

LITTLE RIVER MEDICAL CENTER, INC.

Financial Statements

May 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

LITTLE RIVER MEDICAL CENTER, INC.

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TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189
www.hornecpa.com

Independent Auditor's Report

The Governing Board
Little River Medical Center, Inc.

We have audited the accompanying statement of financial position of Little River Medical Center, Inc. (the Organization) as of May 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Little River Medical Center, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little River Medical Center, Inc. as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2012 on our consideration of Little River Medical Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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 basic 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 basic financial statements as a whole.

September 30, 2012

LITTLE RIVER MEDICAL CENTER, INC.

Statement of Financial Position

May 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 677,632	\$ 621,968
Certificates of Deposit	209,000	209,000
Accounts Receivable Net (Note 4)	324,613	323,020
Other Receivables	277,493	216,971
Inventory	132,366	102,334
Prepaid Expenses	94,486	92,233
<i>Total Current Assets</i>	<u>1,715,590</u>	<u>1,565,526</u>
<i>Property and Equipment</i>		
Property and Equipment, at cost, Net of Accumulated Depreciation (Note 5)	<u>8,150,129</u>	<u>3,558,694</u>
<i>Total Property and Equipment</i>	8,150,129	3,558,694
<i>Other Assets</i>		
Investment	2,500	2,500
Cash - Temporarily Restricted (Note 12)	<u>24,075</u>	<u>15,067</u>
<i>Total Other Assets</i>	<u>26,575</u>	<u>17,567</u>
Total Assets	<u><u>\$ 9,892,294</u></u>	<u><u>\$ 5,141,787</u></u>
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 466,110	\$ 275,212
Accrued Compensated Absences	219,122	168,526
Accrued Expenses	304,366	260,671
Deferred Revenue	20,000	23,870
Current Portion of Long Term Debt (Note 6)	<u>2,248,916</u>	<u>100,992</u>
<i>Total Current Liabilities</i>	<u>3,258,514</u>	<u>829,271</u>
<i>Long-Term Liabilities</i>		
Notes Payable (Note 6)	2,248,916	1,367,100
Less Current Portion	<u>(2,248,916)</u>	<u>(100,992)</u>
<i>Total Long-Term Liabilities</i>	-	1,266,108
Total Liabilities	3,258,514	2,095,379
Net Assets - Unrestricted	5,770,736	2,261,171
Net Assets - Internally Designated	838,969	770,170
Net Assets - Temporarily Restricted (Note 12)	24,075	15,067
Total Net Assets	<u>6,633,780</u>	<u>3,046,408</u>
Total Liabilities and Net Assets	<u><u>\$ 9,892,294</u></u>	<u><u>\$ 5,141,787</u></u>

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

LITTLE RIVER MEDICAL CENTER, INC.
Statement of Activities
For the Years Ended May 31, 2012 and 2011

Support and Revenues:	<u>2012</u>	<u>2011</u>
Net Patient Revenue (Note 7)	\$ 6,805,724	\$ 5,406,211
Public Support - U.S. Department of Health and Human Services Operational Grants (Note 8)	3,997,975	3,989,071
Other Grants and Contracts	513,668	422,552
Contributions (Note 11)	1,391,639	1,531,936
Contributions - Restricted (Note 11)	9,008	-
Medical Records and Other Income	29,851	40,712
 <i>Total Support and Revenues</i>	 <u>12,747,865</u>	 <u>11,390,482</u>
 Expenses:		
Program Services Expenses	10,073,411	9,015,164
General and Administrative Expenses	2,285,185	2,095,537
 <i>Total Expenses</i>	 <u>12,358,596</u>	 <u>11,110,701</u>
 <i>Excess (Deficiency) of Support and Revenues of Operations Over Expenses</i>	 <u>389,269</u>	 <u>279,781</u>
 Other Income and Expenses:		
Public Support - U.S. Department of Health and Human Services Non-Operational Grants (Note 8)	3,174,011	100,059
Interest Income	7,282	11,850
Gain (Loss) on Sale of Asset	16,810	(3,060)
 <i>Total Other Income and Expenses</i>	 <u>3,198,103</u>	 <u>108,849</u>
 <i>Total Excess (Deficiency) of Support and Revenues Over Expenses</i>	 <u><u>\$ 3,587,372</u></u>	 <u><u>\$ 388,630</u></u>
 Net Assets:		
Increase (Decrease) in Unrestricted Net Assets	\$ 3,509,565	\$ 181,267
Increase (Decrease) in Internally Designated Net Assets	68,799	770,170
Increase (Decrease) in Temporarily Restricted Net Assets	9,008	10,584
Net Assets at Beginning of Year	4,134,506	3,172,485
 Net Assets at End of Year	 <u><u>\$ 7,721,878</u></u>	 <u><u>\$ 4,134,506</u></u>

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

LITTLE RIVER MEDICAL CENTER, INC.Statement of Functional Expenses
For the Years Ended May 31, 2012 and 2011

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2012 Total</u>	<u>2011 Total</u>
Personnel	\$ 5,711,483	\$ 1,030,703	\$ 6,742,186	\$ 5,973,147
Fringe Benefits	915,701	165,410	1,081,111	963,609
Contractual Services	497,431	290,012	787,443	532,229
Supplies	631,263	174,102	805,365	624,081
Pharmaceuticals Donated	1,353,809	-	1,353,809	1,490,116
Travel and Training	97,442	56,030	153,472	138,245
Repairs and Maintenance	166,574	129,840	296,414	212,073
Insurance	51,524	13,716	65,240	79,756
Telephone and Postage	140,728	56,678	197,406	257,015
Building and Equipment Rent	91,175	54,232	145,407	122,890
Utilities	166,021	8,738	174,759	160,675
Interest Expense	34,743	-	34,743	84,680
Depreciation and Amortization	184,388	181,790	366,178	333,346
Dues, Printing, and Other	31,129	123,934	155,063	138,839
Total	<u>\$10,073,411</u>	<u>\$ 2,285,185</u>	<u>\$ 12,358,596</u>	<u>\$ 11,110,701</u>

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

LITTLE RIVER MEDICAL CENTER, INC.
Statement of Cash Flows
For the Years Ended May 31, 2012 and 2011

Cash Flows From Operating Activities:	<u>2012</u>	<u>2011</u>
Excess of Support and Revenues Over Expenses	\$ 3,587,372	\$ 388,630
Adjustments to Reconcile Net Income to Cash Provided From Operations:		
Depreciation and Amortization	366,178	333,346
(Increase) Decrease in Certificates of Deposit	-	-
(Increase) Decrease in Accounts Receivable	(1,593)	(28,800)
(Increase) Decrease in Other Receivables	(60,522)	(20,372)
(Increase) Decrease in Inventories	(30,032)	(21,923)
(Increase) Decrease in Prepaid Items	(2,253)	(9,909)
(Increase) Decrease in Other Assets	(9,008)	(12,007)
Increase (Decrease) in Accounts Payable	190,898	98,736
Increase (Decrease) in Accrued Expenses	43,695	101,834
Increase (Decrease) in Accrued Compensated Absences	50,596	34,746
Increase (Decrease) in Deferred Revenue	(3,870)	(27,000)
Cash Provided by Operating Activities:	<u>4,131,461</u>	<u>837,281</u>
Cash Flows Used in Investing Activities:		
Purchases of Property, Plant and Equipment, Net of Disposals	(4,957,613)	(309,843)
Cash Used in Investing Activities	<u>(4,957,613)</u>	<u>(309,843)</u>
Cash Flows Provided by Financing Activities:		
Increase (Decrease) in Notes Payable	881,816	(291,442)
Cash Provided in Financing Activities	<u>881,816</u>	<u>(291,442)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>55,664</u>	<u>235,996</u>
Cash and Cash Equivalents at Beginning of The Year	621,968	385,972
Cash and Cash Equivalents at End of The Year	<u><u>\$ 677,632</u></u>	<u><u>\$ 621,968</u></u>
Supplemental Data:		
Interest Paid in Financing Activities	\$ 34,743	\$ 84,680

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

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

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

(a) Nature of The Business

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

(b) Financial Statement Presentation

The Center presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as promulgated by the Financial Accounting Standards Board. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, as required by SFAS No. 117, the 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 90 days or less.

(d) Method of Accounting

The Center maintains its books and prepares its financial statements on the accrual basis of accounting whereby revenue is recognized when earned and expenses are recorded when incurred.

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2012 and 2011

(e) Patient Service Revenue

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

(f) Inventories

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

(g) Property and Equipment

Property and equipment is stated at cost, except for donated property and equipment, which is recorded at fair market value at the time of the donation. Depreciation is computed on the straight-line method over estimated useful lives of five to thirty-nine years.

(h) Income Taxes

The Center is a non-profit corporation as described in Section 501c (3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 (1) of the Code.

(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. Contributed property and equipment is recorded at fair value at the date of donation.

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2012 and 2011

(j) Estimated Amounts

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

(2) Fair Value of Financial Instruments

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

(3) Cash

Little River Medical Center, Inc.'s cash deposits at May 31, 2012 were fully insured by the Federal Deposit Insurance Corporation or secured by Federal Securities.

(4) Accounts Receivable

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

Accounts receivable balances as of May 31, 2012 and 2011 for patient service fees are:

	<u>2012</u>	<u>2011</u>
Patients fees	\$ 470,868	\$ 538,672
Less allowance for uncollectible accounts	<u>(146,255)</u>	<u>(215,652)</u>
Accounts receivable, net	<u>\$ 324,613</u>	<u>\$ 323,020</u>

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2012 and 2011

(5) Property and Equipment

A summary of property and equipment at May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Land, building and improvements	\$ 3,491,300	\$ 3,435,975
Furniture and equipment	2,006,031	1,740,253
Vehicles	165,888	165,888
Construction in process	<u>5,031,520</u>	<u>446,989</u>
Total	10,694,739	5,789,105
Less accumulated depreciation	<u>(2,544,610)</u>	<u>(2,230,411)</u>
Property and equipment, net	<u>\$ 8,150,129</u>	<u>\$ 3,558,694</u>

(6) Notes Payable

The Center has a note at TD Bank with an original balance of \$1,500,000. This note accrues interest at 4.5% A.P.R. and is collateralized by land and buildings at the Myrtle Beach location. This note requires monthly payments of \$4,243 and matures on March 24, 2013 with a balloon payment of the unpaid principal balance. As of May 31, 2012, this note has a balance of \$488,611.

The Center has a construction loan with Wells Fargo Bank. This note accrues interest at 3% A.P.R. and is collateralized by land and buildings at the Little River location. This note requires interest only payments and matures on December 31, 2012. As of May 31, 2012, this note has a balance of \$1,760,305.

(7) Net Patient Revenue

A summary of net patient revenue at May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Gross patient revenue	\$17,067,047	\$13,934,892
Less: discounts and adjustments	<u>(10,261,323)</u>	<u>(8,528,681)</u>
Total	<u>\$ 6,805,724</u>	<u>\$ 5,406,211</u>

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2012 and 2011

(8) Grant Support

The Center received grants from the U. S. Department of Health and Human Services of \$7,171,986 and \$4,089,131 all of which were obligated for the fiscal year ended May 31, 2012 and 2011. The Center also received several smaller grants from various sources during the year ended May 31, 2012. Under the terms of these grants the Center is required to comply with certain federal guidelines and the Federal Government retains a residual interest in assets acquired with grant funds.

(9) Leases

The Center leases clinic facilities under operating leases. The clinics are leased on 12 month leases with total monthly payments of \$5,380 per month. Facility rent expense incurred including the value of donated space during the years ended May 31, 2012 and 2011 was \$139,091 and \$121,125 respectively.

(10) Pension Plan

The Center has a 403(b) plan for all eligible employees. Under the arrangement, the Center matches 50% of each employee's contribution up to three percent (3%) of compensation. Pension expense for the years ended May 31, 2012 and 2011 was \$92,318 and \$94,093 respectively.

(11) Contributions

The Center received donated pharmaceuticals from drug manufacturers to be disbursed to indigent patients. The value of these donated supplies is based on the retail market price of each item. The contributions are reported on the financial statements as income and as a related expense when the pharmaceuticals are dispensed to the patient.

(12) Temporarily Restricted Net Assets

The Center maintains temporarily restricted net assets (TRNA) for various organizational purposes. As of May 31, 2012 and 2011, the balance of the TRNA was \$24,075 and \$15,067. These funds are temporarily restricted for the purpose of providing medical and dental care to indigent patients or for facility expansion. A summary of those restricted funds is as follows:

	<u>2012</u>	<u>2011</u>
Contributions for capital expansion	\$ 12,955	\$ 12,955
Bi-Lo Charities Golf Fundraiser	10,000	-
Pediatric Dental Fundraiser	<u>1,120</u>	<u>2,112</u>
Total	<u>\$ 24,075</u>	<u>\$ 15,067</u>

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2012 and 2011

(13) Related Party Transaction

Nature of Relationship – Little River Medical Center Foundation, Inc (the “Foundation”), incorporated in 2008, was established to develop and manage activities that secure sources of non-federal funding to assist in the operation of the Center. Funds raised, except for funds required for the operation of the Foundation, are used to finance the Center’s costs of construction, expansion, improvement and maintenance of the facilities needed to provide its services. A summary of the Foundation’s financial position as of May 31, 2012 and 2011 and activity and changes in net assets for the year ended is as follows:

	<u>2012</u>	<u>2011</u>
Assets	\$ <u>1,425</u>	\$ <u>2,870</u>
Liabilities	\$ 216,186	\$177,416
Net assets	<u>(214,761)</u>	<u>(174,546)</u>
Liabilities and net assets	\$ <u>1,425</u>	\$ <u>2,870</u>
Revenue and support	\$ 21,659	\$ 5,110
Expenses	<u>(61,874)</u>	<u>(39,304)</u>
Increase (decrease) in net assets	\$ <u>(40,215)</u>	\$ <u>(34,194)</u>

During the current year the Center paid operating expenses of the Foundation in the amount of \$45,398. This is included in the receivable amount on the Center’s financial statements. The Center also received contributions from the Foundation in the amount of \$13,470.

(14) Medical Malpractice Coverage

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

(15) Charity Care

The Center provides medical services to patients who qualify under federal guidelines and other corporate policies of the Center at fees less than established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for the fiscal year ended May 31, 2012 and 2011 was \$6,729,825 and \$6,629,574 respectively.

LITTLE RIVER MEDICAL CENTER, INC.

Notes to Financial Statements

May 31, 2012 and 2011

(16) Significant Source of Revenue

Approximately 29% of the Center's operating revenue was provided by grants from the U.S. Department of Health and Human Services. The Center is dependent on this continued funding and the absence of these grants could have a negative effect on future operations.

(17) Subsequent Events

Subsequent events have been evaluated through September 30, 2012 and no additional reporting is required.

SUPPLEMENTAL SCHEDULES

LITTLE RIVER MEDICAL CENTER, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended May 31, 2012

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Health and Human Services</u>		
Health Center Cluster <i>Grant No. H80CS 00700</i>	93.224	\$3,997,975
ARRA-Facility Investment Program <i>Grant No. C8OCS 13461</i>	93.703	<u>\$3,174,011</u>
Total Federal Grants		<u>\$ 7,171,986</u>

Summary:

Operational Federal Grants	\$3,997,975
Non-Operational Federal Grants	<u>3,174,011</u>
Total Grants	<u>\$7,171,986</u>

Note to Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation

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

LITTLE RIVER MEDICAL CENTER, INC.

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2012

Section A-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Material weaknesses identified? _____yes X no
Significant Deficiencies identified
not considered to be material weaknesses? _____yes X none reported
Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:
Material weaknesses identified? _____yes X no
Significant Deficiencies identified
not considered to be material weaknesses? _____yes X none reported

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

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section.510(a)? _____yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.224 _____	<u>Health Center Cluster</u>
93.703 _____	<u>ARRA- Integrated Health Services</u>

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

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

LITTLE RIVER MEDICAL CENTER, INC.

Schedule of Findings and Questioned Cost

For the Year Ended May 31, 2012

Section B- Financial Statement Findings

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

None Reported

Section C-Federal Award Findings and Questioned Costs

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

None Reported

Questioned Costs: None Reported



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189
www.hornecpa.com

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 Governing Board
Little River Medical Center, Inc.

We have audited the financial statements of Little River Medical Center, Inc. as of and for the year ended May 31, 2012, and have issued our report thereon dated September 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Little River Medical Center, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Little River Medical Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Little River Medical Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Little River Medical Center, Inc.'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management of 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Little River Medical Center, Inc.'s financial statements are free of 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 were reported to management of Little River Medical Center, Inc.'s in a separate letter dated September 30, 2012.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

September 30, 2012



TERRY L. HORNE, CPA

732 West Main Street
Lebanon, TN 37087
Office (615) 444-7293
FAX (615) 443-5189
www.hornecpa.com

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

The Governing Board
Little River Medical Center, Inc.

Compliance

We have audited Little River Medical Center, Inc.'s compliance with the types of compliance requirements described in the (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Little River Medical Center, Inc.'s major federal programs for the year ended May 31, 2012. Little River Medical Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Little River Medical Center, Inc.'s management. Our responsibility is to express an opinion on Little River Medical Center, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Little River Medical Center, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Little River Medical Center, Inc.'s compliance with those requirements.

In our opinion, Little River Medical Center, Inc. complied, in all material respects, with the 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, 2012. The results of our auditing procedures disclosed no instances of noncompliance with those requirements.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

September 30, 2012

LITTLE RIVER MEDICAL CENTER, INC.

Summary Schedule of Prior Year Audit Findings

May 31, 2012

There were no findings in the prior year audit. However, there were certain matters involving internal control structure and its operation that were reported to the management of Little River Medical Center, Inc. in a separate letter. These matters were reviewed and it was determined that the necessary corrective action had been taken to improve the related internal controls.