

Carolina Health Centers, Inc.

Report on Financial Statements

For the years ended May 31, 2024 and 2023

Carolina Health Centers, Inc.

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Independent Auditor's Report

The Board of Directors
Carolina Health Centers, Inc.
Greenwood, South Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Carolina Health Centers, Inc. (a nonprofit organization), which comprise the statements of financial position as of May 31, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Carolina Health Centers, Inc. as of May 31, 2024 and 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Carolina Health Centers, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Carolina Health Centers Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Carolina Health Centers Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Carolina Health Centers Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 schedule of expenditures of federal awards 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 30, 2024, on our consideration of Carolina Health Centers Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Carolina Health Centers Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Carolina Health Centers Inc.'s internal control over financial reporting and compliance.



Greenwood, South Carolina
August 30, 2024

Carolina Health Centers, Inc.

Statements of Financial Position

May 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash and cash equivalents	\$ 9,534,709	\$ 10,227,221
Patient accounts receivable - net	1,777,427	2,004,064
Grant receivables	99,936	88,835
Other accounts receivable	136,910	147,735
Inventory	682,697	875,413
Other assets	156,973	273,097
Property and equipment - net	14,610,519	11,926,490
Total assets	<u>\$ 26,999,171</u>	<u>\$ 25,542,855</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 432,225	\$ 825,697
Accrued expenses	997,578	772,585
Accrued leave	1,682,597	1,452,067
Deferred revenue	54,235	38,258
Long-term debt	3,296,281	3,922,554
Total liabilities	<u>6,462,916</u>	<u>7,011,161</u>
Net assets		
Without donor restriction	<u>20,536,255</u>	<u>18,531,694</u>
Total net assets	<u>20,536,255</u>	<u>18,531,694</u>
Total liabilities and net assets	<u>\$ 26,999,171</u>	<u>\$ 25,542,855</u>

See Notes to Financial Statements

Carolina Health Centers, Inc.

Statements of Activities

For the years ended May 31, 2024 and 2023

	2024			2023		
	Without Donor Restriction	With Donor Restriction	2024 Total	Without Donor Restriction	With Donor Restriction	2023 Total
Revenues and support						
Grant revenue	\$ -	\$ 7,116,485	\$ 7,116,485	\$ -	\$ 8,031,143	\$ 8,031,143
Patient revenue - net	20,075,670	-	20,075,670	15,383,326	-	15,383,326
Pharmacy sales - net	25,707,215	-	25,707,215	22,339,305	-	22,339,305
Rental and other income	99,635	-	99,635	32,128	-	32,128
Net assets released from restrictions	7,116,485	(7,116,485)	-	8,031,143	(8,031,143)	-
Total revenues and support	52,999,005	-	52,999,005	45,785,902	-	45,785,902
Expenses						
Program services						
Health care services	27,187,159	-	27,187,159	25,294,446	-	25,294,446
Cost of pharmacy sales	14,971,725	-	14,971,725	11,643,747	-	11,643,747
Supporting services	9,140,156	-	9,140,156	8,228,396	-	8,228,396
Total expenses	51,299,040	-	51,299,040	45,166,589	-	45,166,589
Excess/(deficit) of revenues and support over/(under) expenses	1,699,965	-	1,699,965	619,313	-	619,313
Other income and (expenses)						
Investment income	304,596	-	304,596	36,974	-	36,974
Total other income and (expenses)	304,596	-	304,596	36,974	-	36,974
Changes in net assets	2,004,561	-	2,004,561	656,287	-	656,287
Net assets, beginning of year	18,531,694	-	18,531,694	17,875,407	-	17,875,407
Net assets, end of year	\$ 20,536,255	\$ -	\$ 20,536,255	\$ 18,531,694	\$ -	\$ 18,531,694

See Notes to Financial Statements

Carolina Health Centers, Inc.

Statements of Functional Expenses

For the years ended May 31, 2024 and 2023

	2024			2023		
	Program Services	Supporting Services	2024 Total	Program Services	Supporting Services	2023 Total
Building rent	\$ 9,509	\$ 3,170	\$ 12,679	\$ 39,636	\$ -	\$ 39,636
Contractual services	763,336	763,336	1,526,672	874,935	582,778	1,457,713
Cost of pharmacy sales	14,971,725	-	14,971,725	11,643,747	-	11,643,747
Depreciation	677,604	75,289	752,893	704,183	96,025	800,208
Amortization	153,817	20,975	174,792	151,550	20,666	172,216
Dues and subscriptions	86,894	28,965	115,859	83,347	27,782	111,129
Fringe benefits	3,425,979	1,332,325	4,758,304	2,890,125	1,123,937	4,014,062
Insurance	15,167	136,508	151,675	-	169,768	169,768
Interest and other charges	90,222	31,700	121,922	109,451	38,456	147,907
Miscellaneous	100,901	73,067	173,968	201,970	146,254	348,224
Personnel	16,975,743	4,873,595	21,849,338	15,906,235	4,670,669	20,576,904
Printing and advertising	219,093	81,034	300,127	272,010	100,607	372,617
Professional fees	570,360	221,806	792,166	419,600	163,178	582,778
Repairs and maintenance	1,274,089	649,955	1,924,044	1,143,064	448,852	1,591,916
Supplies	2,203,132	244,793	2,447,925	2,184,190	-	2,184,190
Telephone and postage	230,071	76,691	306,762	7,210	300,085	307,295
Travel and training	199,729	505,668	705,397	122,127	318,804	440,931
Utilities	191,513	21,279	212,792	184,813	20,535	205,348
Total expenses	\$ 42,158,884	\$ 9,140,156	\$ 51,299,040	\$ 36,938,193	\$ 8,228,396	\$ 45,166,589

See Notes to Financial Statements

Carolina Health Centers, Inc.**Statements of Cash Flows****For the years ended May 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Operating activities		
Changes in net assets	\$ 2,004,561	\$ 656,287
Adjustments to reconcile changes in net assets to cash provided by/(used for) operating activities:		
Depreciation	752,893	800,208
Amortization	174,792	172,216
Changes in assets and liabilities		
Accounts receivable	(411,127)	(811,601)
Allowance for uncollectible accounts	637,764	28,609
Grants receivables	(11,101)	380,985
Other accounts receivables	10,825	28,601
Inventory	192,716	(50,711)
Other assets	116,124	(23,974)
Accounts payable	(393,472)	270,881
Accrued expenses	224,993	170,726
Accrued leave	230,530	532,668
Deferred revenue	15,977	(7,061)
Net cash provided by/(used for) operating activities	<u>3,545,475</u>	<u>2,147,834</u>
Investing activities		
Purchase of property and equipment	(3,611,714)	(2,264,490)
Net cash provided by/(used for) investing activities	<u>(3,611,714)</u>	<u>(2,264,490)</u>
Financing activities		
Payments on long term debt	(626,273)	(662,792)
Net cash provided by/(used for) financing activities	<u>(626,273)</u>	<u>(662,792)</u>
Net increase/(decrease) in cash and cash equivalents	(692,512)	(779,448)
Cash and cash equivalents, beginning of year	<u>10,227,221</u>	<u>11,006,669</u>
Cash and cash equivalents, end of year	<u>\$ 9,534,709</u>	<u>\$ 10,227,221</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 56,362</u>	<u>\$ 77,749</u>

See Notes to Financial Statements

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies

Carolina Health Centers, Inc. (the Center) was established as a non-profit corporation pursuant to the laws and regulations of the State of South Carolina on June 28, 1977, to assess the medical needs and develop a comprehensive program designed to improve primary medical care services to McCormick, Edgefield, Greenwood, Abbeville, Laurens and Saluda counties. Since being established, the Center has received federal funds to service the needs of this area. The Center extends credit to patients served.

Financial statement presentation:

The financial statements of the Center are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Center reports information regarding its financial position and activities according to two classes of net assets as follows:

- a. **Net Assets without Donor Restrictions**—These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program related services, raising contributions, and performing administrative functions. This class of net assets accounts for all resources over which the Board of Directors has discretionary control to use in carrying on the operations of the Center in accordance with its charter and bylaws. It also accounts for the Center's net investment in fixed assets. In addition, it includes self-imposed limits such as voluntary resolutions by the Board of Directors.
- b. **Net Assets with Donor Restrictions**—These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted. The Center had no donor restricted net assets at May 31, 2024 or May 31, 2023.

Cash and cash equivalents:

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

Contributions:

Contributions received are recorded as unrestricted or 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 restricted support that increases those net asset classes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributed property and equipment is recorded at fair value at the date of donation.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Revenue:

Grants

The Center recognizes Federal grant awards when they are earned. Thus, Federal grant awards 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.

Patient service revenue

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

Revenues generated from patients by payor are as follows:

	<u>2024</u>	<u>2023</u>
Medicare	26%	26%
Medicaid	32	33
Commercial insurance	25	24
Self-pay	17	17
	<u>100%</u>	<u>100%</u>

Management determines the allowance for uncollectible accounts by regularly evaluating receivables and considering aging of receivable balances and current economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received.

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.

Performance indicator:

The performance indicator is operating income. Changes in net assets without donor restrictions, which are excluded from operating income, include investment income, equity investment activity and gain or loss on disposal of fixed assets.

Inventories:

Inventories of pharmaceuticals and other supplies are stated at the lower of cost (first-in, first-out) or market.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided for by the straight-line method, based on the estimated useful lives of the respective assets. Interest costs, if any, less related interest income, incurred during the construction period are capitalized as a cost of the constructed assets. The Center capitalizes assets that have a useful life of more than one year and cost more than \$5,000.

Income taxes:

The Center is a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Management evaluates any uncertain tax positions or unrecognized tax benefits or liabilities that may exist. Management does not believe that any material uncertain tax positions or unrecognized tax benefits or liabilities exist for the years ended May 31, 2024 or 2023. The Center'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 Center is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2021.

Other investments:

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

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

Compensated absences:

Accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to employees. Full-time employees of the Center accrue vacation at various rates based on the employee's number of service years. Annual leave may be accrued only up to a maximum number of hours based on an employee's number of years of service. Upon termination or retirement, employees are paid for unused, accumulated vacation. The liability for accumulated vacation leave amounted to approximately \$1,683,000 and \$1,452,000 at May 31, 2024 and 2023, respectively.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 1. Summary of Significant Accounting Policies, Continued

Advertising costs:

Advertising costs, consisting primarily of advertisement of services offered by the Center, are expensed as incurred. Advertising expense for the years ended May 31, 2024 and 2023, was approximately \$194,000 and \$250,000, 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 Center.

Estimates:

The preparation of 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.

Right-of-use assets and liabilities

The Financial Accounting Standards Board (FASB) Standard ASC 842, effective for periods beginning after January 1, 2022 was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. This standard increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, thereby enhancing the relevance and consistency of information about the entity's leasing activities.

Note 2. Concentrations of Credit Risk

As of May 31, 2024, the Center's carrying amount of deposits was approximately \$9,529,000 and the bank balances were approximately \$9,529,000 at various financial institutions. The Center had petty cash totaling approximately \$6,000 as of May 31, 2024. As of May 31, 2024, the Center had deposits totaling approximately \$8,826,000 that were not covered by Federal Depository Insurance Corporation (FDIC) insurance. As of May 31, 2023, the Center's carrying amount of deposits was approximately \$10,221,000 and the bank balances were approximately \$10,222,000 at various financial institutions. The Center had petty cash totaling approximately \$6,000 as of May 31, 2023. As of May 31, 2023, the Center had deposits totaling approximately \$8,557,000 that were not covered by Federal Depository Insurance Corporation (FDIC) insurance.

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 3. Investments

The Center has a 30.77 percent interest in AMICUS Health, LLC (AMICUS). AMICUS Health, LLC was formed to develop diversified revenue streams to support member health centers' non-profit mission and provide laboratory services for each member health center. The Center's investment is accounted for using the equity method of accounting. AMICUS began operations during the year ended May 31, 2014. Through May 31, 2021, the Center's investment was \$100,000, consisting of the original investment. In August 2019, AMICUS ceased performing lab tests. Between August 2019 and May 2020, AMICUS disposed of all assets except approximately \$123,000 in a local checking account. AMICUS expects no additional liabilities arising from an IRS income tax filing matter and once that matter has been resolved, AMICUS will distribute the remaining approximately \$123,000 on a pro rata basis to the its members. Due to the uncertainty that exists as of May 31, 2024, the Center has recorded an allowance equal to its initial investment in AMICUS.

The Center also has an investment in the common stock of Community Integrated Management Services, LLC (CIMS). CIMS was formed to develop and implement clinical and financial protocols that will provide enhanced clinical services to the patients that each member services, participate in managed care contracts on behalf of its members, and provide more efficient clinical services to the patients of each member through standardized clinical protocols and outcomes. As the Center owned less than 20 percent of the common stock at May 31, 2024 and 2023, the investment was accounted for using the cost method of accounting. The carrying value of the investment was approximately \$16,000 at May 31, 2024 and 2023, respectively, and is recorded in other assets.

Note 4. Patient Accounts Receivable

Accounts receivable balances for patient service fees are summarized as follows at May 31:

	<u>2024</u>	<u>2023</u>
Patient fees	\$ 3,717,334	\$ 3,382,150
Pharmacy receivables	990,191	914,249
Less: Allowance for contractual adjustments	(816,286)	(637,335)
Allowance for uncollectible accounts	<u>(2,113,812)</u>	<u>(1,655,000)</u>
Patient accounts receivable - net	<u>\$ 1,777,427</u>	<u>\$ 2,004,064</u>

Note 5. Property and Equipment

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

	<u>2024</u>	<u>2023</u>
Land, building and improvements	\$ 11,804,993	\$ 10,780,879
Capital projects in process	5,662,251	3,210,979
Right-of-use (ROU) leased assets	2,595,465	2,595,464
Furniture and equipment	3,976,402	3,897,745
Automobiles	<u>392,944</u>	<u>350,946</u>
Total	24,432,055	20,836,013
Less: Accumulated amortization, ROU leased assets	(1,066,085)	(891,293)
Less: Accumulated depreciation	<u>(8,755,451)</u>	<u>(8,018,230)</u>
Property and equipment - net	<u>\$ 14,610,519</u>	<u>\$ 11,926,490</u>

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 5. Property and Equipment, Continued

The following is a summary of the estimated useful lives of the property, plant and equipment used to determine depreciation:

Land, building and improvements	15-39 years
Right-of-use leased assets	5-25 years
Furniture and equipment	3-10 years
Automobiles	5 years

Note 6. Long-term Debt and Obligations

Notes payable consist of the following at May 31:

	<u>2024</u>	<u>2023</u>
Note payable to a financial institution in monthly installments of \$2,324 through July 2029, including interest at 4.25%. Collateralized by building and land.	\$ 86,141	\$ 120,479
Note payable to a financial institution in monthly installments of \$4,905 through October 2026, including interest at 5.29%. Collateralized by building and land.	129,170	180,661
Note payable to a financial institution in monthly installments of \$21,294 through December 2024, including interest at 4.2%. Collateralized by building, furniture and fixtures.	143,432	387,150
Note payable to a financial institution in monthly installments of \$14,506 through February 2032, including interest at 2.99%. Collateralized by building, land, furniture and fixtures and assignment of rents, revenues and fees.	<u>1,200,786</u>	<u>1,336,104</u>
Total	<u>\$ 1,559,529</u>	<u>\$ 2,024,394</u>

The maturities of these notes payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 370,203	\$ 41,585	\$ 411,787
2026	233,741	32,844	266,585
2027	186,550	26,066	212,616
2028	152,799	21,269	174,068
2029	157,551	16,517	174,068
2030-2034	<u>458,685</u>	<u>20,002</u>	<u>478,687</u>
Totals	<u>\$ 1,559,529</u>	<u>\$ 158,283</u>	<u>\$ 1,717,811</u>

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 7. Leases as Lessee

The Center leases various assets, including buildings and equipment. The Center determines whether a contract contains a lease at inception by determining if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

ROU assets and lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Renewal and termination clauses are factored into the determination of the lease term if it is reasonably certain that these options would be exercised by the Center. ROU assets are amortized over the lease term. In order to determine the present value of lease payments, the Center uses the rate implicit in the lease when it is readily determinable. If the lease does not contain an implicit rate, the Center uses its incremental borrowing rate in determining the present value of the lease payments.

ROU leases payable consist of the following at May 31:

	<u>2024</u>	<u>2023</u>
ROU leases payable due in monthly installments ranging from \$66 to \$10,833 including interest at 3.60% maturing from fiscal year 2025 through fiscal year 2040.	\$ 1,736,752	\$ 1,898,160
Total	<u>\$ 1,736,752</u>	<u>\$ 1,898,160</u>

Approximate minimum future lease payments at May 31, 2024, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 166,896	\$ 59,676	\$ 226,572
2026	100,358	54,592	154,950
2027	87,366	51,402	138,768
2028	88,057	48,213	136,270
2029	85,599	45,123	130,722
2030-2034	473,287	176,706	649,993
2035-2039	566,333	83,647	649,980
2040-2044	<u>168,856</u>	<u>4,335</u>	<u>173,191</u>
Totals	<u>\$ 1,736,752</u>	<u>\$ 523,694</u>	<u>\$ 2,260,446</u>

Note 8. Commitments, Contingencies, Risks and Uncertainties

The Center is subject to potential credit risk related to accounts receivable from patients and third-party payors. Third-party payors are primarily Medicare, Medicaid, Blue Cross of South Carolina and affiliates and other commercial insurance, which provide reimbursement on patient accounts on a regular basis.

The mix of receivables from patient and third-party payors are as follows (presented at gross receivable amount) at May 31:

	<u>2024</u>	<u>2023</u>
Medicare	10%	17%
Medicaid	54	40
Other commercial insurance	16	19
Self-pay	20	24
	<u>100%</u>	<u>100%</u>

Carolina Health Centers, Inc.

Notes to Financial Statements

May 31, 2024 and 2023

Note 8. Commitments, Contingencies, Risks and Uncertainties, Continued

Federally funded grant programs are routinely subject to audits by various funding agencies. Such audits could result in claims against the Center's resources. No audits have occurred as of the date of this report; therefore, no provision has been made for any liabilities that may arise since the amounts, if any, cannot be determined.

Note 9. Retirement Plan

The Center provides a Tax-Sheltered Annuity Retirement Plan for all eligible employees. The Center matched employee contributions at the rate of fifty cents on the dollar for the first 5 percent of employee wages for all employees participating in the plan for fiscal years ended May 31, 2024 and 2023, respectively. Retirement plan expense for the years ended May 31, 2024 and 2023, was approximately \$305,000 and \$286,000, respectively.

Note 10. Medical Malpractice Insurance and Related Claims

As a Federally Qualified Health Center, the Center is covered under the Federal Tort Claims Act and will be defended by the federal government should claims occur.

Note 11. Related Party Transactions

The Carolina Health Centers Foundation (the Foundation) is a separate legal entity that exists solely for the benefit of the Center. During the years ended May 31, 2024 and 2023, there was no activity in the Foundation.

Note 12. Liquidity and Funds Available

Financial assets at May 31:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 9,534,709	\$ 10,227,221
Patient accounts receivable - net	1,777,427	2,004,064
Grant receivables	99,936	88,835
Other accounts receivable	136,910	147,735
Inventory	<u>682,697</u>	<u>875,413</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 12,231,679</u>	<u>\$ 13,343,268</u>

Note 14. Subsequent Events

In preparing these financial statements, the Center's management has evaluated events and transactions for potential recognition through the date of the independent auditor's report, the date the financial statements were available for issuance.

**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***

The Board of Directors
Carolina Health Centers, Inc.
Greenwood, South Carolina

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 Carolina Health Centers, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carolina Health Centers, Inc.’s internal control over financial reporting (internal control) as a basis for designing 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 Carolina Health Centers, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Carolina Health Centers, 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carolina Health Centers, 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 financial statements. 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 "Manley Garvin, LLC". The signature is written in a cursive style and is positioned above a light gray rectangular box.

Greenwood, South Carolina
August 30, 2024



**Independent Auditor’s Report on Compliance for Each Major
Federal Program and Report on Internal Control over Compliance
Required by the Uniform Guidance**

The Board of Directors
Carolina Health Centers, Inc.
Greenwood, South Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Carolina Health Centers, Inc.’s (the Center) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center’s major federal programs for the year ended May 31, 2024. The Center’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Center’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Center’s federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



Greenwood, South Carolina
August 30, 2024

Carolina Health Centers, Inc.**Schedule of Expenditures of Federal Awards****For the year ended May 31, 2024**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Health Centers Cluster		
U.S. Department of Health and Human Services		
Direct Awards		
Consolidated Health Centers	93.224	\$ 5,638,343
Total Health Centers Cluster		<u>5,638,343</u>
Other Programs		
U.S. Department of Health and Human Services		
Direct Awards		
Maternal, Infant, and Early Childhood Home Visiting	93.870	<u>1,332,275</u>
Total U.S. Department of Health and Human Services - Other Programs		<u>1,332,275</u>
Total federal assistance expended		<u><u>\$ 6,970,618</u></u>

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Carolina Health Centers, Inc. under programs of the federal government for the year ended May 31, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Carolina Health Centers, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Carolina Health Centers, 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 the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rates

Carolina Health Centers has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Carolina Health Centers, Inc.
Schedule of Findings and Questioned Costs
 May 31, 2024

Section I. Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:

- Material weakness identified? _____ yes X no
- Significant deficiency identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness identified? _____ yes X no
- Significant deficiency identified? _____ yes X 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 2 CFR
 200.516(a)? _____ yes X no

Identification of major federal programs:

<u>CFDA #</u>	<u>Program / Cluster Name</u>
93.224	Health Center Clusters

Dollar threshold used to distinguish between
 Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

Carolina Health Centers, Inc.

Schedule of Findings and Questioned Costs, Continued

May 31, 2024

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Questioned Costs & Findings

None reported.

Carolina Health Centers, Inc.
Summary Schedule of Prior Audit Findings
May 31, 2024

None noted.