

**RURAL HEALTH GROUP, INC.**  
**ROANOKE RAPIDS, NORTH CAROLINA**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**GREGORY T. REDMAN, CPA**  
GREENVILLE, NORTH CAROLINA

**Rural Health Group, Inc.**

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## **Financial Section**

**Gregory T. Redman, CPA**  
2865 Charles Boulevard  
Greenville, North Carolina 27858  
Phone: (252) 317-0481 Fax: (252) 317-0482

Gregory T. Redman, CPA

Member  
North Carolina Association of  
Certified Public Accountants

American Institute of  
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors  
Rural Health Group, Inc.  
Roanoke Rapids, North Carolina

I have audited the accompanying statement of financial position of the Rural Health Group, Inc. as of June 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 Rural Health Group, Inc.'s management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Health Group, Inc. as of June 30, 2012, and the results of its operations, changes in net assets and 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*, I have also issued my report dated December 17, 2012, on my consideration of the Rural Health Group, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 read in conjunction with this report in considering the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Rural Health Group, Inc. The accompanying schedule of expenditures of federal awards and State awards is presented as 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 the State Single Audit Implementation Act, and is also not a required part of the basic financial statements. The schedule of expenditures of federal and State awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal and State awards is stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Gregory T. Anderson, CPA". The signature is written in a cursive style with a large initial 'G'.

Greenville, North Carolina  
December 17, 2012

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Balance Sheet**  
**June 30, 2012**

**Assets**

<b>Current Assets:</b>	
Cash and cash equivalents	\$ 3,223,032
<b>Receivables:</b>	
Patient, net of allowance for uncollectible accounts \$133,192	854,811
Estimated third-party payor settlements	117,629
Grant and other	2,835,229
Prepaid expenses	96,932
Inventory	232,506
<b>Total Current Assets</b>	<u>\$ 7,360,139</u>
<b>Non-current Assets:</b>	
Certificate of deposit	\$ 21,817
Property and equipment, net	5,694,863
Goodwill	65,000
<b>Total Non-current Assets</b>	<u>\$ 5,781,680</u>
<b>Total Assets</b>	<u><u>\$13,141,819</u></u>

**Liabilities and Net Assets**

<b>Current Liabilities:</b>	
Accounts payable	\$ 103,975
Accrued expenses	363,665
Deferred revenue	2,691,628
Compensated absences payable-current	111,379
Current maturities of long-term debt	52,415
<b>Total Current Liabilities</b>	<u>\$ 3,323,062</u>
<b>Long-Term Debt Liabilities:</b>	
Long-term debt-noncurrent portion	\$ 1,214,470
Compensated absences payable-noncurrent	445,516
<b>Total Long-term Liabilities</b>	<u>\$ 1,659,986</u>
<b>Total Liabilities</b>	<u>\$ 4,983,048</u>
Net Assets, unrestricted	8,158,771
<b>Total Liabilities and Net Assets</b>	<u><u>\$13,141,819</u></u>

The notes to the financial statements are an integral part of this statement.

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Statement of Operations and Changes in Net Assets**  
**For the Year Ended June 30, 2012**

**Revenue and other support:**

Patient Service Revenue:	
Patient charges	\$ 12,092,330
Less contractual allowances	3,624,050
Patient Service Revenue, Net	<u>\$ 8,468,280</u>
Federal and state grants	4,741,601
Other grants and awards	811,972
Retroactive Medicaid FHQC settlement	539,818
Pharmacy fees	2,972,476
Interest income	2,244
Other income	335,148
Total Revenue and Other Support	<u>\$ 17,871,539</u>

**Expenses**

Salaries and wages	\$ 9,324,263
Employee benefits	1,929,800
Purchased services	1,316,907
Insurance	31,887
Supplies	2,607,723
Vaccines	195,765
Repairs and maintenance	237,885
Utilities	436,695
Marketing	98,988
Postage	56,234
Bank and collection agency fees	35,896
Travel	166,552
Continuing education	109,720
Recruitment	12,346
Provision for bad debts	177,334
Depreciation	461,716
Interest	96,749
Other	136,441
Total Expenses	<u>\$ 17,432,901</u>
Change in Net Assets	\$ 438,638

**Net Assets**

Net Assets, Beginning	7,720,133
Net Assets, Ending	<u><u>\$ 8,158,771</u></u>

The notes to the financial statements are an integral part of this statement.

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Statement of Cash Flows - Indirect Method**  
**For the Year Ended June 30, 2012**

<b>Cash Flows From Operating Activities:</b>	
Change in net assets	\$ 438,638
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	461,716
Changes in assets and liabilities:	
(Increase) Decrease in Receivables	65,902
(Increase) Decrease in Prepaid expenses	(20,965)
(Increase) Decrease in Inventory	(9,730)
Increase (Decrease) in Accounts payable	(27,660)
Increase (Decrease) in Accrued expenses	143,567
Increase (Decrease) in Deferred revenue	131,272
Increase (Decrease) in Compensated absences	-
Net Cash Provided by Operating Activities	<u>\$ 1,182,740</u>
 <b>Cash Flows From Investing Activities:</b>	
Purchase of property and equipment	<u>\$ (171,114)</u>
 <b>Cash Flows From Financing Activities:</b>	
Principal payments on notes payable	<u>\$ (77,468)</u>
Net Increase in Cash and Cash Equivalents	\$ 934,158
 <b>Cash and Cash Equivalents:</b>	
Beginning	<u>2,310,691</u>
Ending	<u><u>\$ 3,244,849</u></u>
 <b>Supplemental Disclosures of Cash Flow Information</b>	
Cash paid for interest	<u><u>\$ 96,749</u></u>

The notes to the financial statements are an integral part of this statement.

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

**I. Nature of Activities and Significant Accounting Policies**

**Nature of activities**

The Rural Health Group, Inc. (the "Organization") is a not-for-profit, community health center dedicated to providing primary medical care, dental care, and other health-related services to the regions underserved. Founded in 1974, the Organization grew out of a community collaboration of concerned citizens to provide low-cost and free health care services to people living in Northeastern North Carolina. The Organization also conducts a nutrition program in accordance with the Women, Infants and Children (WIC) Program for residents of Halifax County. The Organization is a Federally Qualified Health Organization (FQHC) and is supported by a grant from the U. S. Department of Health and Human Services and patient revenue, primarily from the Medicare and Medicaid programs.

The Organization operates in owned facilities at Roanoke Rapids, Henderson, and Jackson. Additionally, the Organization operates in leased facilities at Hollister, Littleton and Rich Square. As a result of favorable long-term lease agreements providing control and economic interdependency, the financial statements include the real estate at the leased locations.

A summary of the Organization's significant accounting policies follows:

1. Basis of Presentation

In preparing its financial statements, the Organization classifies net assets and revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- a. Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
- b. Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or by the passage of time. At June 30, 2012, there were no temporarily restricted net assets.
- c. Permanently restricted net assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the Organization. At June 30, 2012, there were no permanently restricted net assets.

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

2. Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization includes cash and all highly liquid debt instruments purchased with an original maturity of three months or less which are available for operating purposes in cash and cash equivalents. Cash equivalents consist primarily of various checking and savings accounts at banks. The Organization maintains deposits with high credit quality financial institutions in amounts that are in excess of federal insurance limits; however, it does not believe it is exposed to any significant credit risk.

3. Patient Receivables

Patient receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts using historical collection rates of patient services applied to an aging of accounts. Patient receivables are written off when deemed uncollectible. Recoveries of patient receivables previously written off are recorded when received. Patient receivables are considered past due if any portion of the receivable balance is outstanding more than 90 days. Interest is not charged on past due accounts.

4. Grant and Other Receivables

Grant and other receivables consist primarily of amounts spent under various grants that are reimbursable. These amounts are typically collected within 90 days after year end.

5. Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets.

Building and improvements	5 - 30 years
Equipment and furniture	2 - 20 years
Vehicles	3 - 5 years

The Organization assesses long-lived assets for impairment when events or circumstances exist that indicates the carrying amount of these assets may not be recoverable.

6. Patient Service Revenue

Patient charges are recorded at the time of service at the Organization's established rates. Estimated third-party contractual adjustments, net of Medicaid retroactive adjustments, are deducted from patient charges to arrive at net patient revenue.

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

Services provided for Medicare and Medicaid patients are paid based on claims filed and are paid on an interim basis and settled after the filing and audit of annual cost reports, with such estimated cost report settlements receivable and/or payable being reported separately from patient receivables and referred to as “estimated third-party payor settlements”. The Medicare program pays the Organization the lower of an adjusted cost per visit or a maximum rate per visit established for the Organization by the federal government. Medicaid and Medicare services accounted for approximately 50% and 31%, respectively, of net patient fees during the year ended June 30, 2012.

Congress has established a Medicaid prospective payment system (PPS) for federally qualified health organizations, which differs from the reasonable cost system previously used by Medicaid. The State may reimburse the Organization using the PPS mechanism, continue to reimburse on the reasonable cost methodology, or select some other payment methodology. Whichever methodology is used, it cannot produce payments that are less than what the Organization would receive under the PPS. The Organization is reimbursed under the reasonable cost methodology.

The Organization has a policy of providing charity care to patients using a sliding fee scheduled based on the ability to pay. Services provided to these patients were discounted approximately \$2,066,485 compared to the Organization’s established rates during the year ended June 30, 2012. This discount for these services is excluded from net patient fees.

7. Grant Revenue

Grant revenue is recognized when expenses are incurred and are eligible for reimbursement. Advances received from grants for a specified period are recognized as deferred revenue and revenue is recognized on a pro-rata basis over the grant period.

8. Benefit Payments Issued by the State

WIC vouchers totaling approximately \$1.6 million were paid directly to individual recipients by the state from federal and state moneys. The Organization is involved with certain functions, primarily eligibility determinations that cause benefit payments to be issued by the state. These amounts do not appear in the financial statements because they are not revenues and expenses of the Organization.

9. Income Taxes

The Organization has a tax determination letter from the Internal Revenue Service stating that it qualifies under the provision of the Internal Revenue Code 501(c)(3) and is exempt from federal income taxes. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

10. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**II. Patient Receivables**

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreement. The mix of receivables from patients and third-party payors were as follows at June 30, 2012:

Medicaid	\$	336,812
Medicare		301,119
Other third-party payors		57,739
Self-pay		292,333
	\$	<u>988,003</u>
Less: allowance for uncollectible accounts		133,192
	\$	<u><u>854,811</u></u>

**III. Capital Assets**

Capital assets consist of the following at June 30, 2012:

	Balance 7/1/2011	Increases	Decreases	Balance 6/30/2012
Land	\$ 1,078,921	\$ -	\$ -	\$ 1,078,921
Building and improvements	6,852,256	24,886	-	6,877,142
Equipment and furniture	1,787,712	128,649	-	1,916,361
Vehicles	296,857	17,579	-	314,436
	<u>\$10,015,746</u>	<u>\$ 171,114</u>	<u>\$ -</u>	<u>\$10,186,860</u>
Accumulated depreciation	4,030,282	461,716	-	4,491,998
	<u>\$ 5,985,464</u>	<u>\$ (290,602)</u>	<u>\$ -</u>	<u>\$ 5,694,862</u>

As a result of favorable long-term lease agreements providing control and economic interdependency, land and buildings above includes approximately \$1.8 million of property held under lease agreements.

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

**IV. Pledged Assets, Line of Credit, and Long-Term Debt**

Long-term debt and the collateral pledged thereon consisted of the following at June 30, 2012:

Note payable to a bank, due in monthly installments of \$4,393 at a rate of 6.20% through March 2024, collateralized by a deed of trust on land and building.	436,651
Note payable to the BB&T, due in monthly installments of \$6,518 including principal and interest at 6.58% through January 2034, collateralized by a deed of trust on land and building.	737,964
Note payable to the Farmers Home Administration (FHA), due in monthly installments of \$850 including principal and interest at 5% through March 2021, collateralized by a deed of trust on land and building.	62,655
	1,237,270
Less current maturities	52,415
Total Long-term Debt	\$ 1,184,855

The prime rate at June 30, 2012 was 3.25%.

Aggregate maturities required on long-term debt at June 30, 2012 are due in future years as follows:

Year Ending June 30	Principal	Interest	Total Principal & Interest
2012	\$ 52,415	\$ 88,715	\$ 141,130
2013	\$ 55,786	\$ 85,344	\$ 141,130
2014	\$ 59,377	\$ 81,753	\$ 141,130
2015	\$ 62,990	\$ 78,140	\$ 141,130
2016	\$ 67,257	\$ 73,873	\$ 141,130
2017-2021	\$ 378,227	\$ 310,270	\$ 688,497
2022-2026	\$ 300,732	\$ 195,950	\$ 496,682
2027-2031	\$ 260,486	\$ 111,773	\$ 372,259
	\$ 1,237,270	\$ 1,025,818	\$ 2,263,088

**V. Lease Commitments**

The Organization leases various equipment under operating lease agreements. At June 30, 2012, future minimum lease payments are due in future years as follows:

Year Ending June 30	
2012	\$ 32,748
Total minimum lease payments	\$ 32,748
Less: amount representing interest	3,133
Present value of the minimum lease payments	\$ 29,615

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Mortgage loan payable	\$1,294,878	\$ -	\$ 57,608	\$1,237,270	\$ 52,415
Line of credit	888	-	888	-	-
Capital lease	48,587	-	18,972	29,615	29,615
Accrued compensated absences	556,895	-	-	556,895	111,379
Total	<u>\$1,901,248</u>	<u>\$ -</u>	<u>\$ 77,468</u>	<u>\$1,823,780</u>	<u>\$ 193,409</u>

**VI. Retirement Plan**

The Organization has a salary deferral plan under Section 403(b) of the Internal Revenue Code for its eligible employees who have completed two years of continuous service. The Plan allows eligible employees to defer a portion of their salary up to the maximum annual amount allowed by the Code. The Organization contributes from 1.5% to 3.5% of employee's compensation based on the years of service. Employer contributions to the Plan totaled approximately \$132,563 for the year ended June 30, 2012.

**VII. Classification of Expenses**

Expenses incurred for the year ended June 30, 2012 are classified as follows:

<b>Expenses</b>	<b>Program</b>	<b>Management and General</b>	<b>Total</b>
Salaries and wages	\$ 7,348,086	\$ 1,976,177	\$ 9,324,263
Employee benefits	1,449,254	480,546	1,929,800
Purchased services	864,525	452,382	1,316,907
Insurance	-	31,887	31,887
Supplies	2,547,408	60,315	2,607,723
Repairs and maintenance	72,214	165,671	237,885
Utilities	142,961	293,734	436,695
Marketing	97,993	995	98,988
Postage	44,325	11,909	56,234
Bank and collection agency fees	5,477	30,419	35,896
Travel	120,532	46,020	166,552
Continuing education	81,233	28,487	109,720
Recruitment	88	12,258	12,346
Provision for bad debts	177,334	-	177,334
Depreciation	349,266	112,450	461,716
Interest	-	96,749	96,749
Other	50,905	85,536	136,441
Vaccines	195,765	-	195,765
Total Expenses	<u>\$ 13,547,366</u>	<u>\$ 3,885,535</u>	<u>\$ 17,432,901</u>

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

**VIII. Contingencies**

The Organization is required to maintain a reserve account as part of the loan agreement with the USDA. The reserve account balance is maintained in a certificate of deposit. At June 30, 2012, the balance in the account was \$21,817 as required.

The Organization primarily serves the area's indigent and uninsured patients using federal and state awards, which are generally awarded on an annual basis. The loss of this revenue would significantly impair the Organization's ability to continue operations. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate costs under the grant agreements. Such audits could result in the refund of grant receipts to the grantor agencies. Management believes that any required refunds will be immaterial.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes the Organization is in compliance with all applicable laws and regulations and they are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs.

**IX. Impairment of Capital Assets**

In accordance with new financial reporting standards issue by the Governmental Accounting Standards Board's Statement Number 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* requires certain not disclosures. During the June 30, 2012 fiscal year the Authority experienced no impairments.

**Gregory T. Redman, CPA**  
2865 Charles Boulevard  
Greenville, North Carolina 27858  
Phone: (252) 317-0481 Fax: (252) 317-0482

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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 Commissioners  
Rural Health Group, Inc.  
Roanoke Rapids, North Carolina

I have audited the accompanying financial statements of Rural Health Group, Inc. as of and for the year ended June 30, 2012, and have issued my report thereon dated December 17, 2012. I conducted my 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 the Rural Health Group, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Rural Health Group, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Agency'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 on a timely basis.

My consideration of the internal control over financial reporting was for 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Health Group, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be report under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Gregory T. Rudman, CMA". The signature is written in a cursive style.

Greenville, North Carolina  
December 17, 2012

# Gregory T. Redman, CPA

2865 Charles Boulevard  
Greenville, North Carolina 27858  
Phone: (252) 317-0481 Fax: (252) 317-0482

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## Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

To the Board of Commissioners  
Rural Health Group, Inc.  
Roanoke Rapids, North Carolina

### Compliance

I have audited the Rural Health Group, Inc. compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Rural Health Group, Inc.'s major federal program for the year ended June 30, 2012. Rural Health Group, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Rural Health Group, Inc.'s management. My responsibility is to express an opinion on Rural Health Group, Inc.'s compliance based on my audit.

I conducted my 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, *Audit of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Rural Health Group, Inc.'s compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Rural Health Group, Inc.'s compliance with those requirements.

In my opinion, Rural Health Group, 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 program for the year ended June 30, 2012.

#### Internal Control Over Compliance

The management of Rural Health Group, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Rural Health Group, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the Agency'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, non-compliance 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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



Greenville, North Carolina  
December 17, 2012

# Gregory T. Redman, CPA

2865 Charles Boulevard  
Greenville, North Carolina 27858  
Phone: (252) 317-0481 Fax: (252) 317-0482

Gregory T. Redman, CPA

Member  
North Carolina Association of  
Certified Public Accountants

American Institute of  
Certified Public Accountants

## Report On Compliance With Requirements Applicable To Each Major State Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And the State Single Audit Implementation Act

To the Board of Commissioners  
Rural Health Group, Inc.  
Roanoke Rapids, North Carolina

### Compliance

I have audited Rural Health Group, Inc. compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina* issued by the Local Government Commission that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012. Rural Health Group, Inc.'s major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rural Health Group, Inc.'s management. My responsibility is to express an opinion on Rural Health Group, Inc.'s compliance based on my audit.

I conducted my 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; applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*; and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about Rural Health Group, Inc.'s compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Rural Health Group, Inc.'s compliance with those requirements.

In my opinion, Rural Health Group, 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 State programs for the year ended June 30, 2012.

#### Internal Control Over Compliance

The management of Rural Health Group, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing my audit, I considered Rural Health Group, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine the auditing procedures for the purpose of expressing my opinion on compliance, and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness the Agency's internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Agency'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, non-compliance with a type of compliance requirement of a State 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 non-compliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in the Agency's internal control that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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



Greenville, North Carolina  
December 17, 2012



**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2012**

Section I – Summary of Auditor’s Results

Identification of major federal programs:

<u>CFDA #</u>	<u>Program Name</u>
93.224	Consolidated Health Centers
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children

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

Auditee qualified as low-risk auditee?   X   yes        no

State Awards

Internal control over major State programs:

- Material weakness(es) identified?        yes   X   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses        yes   X   none reported

Non-compliance material to financial statements noted        yes   X   no

Type of auditor’s report issued on compliance for major State programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act        yes   X   no

Identification of major State programs:

<u>Program Name</u>	<u>CFDA #</u>
Health and Wellness Trust Fund	N/A

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2012**

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Section II – Financial Statement Findings

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None Reported

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Section III – Federal Award Findings and Questioned Costs

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None Reported

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Section IV – State Award Findings and Questioned Costs

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None Reported

**Rural Health Group, Inc.  
Roanoke Rapids, North Carolina  
Corrective Action Plan  
For the Year Ended June 30, 2012**

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Section II – Financial Statement Findings

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None Reported

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Section III – Federal Award Findings and Questioned Costs

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None Reported

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Section IV – State Award Findings and Questioned Costs

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None Reported

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Summary Schedule of Prior Year Audit Findings**  
**For the Year Ended June 30, 2012**

None Reported

**Rural Health Group, Inc.**  
**Roanoke Rapids, North Carolina**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2012**

<b>Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<b>Federal Awards:</b>			
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers	93.224	N/A	\$ 3,264,121
Ryan White Part C Outpatient EIS Program	93.918	N/A	293,721
Passed-through N.C. Department of Health and Human Services:			
HIV Care Formula Grants (Ryan White)	93.917	00771-11	20,441
HIV Care Formula Grants (Ryan White)	93.917	00771-12	52,686
Breast & Cervical Cancer Control Program	93.919	01366-11	37,066
Breast & Cervical Cancer Control Program	93.919	01366-12	104,780
Passed-through Office of Rural Health:			
Consolidated Health Centers - NC Farmworker	93.224	90009357	69,915
Consolidated Health Centers - NC Farmworker	93.224	90010048	24,507
Passed-through NC DHHS (Subcontractee):			
HIV Care Formula Grants (Ryan White)	93.917	N/A	343
Total U.S. Department of Health and Human Services			<u>\$ 3,867,580</u>
 U.S. Department of Agriculture:			
Passed-through N.C. Department of Health and Human Services:			
Special Supplemental Nutrition Program for Women Infants and Children (WIC):			
Direct	10.557	00859-11	\$ 110,674
	10.557	00859-12	261,722
Indirect	10.557		1,640,950
Total U.S. Department of Agriculture			<u>\$ 2,013,346</u>
<b>Total Federal Awards</b>			<u><u>\$ 5,880,926</u></u>
<b>State Awards:</b>			
NC Department of Health and Human Services:			
Office of Rural Health and Community Care:			
Community Health Grants	N/A	90009249	\$ 175,000
Health and Wellness Trust Fund Commission:			
Office of Rural Health	N/A	N/A	316,121
Health Disparities Initiative	N/A	N/A	10,504
<b>Total State Awards</b>			<u><u>\$ 501,625</u></u>

**Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of Rural Health Group, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB *Circular A-133*, "Audits of States, Local Governments, and Non-profit Organizations" and North Carolina General Statute 143-6.2. Therefore, some amounts presented in this schedule may differ from accounts presented in, or used in the preparation of the financial statements. Benefit payments (indirect costs) under the Women, Infants and Children Program are paid directly to recipients and are not included in the Organization's financial statements. However, due to the Organization's involvement in determining eligibility, they are considered federal awards to the Organization and are included on this schedule.