NEW HORIZON FAMILY HEALTH SERVICES, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JANUARY 31, 2012 AND 2011

NEW HORIZON FAMILY HEALTH SERVICES, INC.

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FOR THE YEARS ENDED

JANUARY 31, 2012 and 2011

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McGregor & COMPANY LLP

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of New Horizon Family Health Services, Inc., (a nonprofit organization), as of January 31, 2012 and 2011, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of New Horizon Family Health Services, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 New Horizon Family Health Services, Inc., as of January 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 August 9, 2012, on our consideration of New Horizon Family Health Services, 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 basic financial statements. The accompanying schedules of expenditures of federal awards, and other supplementary information are 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 are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

McGregor & Company LLP

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August 9, 2012

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NEW HORIZON FAMILY HEALTH SERVICES, INC.

BALANCE SHEETS

JANUARY 31, 2012 AND 2011

Assets	2012	2011
Current Assets		
Cash	$ 1,381,998	$ 475,490
Assets Whose Use is Limited - Employee Fund	4,952	2,090
Patient Accounts Receivable		
Less: Allowances for Contractual Adjustments and Doubtful Accounts of $643,638 and $703,896, respectively	1,542,223	1,646,258
Estimated Retroactive Adjustments - Third-Party Payors	139,098	-
Accounts Receivable - Other	136,989	189,627
Inventory	267,358	210,680
Prepaid Expenses	91,578	51,043
Total Current Assets	3,564,196	2,575,188
Property and Equipment, Net	4,953,464	4,663,100
Other Assets	357	357
Total Assets	8,518,017	7,238,645
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	616,813	970,971
Notes Payable - Current Portion	77,985	236,819
Capital Lease Obligations - Current Portion	-	62,146
Estimated Retroactive Adjustments - Third-Party Payors	-	5,534
Accrued Liabilities - Payroll	268,099	175,966
Accrued Vacation Payable	256,215	215,870
Deferred Revenue	397,992	-
Total Current Liabilities	1,617,104	1,667,306
Long-Term Liabilities		
Notes Payable, Less Current Portion	1,428,348	885,385
Obligation Under Interest Rate Swap	66,523	-
Total Liabilities	3,111,975	2,552,691
Net Assets		
Unrestricted	4,884,670	4,551,895
Temporarily Restricted	116,372	129,059
Permanently Restricted	405,000	5,000
Total Net Assets	5,406,042	4,685,954
Total Liabilities and Net Assets	8,518,017	7,238,645

The Accompanying Notes are an Integral Part of These Financial Statements.

NEW HORIZON FAMILY HEALTH SERVICES, INC.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	2012	2011
Revenues, and Operating Gains		
Net Patient Service Revenue	$ 12,072,058	$ 10,580,355
Government Grants	4,119,111	4,854,851
Contributed Services	139,896	124,800
Contributed Use of Facilities	600	82,113
Other Revenue	67,400	136,683
Net Assets Released from Restrictions Used for Operations	2,591,719	2,481,460
Total Revenues, and Operating Gains	18,990,784	18,260,262
Expenses		
Salaries	7,044,007	6,556,014
Payroll Taxes	515,299	459,760
Other Fringe Benefits	805,131	680,795
Patient Care Services	546,908	430,851
Contributed Use of Facilities	600	82,113
Contributed Services	139,896	124,800
Donated Drugs	2,264,428	1,954,829
Contractual Services	816,318	964,134
Provision for Bad Debts	1,397,593	1,895,001
Training	121,945	73,101
Supplies	3,329,000	2,603,287
Equipment Rental	16,572	12,621
Printing and Publications	48,324	43,888
Occupancy	435,734	364,485
Travel	53,964	73,719
Dues and Subscriptions	33,264	73,070
Taxes and Licenses	29,515	27,296
Repairs and Maintenance	101,802	82,398
Telephone	140,528	166,531
Postage	13,887	9,463
Recruitment and Retention	11,648	11,707
Insurance	26,107	21,634
Noncapital Equipment	70,355	58,833
Interest	84,582	96,292
Depreciation	495,139	498,291
Advertising	17,553	7,506
Board Expenses	4,064	2,751
Bank Charges	35,631	35,267
Miscellaneous	-	5,852
Total Expenses	18,599,794	17,416,289
Operating Income	390,990	843,973
Non-Operating Gains and Losses		
Interest Income	4,957	1,454
Gain (Loss) on Disposal of Asset	3,350	0
Total Non-Operating Gains and Losses	8,307	1,454
Excess of Revenues Over Expenses and Change in Unrestricted Net Assets	399,297	845,427

The Accompanying Notes are an Integral Part of These Financial Statements.

NEW HORIZON FAMILY HEALTH SERVICES, INC.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	2012	2011
Unrestricted Net Assets		
Operating Income	$ 390,990	$ 843,973
Non-Operating Gains (Losses)	8,307	1,454
(Increase) Decrease of Fair Value of Interest Rate Swap Obligation	(66,522)	-
Increase in Unrestricted Net Assets	332,775	845,427
Temporarily Restricted Net Assets		
Contributed Drugs for Indigent Patients	2,264,428	1,954,829
Contributions for Sliding Fee Indigent Care	63,463	-
Contributions for Dental Clinic Project	105,240	98,270
Contributions for Direct Relief International	27,893	-
Contributions for Slater Expansion	23,500	24,125
Contributions for EHR System	42,500	-
Contributions for General Electric	52,008	-
Contributions for IT Equipment	-	16,500
Net Assets Released from Restrictions for Operations	(2,591,719)	(2,481,460)
Increase (Decrease) in Temporarily Restricted Net Assets	(12,687)	(387,736)
Permanently Restricted Net Assets		
Donated Land	400,000	-
Increase in Permanently Restricted Net Assets	400,000	-
Increase in Net Assets	720,088	457,691
Net Assets, Beginning of Year	4,685,954	4,228,263
Net Assets, End of Year	5,406,042	4,685,954

The Accompanying Notes are an Integral Part of These Financial Statements.

NEW HORIZON FAMILY HEALTH SERVICES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JANUARY 31, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities		
Change in Net Assets	$ 720,088	$ 457,691
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities, Gains and Other Support:		
Depreciation	495,139	498,291
Provision for Bad Debts	1,397,593	1,895,001
Donated Land	(400,000)	-
(Increase) Decrease in:		
Accounts Receivable	(1,293,558)	(1,882,358)
Estimated Retroactive Adjustments - Third-Party Payors	(139,098)	14,101
Inventory	(56,678)	(2,457)
Accounts Receivable - Other	52,638	(140,591)
Prepaid Expenses	(40,535)	(1,674)
Increase (Decrease) in:		
Accounts Payable	(354,158)	301,366
Accrued Payroll and Related Expenses	132,478	(14,891)
Estimated Retroactive Adjustments - Third-Party Payors	(5,534)	5,534
Deferred Revenue	397,992	(166,702)
Net Cash Provided by Operating Activities	906,367	963,311
Cash Flows from Investing Activities		
Capital Expenditures	(385,503)	(583,991)
Increase in Assets Whose Use is Limited	(2,862)	(973)
Net Cash Used by Investing Activities	(388,365)	(584,964)
Cash Flows from Financing Activities		
Issuance of Debt	1,537,632	-
Increase in Fair Value of Interest Rate Swap Obligation	66,522	
Principal Payments on Long-Term Debt	(1,215,648)	(122,328)
Net Cash Provided (Used) by Financing Activities	388,506	(122,328)
Net Increase (Decrease) in Cash and Cash Equivalents	906,508	256,019
Cash, Beginning of Year	475,490	219,471
Cash, End of Year	1,381,998	475,490
Supplemental Disclosure		
Cash Payments for Interest	84,582	96,292

The Accompanying Notes are an Integral Part of These Financial Statements.

NEW HORIZON FAMILY HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Financial Statement Presentation

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

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. Unrestricted Net Assets were $4,884,670 as of January 31, 2012.

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. Temporarily Restricted Net Assets were $116,372 as of January 31, 2012.

Permanently restricted - Net assets that are subject to donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or removed by actions of the Organization. Permanently restricted net assets represent endowment funds. Permanently Restricted Net Assets were $405,000 as of January 31, 2012.

Basis of Accounting

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

Financial statement presentation follows the recommendation of Generally Accepted Accounting Principles (GAAP). Under GAAP, the Organization is required to report 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. In addition, the Organization is required to present a statement of cash flows.

Contributions

The Organization follows Generally Accepted Accounting Principles (GAAP). In accordance with GAAP, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Under GAAP, temporarily restricted support is reclassified to unrestricted net assets on expiration or fulfillment of the donor restrictions. If the restriction is satisfied in the year of the contribution it is treated as unrestricted.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

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

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. Uncollectible balances are written-off through a charge to the valuation allowance and a credit to accounts receivable. All balances which have been outstanding over 30 days are considered delinquent.

Estimates

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

Revenue

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

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.

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.

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-Expendable Property

Property acquired is considered owned by the Organization. However, the United States Government has a reversionary interest in property purchased with Federal funds or acquired through government appropriations; therefore, its disposition as well as ownership of any proceeds therefore is subject to Federal regulations. The Organization capitalizes all non-expendable property acquisitions of $500 or more. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from 5 to 30 years.

Capital Leases

Capital lease obligations are recorded at the present value of the future minimum payments discounted at the interest rate implicit in the lease(s). A corresponding amount is capitalized as the value of the asset and depreciated over its estimated useful life, generally five years.

Property and Equipment

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

Property and equipment purchases are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The useful lives are as follows:

Buildings and Improvements	7 to 30 years
Furniture and Equipment	5 to 15 years

Inventory

Purchased inventory is stated at cost. Donated inventory is stated at estimated fair market value.

Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal and state income taxes. The Organization is not a private foundation under Section 170(b)(1)(A)(vi) of the Internal Revenue Code. The Organization is not currently undergoing examination of any previously filed tax returns; however, the returns filed for the most recent three 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.

Cash and Cash Equivalents

Any short-term investment with an original maturity of 3 months or less is a cash equivalent.

Financial Instruments

The following methods and assumptions were used by the Organization to estimate fair value of each class of financial asset and liability for which it is practical to estimate that value. The Organization did not change the methods and assumptions used to determine fair value of its financial instruments during the year ended January 31, 2012.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

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

Notes Payable: Fair Value approximates carrying value as borrowing or stated rates are similar to rates currently available to the Organization for bank loans with similar terms and remaining maturities.

Derivative Instruments

The Organization uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the effective portion of the hedge initially is included as a component of changes in net assets and is subsequently reclassified into earnings when interest on the related debt is paid. The Organization documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Organization's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts to convert variable-rate debt to a fixed rate. See Note 18.

Advertising Costs

Advertising costs, consisting primarily of advertisement of employment opportunities and services offered by the Organization, are expensed as incurred. Advertising expense for the year ended January 31, 2012 and 2011 was $17,553 and $7,506, respectively.

Expense Allocation

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

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

NOTE 2 ESTIMATED RETROACTIVE ADJUSTMENTS

The Organization provides health care services to Medicare and Medicaid patients. Reimbursements for covered services are based on tentative payment rates. Actual reimbursements are determined after the submission of annual cost reports which are reviewed or audited by the intermediaries. Provision for estimated reimbursement adjustments is reported in the financial statements in the period that the services are provided. The estimated receivable at January 31, 2012 is $139,098. At January 31, 2011 the estimated payable was $5,534.

NOTE 3 ASSETS WHOSE USE IS LIMITED

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

NOTE 4 PROPERTY AND EQUIPMENT

A summary of property and equipment at January 31:

	2012	2011
Building and Improvements	$4,543,048	$4,423,898
Equipment and Software	3,271,456	3,012,569
Furniture and Fixtures	212,012	204,546
Leasehold Improvements	37,757	37,757
Vehicles	135,754	135,754
Land	537,000	137,000
Land Improvements	8,258	8,258
	8,745,285	7,959,782
Less: Accumulated Depreciation	(3,791,821)	(3,296,682)
Net Property and Equipment	4,953,464	4,663,100

NOTE 5 FUNDS ON DEPOSIT

Funds on deposit at one bank exceed the FDIC insured limit by $792,662 and $133,895 at January 31, 2012 and 2011. All noninterest-bearing accounts at a single bank are fully insured, regardless of the balance in the account. All interest-bearing accounts at a single bank are insured up to a maximum of $250,000. 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 6 NOTES/MORTGAGES PAYABLE

The terms and due dates of the Organization's long-term debt at January 31:

	2012	2011
$955,045 mortgage note payable to Regions Bank with a "fixed to floating" interest rate, secured by real estate with a book value of $1,062,026 due in monthly installments with a maturity of June 7, 2016 (See Note 18)	$ 929,766	-
$582,587 mortgage note payable to Regions Bank with interest rate of 5.0% per annum, secured by real estate with a book value of $1,018,047, due in monthly installments with a maturity of June 7, 2016	567,461	-
$937,379 mortgage note payable to Greenville First Bank interest rate 6.75% per annum, secured by real estate, due in monthly installments	-	$ 865,110
Operating Line-of-Credit arrangement with an area bank with interest at 6.75% and a limit of $100,000 is secured by medical equipment in Slater, SC	-	60,624
Note payable to SC Office of Rural Health interest rate 5.5% secured by equipment with a book value of $8,333, due in monthly installments with a maturity of September 2013	9,106	14,183
Operating Line-of-Credit arrangement with an area bank, with interest at 5.0%; and a limit of $250,000 is secured by accounts receivable in connection with operation of the facilities. The remaining available balance at January 31, 2011, was $67,713.	-	182,287
	1,506,333	1,122,204

NOTE 6 NOTES/MORTGAGES PAYABLE (Continued)

Maturity of mortgage principal balances outstanding at January 31, 2012, is as follows:

Year Ended January 31,	Amount
2013	$ 77,985
2014	80,080
2015	80,243
2016	84,348
2017	1,183,677
	1,506,333
Current Portion	77,985
Total Notes/Mortgages Payable Long-Term	1,428,348

NOTE 7 OPERATING LEASES

During August 2010, the Organization entered in to a lease agreement with Three Falls, LLC for administrative office space in Greenville, South Carolina. The terms of the lease calls for base rental payments of $7,699 per month commencing on November 1, 2010 through October 31, 2015 with options to extend.

Total operating lease expense for the years ended January 31, 2012 and 2011 is $92,388 and $23,097 respectively.

Minimum future lease payments under operating leases are:

2013	$ 92,388
2014	92,388
2015	92,388
2016	69,291
Total	346,455

NOTE 8 CAPITAL LEASE OBLIGATIONS

Capital Lease Obligations at January 31:	2012	2011
The Organization purchased equipment for the dental program under capital lease obligations, at varying rates of imputed interest from 6.483 percent to 9.542 percent collateralized by leased equipment.	$ -	$ 62,146

NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2012	2011
Pharmaceuticals for Indigent Patients	$ 99,872	$ 80,484
Purchase of Equipment	-	1,377
Diabetic Collaborative	-	11,106
SC Primary Healthcare – IT Equipment	16,500	16,500
Small Business Program	-	10,000
Greer Expansion	-	9,592
Total Temporarily Restricted Net Assets	116,372	129,059

NOTE 9 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Temporarily Restricted Net Assets (Continued)

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

	2012	2011
Pfizer Corporation - Pharmaceuticals for Indigent Patients	$2,245,040	$1,950,777
Labcorp Indigent Care	63,463	-
Direct Relief International	27,893	-
Dental Clinic Project	105,241	481,558
Electronic Health Records	42,500	-
General Electric	52,008	-
Traveler's Rest Expansion	23,500	49,125
Totals	2,559,645	2,481,460

NOTE 10 GOVERNMENT GRANTS

Government grants consist of the following:

	2012	2011
U.S. Department of Health and Human Services -		
Direct	$4,118,266	$4,804,435
Passed through Aid Upstate	845	50,416
Totals	4,119,111	4,854,851

NOTE 11 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 12 CONCENTRATION OF CREDIT RISK

The Organization has the option to grant credit to its patients. A substantial percentage is insured under third-party payor agreements. The percentages of receivables from patients and third-party payors were as follows:

	2012	2011
Medicare	34%	29%
Medicaid	17%	21%
Other Third-Party Payors	18%	20%
Patients	31%	30%
	100%	100%

NOTE 13 IN–KIND CONTRIBUTIONS

Services

Employees of Greenville Hospital Systems, Community Ministries and AID Upstate provided in-kind support services to the patients of New Horizon Family Health Services, Inc. The estimated fair value of the services for the year ended January 31, 2012 and 2011 were $139,896 and $124,800, respectively.

Use of Facilities

The clinical facilities located at several sites are provided to the Organization below its fair rental value or free. The estimated fair rental value, as determined by the donors, is recorded as in-kind contributions in the amount of $600 and $82,113 for the years ended January 31, 2012 and 2011, respectively. The land on which the Mallard Street facility is located is being leased at no cost. However, neither the Organization nor the lessor could determine a fair rental value. Thus, no amount has been recorded for the fair value of its usage.

NOTE 14 PENSION PLAN

The Organization sponsors a salary reduction plan for all full-time employees. Employees are immediately eligible to make elective deferrals. Employer makes discretionary matching contributions of 50% of employees' elective deferrals up to 6% of compensation. After one year of full-time employment, employees must make elective deferral of at least 1% to become eligible for employer match. Pension plan contributions for the years ended January 31, 2012 and 2011, were $79,574 and $90,697, respectively.

NOTE 15 SIGNIFICANT SOURCE OF REVENUE

Approximately 25% and 31% of revenue was attributable to federal awards during the fiscal year 2012 and 2011, respectively.

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 CLASSIFICATION OF EXPENSES

Expenses incurred during the years ended January 31, 2012 and 2011, by functional classification, are as follows:

	2012		
	Program Services	General and Administrative Expenses	Total Expenses
Salaries	$ 4,789,925	$ 2,254,082	$ 7,044,007
Payroll Taxes	350,403	164,896	515,299
Other Fringe Benefits	547,489	257,642	805,131
Patient Care Services	546,908	-	546,908
Contributed Use of Facilities	600	-	600
Contributed Services	139,896	-	139,896
Donated Drugs	2,264,428	-	2,264,428
Contractual Services	228,569	587,749	816,318
Provision for Bad Debts	1,397,593	-	1,397,593
Training	82,922	39,023	121,945
Supplies	3,129,260	199,740	3,329,000
Equipment Rental	-	16,572	16,572
Printing	32,861	15,463	48,324
Occupancy	409,590	26,144	435,734
Travel	36,696	17,268	53,964
Dues and Subscription	1,996	31,268	33,264
Taxes and Licenses	23,907	5,608	29,515
Repairs and Maintenance	95,694	6,108	101,802
Telephone	132,096	8,432	140,528
Postage	833	13,054	13,887
Recruitment and Retention	11,648	-	11,648
Insurance	-	26,107	26,107
Noncapital Equipment	42,213	28,142	70,355
Interest	79,507	5,075	84,582
Depreciation and Amortization	316,889	178,250	495,139
Advertising	11,936	5,617	17,553
Board Expenses	-	4,064	4,064
Bank Charges	-	35,631	35,631
Miscellaneous	-	-	-
Total	14,673,859	3,925,935	18,599,794

	2011		
	Program Services	General and Administrative Expenses	Total Expenses
Salaries	$ 4,458,090	$2,097,924	$ 6,556,014
Payroll Taxes	312,637	147,123	459,760
Other Fringe Benefits	462,941	217,854	680,795
Patient Care Services	430,851	-	430,851
Contributed Use of Facilities	82,113	-	82,113
Contributed Services	124,800	-	124,800
Donated Drugs	1,954,829	-	1,954,829
Contractual Services	269,958	694,176	964,134
Provision for Bad Debts	1,895,001	-	1,895,001
Training	49,709	23,392	73,101
Supplies	2,447,090	156,197	2,603,287

NOTE 17 CLASSIFICATION OF EXPENSES (Continued)

	2011		
	Program Services	General and Administrative Expenses	Total Expenses
Equipment Rental	-	$ 12,621	$ 12,621
Printing	$ 29,844	14,044	43,888
Occupancy	342,616	21,869	364,485
Travel	50,129	23,590	73,719
Dues and Subscription	4,384	68,686	73,070
Taxes and Licenses	22,110	5,186	27,296
Repairs and Maintenance	77,454	4,944	82,398
Telephone	156,539	9,992	166,531
Postage	568	8,895	9,463
Recruitment and Retention	11,707	-	11,707
Insurance	-	21,634	21,634
Noncapital Equipment	35,300	23,533	58,833
Interest	90,514	5,778	96,292
Depreciation and Amortization	318,906	179,385	498,291
Advertising	5,104	2,402	7,506
Board Expenses	-	2,751	2,751
Bank Charges	-	35,267	35,267
Miscellaneous	3,979	1,873	5,852
Total	13,637,173	3,779,116	17,416,289

NOTE 18 DERIVATIVES

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

As stated in Note 6, the Organization entered into a "fixed for floating" interest rate swap related to the long-term financing obtained from Regions Bank during 2011. Under the terms of the agreement, the Organization computes its monthly payment amount using a fixed rate of 5.0% applied to the outstanding notional amount. Regions Bank, the counterparty, computes its rate at a variable rate equal to the adjusted one month LIBOR Rate (.265% at January 31, 2012). The monthly difference between the amount to be paid by the Organization and the amount to be paid by the counterparty is recorded as an addition to or reduction of current interest expense.

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

Notional Amount	Maturity	Fixed Rate
927,983	06/07/2016	5.0%

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

The swap was issued on market terms so that it had no fair value at its inception. The carrying value of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The liability is classified as non-current, since management does not intend to settle it during 2016. All of the adjustment of the swap's carrying amount is reported as a change in net assets.

NOTE 18 DERIVATIVES (Continued)

The year-end fair value of the Organization's interest rate swap was obtained from the counterparty to the transaction. This value represents the estimated amount the Organization would be required to pay to terminate the agreement, taking into consideration the difference between the contract rate of interest and rates currently quoted for agreements of similar terms and maturities. At January 31, 2012, the fair value of the Organization's interest rate swap resulted in a liability of $66,522. The Organization recorded the liability in the accompanying Balance Sheets.

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

NOTE 19 SUBSEQUENT EVENTS

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

SUPPLEMENTARY SCHEDULES

NEW HORIZON FAMILY HEALTH SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JANUARY 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
Department of Health and Human Services		
Direct Program:		
Community Health Centers Cluster		
Health Center Cluster	93.224	$ 3,315,891 *
ARRA Capital Improvement Program	93.703	127,973 *
ARRA Increase Services to Health Centers	93.703	23,422 *
Total Community Health Center Cluster		3,467,286
Early Intervention Services	93.918	650,980
Passed-Through AID		
Upstate - HIV Care Formula Grants	93.917	845
Total Expenditures of Federal Awards		4,119,111

See Note to Schedule of Federal Awards

* Denotes Major Program

NEW HORIZON FAMILY HEALTH SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JANUARY 31, 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).

NEW HORIZON FAMILY HEALTH SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JANUARY 31, 2012

Section 1 - Summary of Auditors' Results

Financial Statements:

Type of Auditors' Report Issued: **Unqualified**

--Material Weakness(es) Identified? _____ Yes __X__ No

--Significant Deficiencies Identified That are not Considered to be Material Weaknesses? __X__ Yes _____ None

Federal Awards:

Internal Control Over Major Programs:

--Material Weakness(es) Identified? _____ Yes __X__ No

--Significant Deficiencies Identified That are not Considered to be Material Weaknesses? __X__ Yes _____ None

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? __X__ Yes _____ No

Identification of Major Programs:

Identification of Major Program:

93.224 Health Center Cluster
93.703 ARRA Capital Improvement Grant
93.703 ARRA Increase Services to Health Centers

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

Auditee qualified as low-risk auditee? __X__ Yes _____ No

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding 12-1

Inventory Equipment Management

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

Criteria: The A-102 Common Rule and OMB Circular A-133 requirement that capital asset records shall be maintained, a physical inventory of capital asset shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard capital assets, and assets shall be adequately maintained (44 CFR 13.32)

Effect: Lack of a timely and complete physical inventory of capital assets indicates that the Organization is not in compliance with federal grant guidelines.

Questioned Costs: None

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

Auditee's Response: A physical inventory of the capital assets of the Organization will be completed prior to the end of the next fiscal year.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

See Finding 12-1 Inventory Equipment Management

NEW HORIZON FAMILY HEALTH SERVICES, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR YEAR ENDED JANUARY 31, 2012

Finding - Financial Statements

11-1 – Inventory Equipment Management

Condition: Lack of timely and complete physical inventory of capital assets.

Finding present in current year.

Finding - Major Federal Award Programs

See Finding 11-1 Inventory Equipment Management

SCHEDULE 4

NEW HORIZON FAMILY HEALTH SERVICES, INC.

CORRECTIVE ACTION PLAN

JANUARY 31, 2012

Finding 12-1

Contact Person: Stephen Glenn, Chief Financial Officer

Action Plan: A physical inventory of the capital assets of the Organization will be completed prior to the end of the next fiscal year.

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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*

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

We have audited the financial statements of New Horizon Family Health Services, Inc. as of and for the year ended January 31, 2012, and have issued our report thereon dated August 9, 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

In planning and performing our audit, we considered New Horizon Family Health Services 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 New Horizon Family Health Care Services Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Horizon Family Health Services, 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 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 above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (12-1). 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Horizon Family Health Services, 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 12-1.

We noted certain matters that we reported to management of New Horizon Family Health Services Inc. in a separate letter dated August 9, 2012.

New Horizon Family Health Services, 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 New Horizon Family Health Services, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, the Finance Committee, management and 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.

McGregor & Company, LLP

Columbia, South Carolina
August 9, 2012

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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

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

Compliance

We have audited New Horizon Family Health Services, 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 New Horizon Family Health Services, Inc.'s major federal programs for the year ended January 31, 2012. New Horizon Family Health Services, 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 New Horizon Family Health Services, Inc.'s management. Our responsibility is to express an opinion on New Horizon Family Health Services, 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 New Horizon Family Health Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of New Horizon Family Health Services, Inc.'s compliance with those requirements.

In our opinion, New Horizon Family Health Services, 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 January 31, 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 Finding 12-1.

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Internal Control over Compliance

Management of New Horizon Family Health Services, 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 New Horizon Family Health Services, 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 New Horizon Family Health Services, 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 or 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we identified a certain 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 items 12-1. 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.

New Horizon Family Health Services, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit New Horizon Family Health Services, Inc.'s response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors, the Finance Committee, management and 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.

McGregor & Company LLP

Columbia, South Carolina
August 9, 2012