

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED NOVEMBER 30, 2012**

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

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# McGregor & COMPANY<sup>LLP</sup>

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • SOUTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Low Country Health Care System, Inc.  
(A Non Profit Organization)

We have audited the accompanying statement of financial position of Low Country Health Care System, Inc. (A Non Profit Organization) as of November 30, 2012, and the related statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 the 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 Low Country Health Care System, Inc. as of November 30, 2012, and the changes in its net assets and its cash flows for the year 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 June 7, 2013 on our consideration of Low Country Health Care System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 is presented for purposes of additional analysis as required by 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 financial statements. Such information is the responsibility of management and 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 taken as a whole.

*M. J. Megard & Co., LLP*

Columbia, South Carolina  
June 7, 2013

LOW COUNTRY HEALTH CARE SYSTEM, INC.

STATEMENT OF FINANCIAL POSITION

NOVEMBER 30, 2012

Assets	Unrestricted	Temporarily Restricted	Total
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 1,057,456		\$ 1,057,456
Accounts Receivable, Net of Allowance for Doubtful			
Accounts	747,790		747,790
Accrued Interest Receivable	1,231		1,231
Estimated Contractual Adjustments Receivable	93,892		93,892
Pharmacy Inventory	114,314		114,314
<b>Total Current Assets</b>	<b>2,014,683</b>	<b>-</b>	<b>2,014,683</b>
<b>Property and Equipment, Net of Accumulated Depreciation</b>	<b>2,939,098</b>	<b>\$ 72,659</b>	<b>3,011,757</b>
<b>Other Assets</b>			
Restricted Cash	60,870		60,870
<b>Total Other Assets</b>	<b>60,870</b>	<b>-</b>	<b>60,870</b>
<b>Total Assets</b>	<b>5,014,651</b>	<b>72,659</b>	<b>5,087,310</b>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Current Portion of Notes Payable	37,090		37,090
Accounts Payable and Accrued Expenses	213,799		213,799
Accrued Vacation	52,766		52,766
<b>Total Current Liabilities</b>	<b>303,655</b>	<b>-</b>	<b>303,655</b>
<b>Long-Term Liabilities</b>			
Notes Payable, Net of Current Portion	1,497,509		1,497,509
<b>Total Long-Term Liabilities</b>	<b>1,497,509</b>	<b>-</b>	<b>1,497,509</b>
<b>Total Liabilities</b>	<b>1,801,164</b>	<b>-</b>	<b>1,801,164</b>
<b>Net Assets</b>			
Unrestricted	3,213,487		3,213,487
Temporarily Restricted		72,659	72,659
<b>Total Net Assets</b>	<b>3,213,487</b>	<b>72,659</b>	<b>3,286,146</b>
<b>Total Liabilities and Net Assets</b>	<b>5,014,651</b>	<b>72,659</b>	<b>5,087,310</b>

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

LOW COUNTRY HEALTH CARE SYSTEM, INC.

STATEMENT OF OPERATIONS  
AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED NOVEMBER 30, 2012

	Unrestricted	Temporarily Restricted	Total
<b>Revenues</b>			
Net Patient Service Revenue	\$ 4,324,821		\$ 4,324,821
Grants and Reimbursements from Government Agencies	2,147,795		2,147,795
Other Grants and Appropriations	115,042		115,042
Pharmacy Sales	1,528,988		1,528,988
Other Revenue	270,965		270,965
Net Assets Released from Restrictions - Satisfied by Time	2,675	\$ (2,675)	-
<b>Total Revenues</b>	<b>8,390,286</b>	<b>(2,675)</b>	<b>8,387,611</b>
<b>Expenses</b>			
Salaries	3,409,321		3,409,321
Employee Benefits	806,162		806,162
Recruitment and Retention	23,518		23,518
Patient Care Services	760,651		760,651
Professional Services	152,858		152,858
Conference and Registration	17,134		17,134
Pharmaceutical Supplies	652,750		652,750
Medical Supplies	234,754		234,754
Continuing Education	329		329
Travel	99,715		99,715
Organizational Insurance	20,384		20,384
Dues and Subscriptions	31,631		31,631
Taxes and Licenses	22,356		22,356
Advertising and Printing	4,567		4,567
Maintenance and Repairs	75,840		75,840
Telephone and Cable	154,313		154,313
Office Supplies and Postage	154,954		154,954
Utilities	71,906		71,906
Equipment Rental	18,661		18,661
Computer Support	126,107		126,107
Meals and Entertainment	6,522		6,522
Depreciation and Amortization	163,701		163,701
Charitable Contribution	1,520		1,520
Interest Expense	66,349		66,349
Miscellaneous	9,303		9,303
Minor Equipment	51,441		51,441
Provision for Uncollectible Accounts	927,753		927,753
<b>Total Expenses</b>	<b>8,064,500</b>	<b>-</b>	<b>8,064,500</b>
<b>Gain (Loss) from Operations</b>	<b>325,786</b>	<b>(2,675)</b>	<b>323,111</b>
<b>Other Revenues</b>			
Interest Income	3,862		3,862
Rental Income	19,461		19,461
<b>Total Other Revenues</b>	<b>23,323</b>	<b>-</b>	<b>23,323</b>
<b>Net Revenues Over (Under) Expenses - Change in Net Assets</b>	<b>349,109</b>	<b>(2,675)</b>	<b>346,434</b>
<b>Net Assets, Beginning of Year</b>	<b>2,864,378</b>	<b>75,334</b>	<b>2,939,712</b>
<b>Net Assets, End of Year</b>	<b>3,213,487</b>	<b>72,659</b>	<b>3,286,146</b>

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

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

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED NOVEMBER 30, 2012**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Cash Flows from Operating Activities</b>			
Change in Net Assets	\$ 349,109	\$ (2,675)	\$ 346,434
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	161,026	2,675	163,701
(Increase) Decrease in Accounts Receivable (Net of Allowance)	9,748		9,748
(Increase) Decrease in Estimated Contractual Adjustments Receivable	(118,402)		(118,402)
(Increase) Decrease in Pharmacy Inventory	(7,333)		(7,333)
Increase (Decrease) in Accounts Payable and Accrued Expenses	(111,376)		(111,376)
Increase (Decrease) in Accrued Vacation	(9,779)		(9,779)
<b>Net Cash Provided by Operating Activities</b>	<b>272,993</b>	<b>-</b>	<b>272,993</b>
<b>Cash Flows from Investing Activities</b>			
Increase in Restricted Cash	(677)		(677)
<b>Net Cash Used in Investing Activities</b>	<b>(677)</b>	<b>-</b>	<b>(677)</b>
<b>Cash Flows from Financing Activities</b>			
Increase (Decrease) in Notes Payable	(43,119)		(43,119)
<b>Net Cash Used in Financing Activities</b>	<b>(43,119)</b>	<b>-</b>	<b>(43,119)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>229,197</b>	<b>-</b>	<b>229,197</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>828,259</b>		<b>828,259</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>1,057,456</b>	<b>-</b>	<b>1,057,456</b>
<b>Supplemental Disclosures</b>			
Cash Used for Interest Paid	66,349		66,349

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

# LOW COUNTRY HEALTH CARE SYSTEM, INC.

## NOTES TO FINANCIAL STATEMENTS

### Note 1 Summary of Significant Accounting Policies

#### Organization and Nature of Activities

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

#### Financial Statement Presentation

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

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

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

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

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

#### Revenue

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

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

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

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

**Revenue (Continued)**

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

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

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

**Non-Expendable Property**

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

**Property and Equipment**

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

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

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

Gifts of long-lived assets such as land, buildings, or equipment with restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported over the useful life of the asset.

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

**Income Tax Status**

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

**Estimates**

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

**Advertising Costs**

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

**Expense Allocation**

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

**Note 2 Cash and Cash Equivalents**

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

**Note 3 Restricted Cash**

Restricted cash in the amount of \$60,870 is set-aside under the terms of mortgage security agreements with Rural Development.

**Note 4 Financial Instruments**

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair market value of all financial instruments at November 30, 2012, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet.

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

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

**Note 5 Accounts Receivable**

The Organization's accounts receivable balance at November 30, 2012, consists of the following:

	Amount Due	Allowance for Uncollectible Accounts	Net Accounts Receivable
Patient Accounts	\$1,541,314	\$914,048	\$627,266
Pharmacy Accounts	31,128		31,128
Grants and Other	89,396		89,396
<b>Totals</b>	<u>1,661,838</u>	<u>914,048</u>	<u>747,790</u>

**Note 6 Inventory**

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

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

The Organization provides health care services to Medicare and Medicaid patients. Reimbursements for covered services are based on tentative payment rates. Actual reimbursements are determined after the submission of annual cost reports which are subject to audit by the intermediaries. When information is available, provisions for estimated reimbursement adjustments are reported in the financial statements in the period that the services are provided. The estimated contractual adjustment due from Medicare at November 30, 2012 for the current fiscal year, is \$45,004. The estimated contractual adjustment due from Medicaid at November 30, 2012, is \$48,888.

**Note 8 Property and Equipment**

Property and equipment at November 30, 2012, consist of the following:

Land	\$ 102,285
Buildings and Improvements	3,509,792
Furniture and Equipment	<u>1,216,357</u>
	4,828,434
Less: Accumulated Depreciation	<u>(1,816,677)</u>
<b>Net Property and Equipment</b>	<u>3,011,757</u>

**Note 9 Notes/Mortgages Payable**

Notes payable consist of the following at November 30, 2012:

U. S. Farmers Home Administration loan dated April 16, 1999, providing funds of \$800,000 at 4.50% interest with annual payments of \$49,120 for thirty years. All real estate owned by the Organization, present and future contract rights, accounts receivable and general intangibles are pledged as security for the loan. \$ 551,720

U. S. Farmers Home Administration loan dated February 12, 2007, providing funds of \$1,050,000 at 4.125% interest with monthly payments of \$4,470, including interest, for forty years. All real estate owned by the Organization, present and future contract rights, accounts receivable and general intangibles are pledged as security for the loan. 982,879

Total Obligations Outstanding 1,534,599

Less: Current Maturities (37,090)

**Total Notes Payable - Long-Term** 1,497,509

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

<b>Year Ending November 30,</b>	<b>Amount</b>
2013	\$ 37,090
2014	38,742
2015	40,467
2016	42,270
2017	44,153
Thereafter	<u>1,331,877</u>
<b>Total</b>	<u><u>1,534,599</u></u>

The "Reserve Account" is to be used to (1) repair/replace any damage to the facility or (2) fund FMHA approved extensions or improvements to the facility, or (3) make debt service payments. At November 30, 2012, the reserve account balance was \$60,870.

**Note 10 Operating Leases**

The Organization leases equipment under various long-term operating lease agreements expiring at various dates through fiscal year 2017. Scheduled minimum rental payments for succeeding fiscal years ending November 30 are as follows:

Fiscal Year Ending November 30,	
2013	\$20,582
2014	18,223
2015	9,672
2016	9,672
2017	1,258
Thereafter	<u>-</u>
<b>Total</b>	<u><b>59,407</b></u>

The rental expenditures during fiscal year 2012 for operating leases were \$20,464.

**Note 11 Uninsured Cash Balance**

Funds on deposit at a bank exceeded the FDIC insured limit by \$106,929 at November 30, 2012. However, the Organization executed a collateral agreement with the bank which collateralizes deposits in excess of the FDIC limit with the bank's investments.

**Note 12 Government Grants**

Government grants consist of the following:

U.S. Department of Health and Human Services – Community Health Centers	\$1,599,495
U.S. Department of Health and Human Services – Ryan White Title III HIV Early Intervention Services Program	<u>548,300</u>
<b>Total Government Awards</b>	<u><b>2,147,795</b></u>

**Note 13 Net Patient Revenue**

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

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

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

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

**Note 14 Pension Plan**

The Organization contributes varying amounts to a Section 403(b) retirement plan on behalf of participating employees. All employees who have one year of employment and have attained the age of 21 are eligible to receive employer contributions. All full-time employees are eligible to participate in the plan. The retirement expense for the year ended November 30, 2012, was \$97,398.

**Note 15 Significant Source of Revenue**

Approximately 26% of revenue was attributable to the federal awards during the period December 1, 2011 through November 30, 2012.

**Note 16 Litigation Claims**

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

**Note 17 Concentration of Credit Risk**

The Organization provides credit to its patients. A substantial percentage of patients are insured under third-party payor agreements. The percentage receivable from patients and third-party payors for the year ended November 30, 2012, was:

Medicare	17%
Medicaid	15%
Other Third-Party Payor	32%
Patients	<u>36%</u>
	<u>100%</u>

**Note 18 Temporarily Restricted Net Assets**

The Organization received contributions of ophthalmology equipment and an office building located in Blackville, South Carolina. The Organization adopted an accounting policy to imply a time restriction that expires over the useful life of the assets. Temporarily restricted net assets are classified as follows:

Blackville Facility	<u>\$ 72,659</u>
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Net assets were released from restrictions by satisfying the time requirements as follows:

Blackville Facility	<u>\$ 2,675</u>
	<u>2,675</u>

**Note 19 Classification of Expenses**

Expenses incurred during the year ended November 30, 2012, by functional classification, are as follows:

<b>Expenses</b>	<b>Program Services</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 2,386,525	\$ 1,022,796	\$ 3,409,321
Employee Benefits	564,313	241,849	806,162
Recruitment and Retention	23,518		23,518
Patient Care Services	760,651		760,651
Professional Services	107,001	45,857	152,858
Conference and Registration	17,134		17,134
Pharmaceutical Supplies	652,750		652,750
Medical Supplies	234,754		234,754
Continuing Education	329		329
Travel	69,800	29,915	99,715
Organizational Insurance		20,384	20,384
Dues and Subscriptions	22,142	9,489	31,631
Taxes and Licenses	22,356		22,356
Advertising and Printing	3,197	1,370	4,567
Maintenance and Repairs	53,088	22,752	75,840
Telephone and Cable	108,019	46,294	154,313
Office Supplies and Postage	108,468	46,486	154,954
Utilities	50,334	21,572	71,906
Equipment Rental	13,063	5,598	18,661
Computer Support	88,275	37,832	126,107
Meals & Entertainment	4,565	1,957	6,522
Depreciation and Amortization	57,526	106,175	163,701
Interest and Finance Charges	46,444	19,905	66,349
Charitable Contribution		1,520	1,520
Miscellaneous	6,512	2,791	9,303
Minor Equipment	36,009	15,432	51,441
Provision for Uncollectible Accounts	927,753		927,753
<b>Totals</b>	<u>6,364,526</u>	<u>1,699,974</u>	<u>8,064,500</u>

**Note 20 Subsequent Events**

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

**Note 21 Income Taxes**

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

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

LOW COUNTRY HEALTH CARE SYSTEM, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED NOVEMBER 30, 2012

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<b>Department of Health and Human Services</b>		
Direct Programs:		
Health Center Cluster		
Consolidated Health Centers	93.224	\$ 1,588,581 *
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	<u>10,914 *</u>
<b>Total Health Center Cluster</b>		<u>1,599,495</u>
Outpatient Early Intervention Services with Respect to HIV Disease Cluster		
Early Intervention Services	93.918	<u>548,300</u>
<b>Total Outpatient Early Intervention Services with Respect to HIV Disease Cluster</b>		<u>548,300</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>2,147,795</u></u>

See Notes to Schedule of Expenditures of Federal Awards

\* Denotes Major Program

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2012**

**Note 1      Summary of Significant Accounting Policies**

**(a) Reporting Entity**

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

**(b) Basis of Presentation**

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

**(c) Basis of Accounting**

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

**Note 2      Relationship to Federal Financial Reports**

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

**LOW COUNTRY HEALTH CARE SYSTEM, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2012**

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

**Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of Major Programs:

93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program

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

Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	Yes
--	-----

LOW COUNTRY HEALTH CARE SYSTEM, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED NOVEMBER 30, 2012

**Section II: Financial Statement Findings**

None Reported

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

**Finding 2012-1**

**Department of Health and Human Services/Community Health Centers  
Program CFDA Number 93.224**

**Condition/Effect:** During our test of 40 randomly selected patient accounts receivable, including 8 sliding fee scale accounts, we noted the following exceptions:

	<b>Number of Exceptions</b>
■ Documentation was missing to determine eligibility	3

**Criteria:** OMB Circular A-133 Compliance Supplement, Program Income.

**Effect:** Inadequate documentation of sliding fee scale eligibility could result in lost revenue from provision of services to ineligible individuals or denial of benefits to eligible patients.

**Cause:** These exceptions were considered to be miscalculations and oversights by the personnel that complete the certification process for sliding fee patients.

**Questioned Costs:** Undetermined

**Recommendation:** We recommend that management provide individual follow-up training and increase monitoring of those who complete the sliding fee applications.

**Auditee's Response:** All individuals involved in compiling sliding fee documentation have received additional training regarding the importance of completing sliding fee applications on an annual basis as well as the appropriate way to fill out the applications. These forms will be scanned into the medical records system once completed.

**LOW COUNTRY HEALTH CARE SYSTEM, INC.  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED NOVEMBER 30, 2012**

**Summary of Prior Year Findings**

None Reported

# McGregor & COMPANY<sup>LLP</sup>

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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*

Board of Directors  
Low Country Health Care System, Inc.

We have audited the financial statements of Low Country Health Care System, Inc. (a nonprofit organization) as of and for the year ended November 30, 2012, and have issued our report thereon dated June 7, 2013. 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 Low Country Health Care System, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Low Country Health Care System, 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 the Low Country Health Care System, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting 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 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 previously.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Low Country Health Care System, 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 that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "M. Megard & Co., LLP". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
June 7, 2013

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Low Country Health Care System, Inc.

### Compliance

We have audited Low Country Health Care System, Inc.'s compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Low Country Health Care System, Inc.'s major federal programs for the year ended November 30, 2011. Low Country Health Care System, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Low Country Health Care System, Inc.'s management. Our responsibility is to express an opinion on Low Country Health Care System, 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 Low Country Health Care System, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Low Country Health Care System, Inc.'s compliance with those requirements.

In our opinion, Low Country Health Care System, 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 November 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

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## Internal Control Over Compliance

Management of Low Country Health Care System, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Low Country Health Care System, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Low Country Health Care System, Inc.'s internal control over compliance.

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

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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-1. 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.

Low Country Health Care System, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Low Country Health Care System, Inc.'s response and, accordingly, we express no opinion on the response.

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



Columbia, South Carolina  
June 7, 2013