhills Medical Foundation, 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 Sandhills Medical Foundation, Inc.'s major federal programs for the year ended May 31, 2014. Sandhills Medical Foundation, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Sandhills Medical Foundation, 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 Sandhills Medical Foundation, 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 on Sandhills Medical Foundation, Inc.'s compliance.

Basis for Qualified Opinion on Ryan White Program and Consolidated Health Centers Program

As described in the accompanying schedule of findings and questioned costs, Sandhills Medical Foundation, Inc. did not comply with requirements regarding cash management and income that is applicable to its Ryan White Program and Health Center Cluster Program as described in findings 2014-001 and 2014-002, respectively. Compliance with such requirements is necessary, in our opinion, for Sandhills Medical Foundation, Inc. to comply with the requirements applicable to these programs.

Qualified Opinion on Ryan White Program and Consolidated Health Centers Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Sandhills Medical Foundation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Ryan White Program and Consolidated Health Centers Program for the year ended May 31, 2014.

Report on Internal Control Over Compliance

Management of Sandhills Medical Foundation, 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 Sandhills Medical Foundation, 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 Sandhills Medical Foundation, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 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. **We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-001 and 2014-002 to be material weaknesses.**

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.

Sandhills Medical Foundation, Inc.'s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Sandhills Medical Foundation, Inc.'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.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is centered within a light gray rectangular box.

Lebanon, TN
August 22, 2014

SANDHILLS MEDICAL FOUNDATION, INC.

Summary Schedule of Prior Year Audit Findings

May 31, 2014

Prior Year Finding 2013-C1

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

Status of Finding – Unresolved. Reported as current year finding 2014-001.

**SANDHILLS MEDICAL
FOUNDATION, INC.**

Report to the Board of Directors

May 31, 2014

**SANDHILLS MEDICAL
FOUNDATION, INC.**

Report to the Board of Directors

May 31, 2014

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TERRY L. HORNE, CPA

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August 22, 2014

To the Board of Directors
Sandhills Medical Foundation, Inc.

We have completed our audit of the financial statements of Sandhills Medical Foundation, Inc. for the year ended May 31, 2014. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated August 22, 2014. We are presenting an oral presentation of the financial statements and the results of the compliance audit in accordance with Government Auditing Standards and OMB Circular A-133 to the Governing Board.

We appreciate the courtesies extended to us during the audit and the assistance provided by the staff of Sandhills Medical Foundation, Inc.

Sincerely,

Terry Horne, CPA

SANDHILLS MEDICAL FOUNDATION, INC.

Summary of Professional Services

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

SANDHILLS MEDICAL FOUNDATION, INC.

Required Auditor Communications

Items to be Communicated and Auditors' Response

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

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

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

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

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

SANDHILLS MEDICAL FOUNDATION, INC.

Required Auditor Communications

Items to be Communicated and Auditors' Response

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

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

◇ *There were none.*

❖ **Management judgments and accounting estimates.**

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

Allowance for Doubtful Accounts

◇ *The estimate of uncollectible patient accounts receivable is based on historical collection experience and analysis of the types of accounts comprising the balance. Based on computations within industry standards applied to test the reserve for uncollectible patient accounts, the estimates appear reasonable.*

❖ **Disagreements with management.**

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

◇ *There were no disagreements with management.*

❖ **Consultation with other accountants.**

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

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

SANDHILLS MEDICAL FOUNDATION, INC.

Required Auditor Communications

Items to be Communicated and Auditors' Response

❖ **Significant audit adjustments.**

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

◇ *The only significant adjustments were related to adjusting allowance for doubtful accounts.*

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

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

◇ *There were none.*

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

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

◇ *There were none.*

❖ **Uncorrected financial statement misstatements.**

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

◇ *There were none.*

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



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MANAGEMENT LETTER

Board of Directors
Sandhills Medical Foundation, Inc.
Jefferson, South Carolina

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated August 22, 2014, on the financial statements of Sandhills Medical Foundation, Inc.

I. Cash Controls

1. The cash balance maintained in the Organization's bank accounts exceeds the \$250,000 FDIC insured deposit limit. The Organization's financial institution has collateralized balances up to \$1,214,948, however as of May 31, 2014 the Organization's cash balance was \$2,225,192, of which \$392,573 is in excess of their secured limit

Management's Response:

Management concurs. Efforts will be made to ensure that balances over the FDIC will be properly secured as recommended above.

II. Management Controls

1. During the audit it was noted that related party transactions with Amicus, LLC were not properly documented.
 - During the year loaned \$180,000 with \$30,000 not documented by a promissory note
 - Paid for \$69,142 of contract laboratory services without supporting invoices
 - Purchased \$25,000 of equity interest without substantiated documents

All transactions should be properly supported to document transactions.

Management's Response:

Management concurs. Procedures will be established to ensure that transactions be properly supported to document transactions as recommended above.

III. Accounts Receivable Controls

1. The pharmacy accounts receivable report is not reflecting the correct accounts receivable balance based on pharmacy subsequent collections received. It is recommended that an accounts receivable aging report be generated monthly and the receivable balance be substantiated with a subsequent collections report. The absence of this could result in incorrect pharmacy receivable balance without being detected.

Management's Response:

Management concurs. An accounts receivable aging report will be generated monthly and the receivable balance be substantiated with a subsequent collections report as recommended above.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is positioned above the date.

August 22, 2014