

**SANDHILLS MEDICAL FOUNDATION, INC.**

Financial Statements

May 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

**SANDHILLS MEDICAL FOUNDATION, INC.**

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Independent Auditor's Report

The Governing Board  
Sandhills Medical Foundation, Inc.

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2012 on our consideration of Sandhills Medical Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

October 8, 2012

**SANDHILLS MEDICAL FOUNDATION, INC.**

Statement of Financial Position

May 31, 2012 and 2011

<b>ASSETS</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
<i>Current Assets</i>		
Cash	\$ 1,222,257	\$ 757,054
Accounts Receivable Net (Note 4)	655,605	405,580
Grants and Contracts Receivable	67,335	339,895
Inventory (Note 3)	229,149	216,162
Prepaid Expenses	29,387	34,234
<i>Total Current Assets</i>	<u>2,203,733</u>	<u>1,752,925</u>
<i>Property and Equipment</i>		
Property and Equipment, at Cost,		
Net of Accumulated Depreciation (Note 5)	4,695,061	3,274,575
<i>Total Property and Equipment</i>	<u>4,695,061</u>	<u>3,274,575</u>
<i>Other Assets</i>		
CIMS Investment	2,500	2,500
Amicus Health, LLC Investment	50,000	-
Cash USDA Escrow - Temporarily Restricted	47,711	44,542
<i>Total Other Assets</i>	<u>100,211</u>	<u>47,042</u>
<b>Total Assets</b>	<b><u>\$ 6,999,005</u></b>	<b><u>\$ 5,074,542</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<i>Current Liabilities</i>		
Accounts Payable	\$ 307,982	\$ 147,643
Accrued Compensated Absences	129,564	82,418
Accrued Wages	84,669	71,285
Accrued Payroll Liabilities	42,947	7,332
Deferred Revenue	7,000	7,000
Current Portion of Long Term Debt (Note 6)	1,195,849	414,782
<i>Total Current Liabilities</i>	<u>1,768,011</u>	<u>730,460</u>
<i>Long-Term Liabilities</i>		
Mortgages Payable (Note 6)	2,880,917	1,939,382
Notes Payable (Note 6)	-	42,050
Less Current Portion of Long Term Debt	<u>(1,195,849)</u>	<u>(414,782)</u>
<i>Total Long-Term Liabilities</i>	<u>1,685,068</u>	<u>1,566,650</u>
<b>Total Liabilities</b>	<u>3,453,079</u>	<u>2,297,110</u>
<i>Net Assets</i>		
Net Assets -Unrestricted	3,498,215	2,732,890
Net Assets -Temporarily Restricted (Note 7)	47,711	44,542
<i>Total Net Assets</i>	<u>3,545,926</u>	<u>2,777,432</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 6,999,005</u></b>	<b><u>\$ 5,074,542</u></b>

The accompanying notes are an integral part of this financial statement

**SANDHILLS MEDICAL FOUNDATION, INC.**  
Statement of Activities  
For The Years Ended May 31, 2012 and 2011

<b>Support and Revenues:</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Net Patient Revenue (Note 8)	\$ 5,951,717	\$ 5,244,650
Public Support - U.S. DHHS Operational Grants (Note 9)	1,484,362	1,690,112
Other Grants and Contracts	254,081	148,750
Cost Settlements	101,866	271,476
Rent and Other Revenue	36,352	35,698
<b><i>Total Support and Revenues</i></b>	<b><u>7,828,378</u></b>	<b><u>7,390,686</u></b>
<b>Expenses:</b>		
Program Services Expenses	5,910,838	5,327,548
General and Administrative Expenses	1,356,285	1,262,084
<b><i>Total Expenses</i></b>	<b><u>7,267,123</u></b>	<b><u>6,589,632</u></b>
<b>Excess (Deficiency) of Support and Revenues Over Expenses From Operations</b>	<b><u>561,255</u></b>	<b><u>801,054</u></b>
<b>Other Income (Expenses):</b>		
Public Support - U.S. DHHS Non-Operational Grants (Note 9)	207,239	143,989
<b><i>Total Other Income (Expenses)</i></b>	<b><u>207,239</u></b>	<b><u>143,989</u></b>
<b>Total Excess (Deficiency) of Support and Revenues Over Expenses</b>	<b><u>\$ 768,494</u></b>	<b><u>\$ 945,043</u></b>
<b>Net Assets:</b>		
Increase (Decrease) in Unrestricted Net Assets	\$ 765,325	\$ 935,611
Increase (Decrease) in Temporarily Restricted Net Assets	3,169	9,432
Net Assets at Beginning of Year	2,777,432	1,832,389
<b>Net Assets at End of Year</b>	<b><u>\$ 3,545,926</u></b>	<b><u>\$ 2,777,432</u></b>

The accompanying notes are an integral part of this financial statement

**SANDHILLS MEDICAL FOUNDATION, INC.**  
Statement of Functional Expenses  
For The Years Ended May 31, 2012 and 2011

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2012 Total</u>	<u>2011 Total</u>
Personnel	\$ 2,676,894	\$ 595,188	\$ 3,272,082	\$ 2,856,944
Fringe Benefits	453,335	99,512	552,847	557,407
Contractual Services	404,386	267,053	671,439	634,338
Supplies	1,814,971	56,202	1,871,173	1,689,720
Travel and Training	48,681	48,740	97,421	112,415
Insurance	35,839	3,982	39,821	28,417
Telephone and Postage	58,086	48,896	106,982	85,378
Building and Equipment Rent	74,770	8,918	83,688	90,612
Utilities	38,429	4,270	42,699	44,256
Depreciation	78,151	128,206	206,357	202,517
Maintenance and Repairs	58,229	13,986	72,215	69,305
Dues, Printing and Other	17,496	69,907	87,403	63,465
Recruitment and Patient Education	62,568	1,535	64,103	43,881
Interest	89,004	9,889	98,893	110,977
<b>Total</b>	<b><u><u>\$ 5,910,838</u></u></b>	<b><u><u>\$ 1,356,285</u></u></b>	<b><u><u>\$ 7,267,123</u></u></b>	<b><u><u>\$ 6,589,632</u></u></b>

The accompanying notes are an integral part of this financial statement

**SANDHILLS MEDICAL FOUNDATION, INC.**  
Statement of Cash Flows  
For The Years Ended May 31, 2012 and 2011

**Cash Flows from Operating Activities:**

	<u>2012</u>	<u>2011</u>
Excess (Deficiency) of Support and Revenues Over Expenses	\$ 561,255	\$ 801,054

Adjustments to Reconcile Net Income to Cash Provided from Operations:

Depreciation	206,357	202,517
(Increase) Decrease in Accounts Receivable	(250,025)	24,518
(Increase) Decrease in Other Receivables	272,560	(208,268)
(Increase) Decrease in Inventory	(12,987)	(65,329)
(Increase) Decrease in Prepaid Items	4,847	(9,656)
(Increase) Decrease in Other Assets	(53,169)	(44,542)
Increase (Decrease) in Accrued Liabilities	35,615	(11,373)
Increase (Decrease) in Accounts Payable	160,339	(16,698)
Increase (Decrease) in Accrued Wages	13,384	31,540
Increase (Decrease) in Accrued Compensated Absences	47,146	(1,817)
Net Cash Provided by Operating Activities:	985,322	701,946

**Cash Flows Used in Investing Activities:**

Public Support - U.S. DHHS Non-Operational Grants (Note 9)	207,239	143,989
Purchases of Property and Equipment	(1,626,843)	(90,887)
Cash Used in Investing Activities	(1,419,604)	53,102

**Cash Flows Used in Financing Activities:**

Increase (Decrease) in Long Term Debt	899,485	(107,071)
Cash Used in Financing Activities	899,485	(107,071)
Net Increase (Decrease) in Cash	465,203	647,977
Cash at Beginning of The Year	757,054	109,077
<b>Cash at End of The Year</b>	<b>\$ 1,222,257</b>	<b>\$ 757,054</b>

Supplemental Data:

Interest Paid in Financing Activities	\$ 98,893	\$ 110,977
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The accompanying notes are an integral part of this financial statement

# SANDHILLS MEDICAL FOUNDATION, INC.

## Notes to Financial Statements

May 31, 2012 and 2011

### (1) Summary of Significant Accounting Policies

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

#### (a) Nature of The Business

Sandhills Medical Foundation, Inc. (the Organization) operates community medical service centers. The Organization provides comprehensive health care services at several locations in South Carolina.

#### (b) Financial Statement Presentation

The Organization presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as promulgated by the Financial Accounting Standards Board. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, as required by SFAS No. 117, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

#### (c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts. The Organization should have collateral for all funds in excess of the FDIC maximum insured limit of \$250,000 per financial institution. During the year ended May 31, 2012, the Organization's cash balances with its depositories did not exceed the FDIC limit or secured balance.

#### (d) Property and Equipment

Property and equipment acquired with DHHS funds are considered to be owned by the Organization while in use in the program or in future authorized programs. However, HHS retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets. Accordingly, the Organization may not transfer, mortgage, assign, lease or in any other manner encumber certain property items without the prior approval of HHS.

# SANDHILLS MEDICAL FOUNDATION, INC.

## Notes to Financial Statements

May 31, 2012 and 2011

(e) Allowance for Uncollectible Receivables

The provision for uncollectible receivables is not recorded as an expense, but is treated as a reduction of the related revenue in the statement of activities. Based on computations within industry standards applied to test the reserve for uncollectible patient accounts, the estimates appear reasonable.

(f) Income Taxes

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

(g) Estimated Amounts

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

(h) Concentration of Credit and Market Risk

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution.

(2) Fair Value of Financial Instruments

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

# SANDHILLS MEDICAL FOUNDATION, INC.

## Notes to Financial Statements

May 31, 2012 and 2011

### (3) Inventories

The Organization records all pharmaceuticals as inventory items when purchased. On a monthly basis, inventory is adjusted for the items dispensed to patients. The value of the inventory is determined on the First In, First Out Basis (FIFO). All other supplies are not considered to be material and are expensed as they are purchased. Therefore, there is no inventory reported in the financial statement for these items.

### (4) Accounts Receivable

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

Accounts receivable balances as of May 31, 2012 and 2011, are:	<u>2012</u>	<u>2011</u>
Services rendered	\$1,013,141	\$775,761
Less allowance for uncollectible accounts	<u>(357,536)</u>	<u>(370,181)</u>
Accounts receivable, net	<u>\$ 655,605</u>	<u>\$405,580</u>

### (5) Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Building	\$ 4,504,499	\$ 2,842,566
Leasehold improvements	241,783	161,855
Equipment	1,078,571	1,336,942
Land	190,146	190,146
Construction in process	<u>-</u>	<u>160,933</u>
Total	\$ 6,014,999	\$ 4,692,442
Less accumulated depreciation	<u>(1,319,938)</u>	<u>(1,417,867)</u>
Property and equipment, net	<u>\$ 4,695,061</u>	<u>\$ 3,274,575</u>

Property and equipment is depreciable on a straight line basis over the estimated useful life. The depreciation for the fiscal year ended May 31, 2012 is \$206,357.

# SANDHILLS MEDICAL FOUNDATION, INC.

## Notes to Financial Statements

May 31, 2012 and 2011

### (6) Leases and Notes Payable

#### I. Operating Leases

The Organization leases clinic space from the Kershaw County Medical Center for \$2,387 per month on a one-year lease, which auto renews each year unless notified. This lease began on April 1, 2012 and ends March 31, 2013.

The Organization leases clinic space from the Santee-Wateree Community Mental Health for \$618 per month on a month-to-month lease. This lease began on July 1, 2012 and requires a 60 day notice of termination.

#### II. Notes Payable

The Organization entered into a loan agreement with the US Department of Agriculture on May 24, 2008 for \$1,528,200. This loan accrues interest at a rate of 4.25% and matures on May 24, 2046. As of May 31, 2012, this note had a balance of \$1,417,295.

The Organization also has a note payable to First Citizens Bank that matures on March 15, 2019, accruing interest at a rate of 4.25%. This note is collateralized by the Sumter building and requires monthly payments of \$2,305 with a balloon payment of the balance due at maturity. This note had a balance of \$303,665 as of May 31, 2012.

The Organization has a commitment from the USDA for facility renovations. An agreement has been made with First Citizens Bank to provide interim financing through the construction period with interest only payments, which accrues interest at 4%. After the construction is completed the USDA will refinance this loan into a permanent forty-year mortgage. This obligation is reported as a current liability on the financial statement. As of May 31, 2012, this note has a balance of \$1,159,955.

The following is a schedule of future minimum debt payments required under these obligations as of May 31, 2012:

<u>Years Ending</u> <u>May 31</u>	<u>Loan</u> <u>Payable</u>	<u>Building</u> <u>Lease</u>
2013	\$ 1,195,849	\$ 24,488
2014	36,348	-0-
2015	37,924	-0-
2016	39,567	-0-
2017	41,281	-0-
Thereafter	<u>1,529,948</u>	<u>-0-</u>
Total	<u>\$ 2,880,917</u>	<u>\$ 24,488</u>

# SANDHILLS MEDICAL FOUNDATION, INC.

## Notes to Financial Statements

May 31, 2012 and 2011

### (7) Net Assets-Temporarily Restricted

A portion of the net assets is restricted by a USDA loan agreement requiring an escrow balance to be held by the Organization. As of May 31, 2012 the escrow balance requirement was \$47,711. This escrow account is to be maintained for the entire life of the related loan. This restriction is considered temporary.

### (8) Net Patient Revenue

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

	<u>2012</u>	<u>2011</u>
Total gross revenue	\$10,676,041	\$8,876,251
Less adjustments	<u>(4,724,324)</u>	<u>(3,631,601)</u>
Net revenue	<u>\$5,951,717</u>	<u>\$5,244,650</u>

### (9) Grant Support

A summary of Federal grant support for the year ended May 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Health Center Cluster	\$ 1,027,660	\$ 914,077
Ryan White Title III	335,119	326,289
Special Projects of National Significance	82,759	393,951
ARRA Cluster	207,239	144,989
Rural Health Network	<u>38,824</u>	<u>35,820</u>
Total Federal Grant Funds	<u>\$1,691,601</u>	<u>\$1,834,101</u>
Less Non-Operational Grant	(207,239)	(143,989)
Operational Grants	<u>\$1,484,362</u>	<u>\$1,690,112</u>

As of May 31, 2012 and 2011 all the above funds were fully obligated. Under the terms of these grants the Organization is required to comply with certain federal guidelines and the grantor retains a residual interest in assets acquired with grant funds.

### (10) Contingencies

The Organization's management is of the opinion that its insurance coverage is adequate to cover any potential losses on asserted claims and is unaware of any incidents, which would ultimately result in loss in excess of the Organization's insurance coverage.

# SANDHILLS MEDICAL FOUNDATION, INC.

## Notes to Financial Statements

May 31, 2012 and 2011

(11) Retirement Plan

The Organization sponsors a 401(k) pension plan. All employees with one year of service and 18 years of age are eligible to participate in the plan. The Organization matches employee's elective contributions up to three percent (3%) of employee's compensation. The pension plan matching contributions paid net of forfeitures for the year ended May 31, 2012 and 2011 was \$52,765 and \$49,528.

(12) Significant Source of Revenue

Approximately 19% of the Organization's revenue was provided by grants from various sources. The Organization is dependent on this continued funding and the absence of these grants could possibly have a negative effect on operations.

(13) Medical Malpractice Coverage

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

(14) Charity Care

The Organization provides medical services to patients who qualify under federal guidelines and other corporate policies of the Organization at fees less than established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for the fiscal year ended 2012 and 2011 was \$2,713,517 and \$2,252,788 respectively.

(15) Subsequent Events

Management has evaluated subsequent events through October 8, 2012 and no additional reporting is required.

**SUPPLEMENTAL SCHEDULES**

**SANDHILLS MEDICAL FOUNDATION, INC.**

Schedule of Expenditures of Federal Awards

For the Year Ended May 31, 2012

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Health and Human Services</u>		
Health Center Cluster <i>Grant No.H80CS 00501</i>	93.224	\$1,027,660
Ryan White Title III <i>Grant No.H76HA 00813</i>	93.918	\$335,119
Special Projects of National Significance <i>Grant No.H97HA 07524</i>	93.928	\$82,759
Rural Health Network <i>Grant No.P10RH 17198</i>	93.912	\$38,824
ARRA Cluster-Health Center Integrated Services Development Initiative:		
ARRA-Capital Improvement Project <i>Grant No.C81CS 14322</i>	93.703	<u>\$207,239</u>
<b>Total Federal Grants</b>		<b><u>\$1,691,601</u></b>
U.S Department of Agriculture Loan	10.766	\$1,159,955

**Summary:**

Operational Federal Grants	\$1,484,362
Non-Operational Federal Grants	<u>207,239</u>
<b>Total Grants</b>	<b><u>\$1,691,601</u></b>

Note to Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation

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

**SANDHILLS MEDICAL FOUNDATION, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2012

**Section A-Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified  
Internal control over financial reporting:  
Significant Deficiency disclosed? \_\_\_\_\_yes X no  
Significant Deficiencies reported  
as Material Weaknesses? \_\_\_\_\_yes X no  
Noncompliance material to financial statements noted? \_\_\_\_\_yes X no

Federal Awards

Internal Control over major programs:  
Significant Deficiency identified? X yes \_\_\_\_\_no  
Significant Deficiencies reported  
as Material Weaknesses? X yes \_\_\_\_\_no

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

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section.510(a)? X yes \_\_\_\_\_no

Identification of major programs:

CFDA Number

93.224  
93.703  
93.918

Name of Federal Program

Health Center Cluster  
ARRA-Health Center Integrated Services  
Development Initiative  
Ryan White Title III

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

Auditee qualified as low-risk auditee? \_\_\_\_\_yes X no

**SANDHILLS MEDICAL FOUNDATION, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2012

**Section B- Financial Statement Findings**

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

None Reported

**Section C-Federal Award Findings and Questioned Costs**

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

**Finding: 2012-C1 ARRA Reports not filed correctly**

**Federal Programs:** Department of Health and Human Services  
ARRA-Capital Improvement Project  
CFDA 93.703 Grant No. C81CS 14322

**Condition:** The Organization submitted four out of five quarterly ARRA reports with incorrect ARRA expenditures and/or grant receipts.

**Criteria:** OMB Circular A-133 Compliance Supplement

**Context:** During the review of all ARRA quarterly reports, it was noted that the certain reports did not contain accurate financial data.

**Cause:** Personnel were not properly trained to prepare accurate ARRA quarterly reports.

**Effect:** The Organization did not comply with federal reporting guidelines

**Recommendation:** It is recommended that these reports be reconciled to the documented grant expenditures and grant receipts before submission.

**Auditee's Response and Corrective Action Plan:** Procedures will be established to reconcile the grant expenditures and grant receipts and review the ARRA reports before submission as recommended above.

**Contact Person:** Chris Dixon, CFO

**Anticipated Date of Completion:** October 31, 2012

**SANDHILLS MEDICAL FOUNDATION, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2012

***Finding: 2012-C2- Patient Eligibility and Revenue***

***Federal Program Identification:*** U.S. Department of Health and Human Services  
Health Center Cluster, CFDA 93.224  
Grant Number H80CS00501

***Condition:*** Procedures have not been developed to ensure that sliding fee discounts are correctly calculated and that patients receive the correct discounts.

***Criteria:*** OMB Circular A-133 Compliance Supplement, Eligibility, OMB Circular A-110 Uniform Administrative Requirements for Grants

***Context:*** During an examination of 40 patient accounts receiving sliding fee discounts, the following exceptions were noted:

<u>Description</u>	<u>Number of Exceptions</u>
Patient received incorrect discount due to clerical error resulting in incorrect account balances	3

***Cause:*** The above exceptions resulted primarily from failure to follow established policies and procedures related to making sliding fee eligibility determinations.

***Effect:*** The weakness in internal control over patient eligibility could result in incorrect eligibility determinations and loss of revenue.

***Recommendation:*** We recommend that the patient eligibility personnel be trained to follow established eligibility policies and procedures and periodic audits of patient financial data should be performed to ensure compliance with established procedures. Retraining of patient eligibility personnel should be performed on a regular basis.

***Auditee's Response and Corrective Action Plan:*** Management concurs with the above audit finding. Personnel will be trained to follow the Organization's policy and procedures relating to sliding fee eligibility in order to meet the full compliance requirements of OMB Circular A-133 Compliance Supplement. An internal audit will be conducted monthly to ensure compliance with the sliding fee policy.

***Contact Person:*** Chris Dixon, CFO

***Anticipated Date of Completion:*** October 31, 2012

**SANDHILLS MEDICAL FOUNDATION, INC.**

Schedule of Findings and Questioned Costs

For the Year Ended May 31, 2012

**Finding: 2012-C3- Patient Income-Ryan White Program**

**Federal Program Identification:** U.S. Department of Health and Human Services  
Ryan White Title III, CFDA 93.918  
Grant No.H76HA 00813

**Condition:** Documentation is not being maintained in the Ryan White program to ensure that patient's medical charges (patient's responsibility to pay) are no more than the applicable percentage (0%, 5%, 7%, 10%) of the patient's income in any calendar year.

**Criteria:** OMB Circular A-133 Compliance Supplement, Ryan White compliance requirements

**Context:** During an examination of 30 patient accounts receiving Ryan White services, 10 patients were charged for services without documentation to ensure the patient had not exceeded the medical expenditure limit based on Ryan White compliance requirements.

**Cause:** Procedures are not developed to ensure that patients' medical charges do not exceed Ryan White compliance amounts in a calendar year.

**Effect:** The weakness in this control could result in patients being charged more the applicable percentage allowed by Ryan White compliance requirements.

**Recommendation:** We recommend the following changes to the Ryan White Program to improve program compliance:

1. Eligibility should be updated on a calendar year basis. January of each year the patient's annual eligibility should be documented.
2. The Ryan White certification letter should document the following:
  - Annual income
  - Expected payment due on each visit
  - The maximum annual amount of medical expense the patient is required to pay
  - Patient and case workers signature and date
  - Notification of certification expiration date December 31

**Auditee's Response and Corrective Action Plan:** Management concurs with the above audit finding. Procedures will be established to implement the corrective actions recommended above.

**Contact Person:** Chris Dixon, CFO

**Anticipated Date of Completion:** October 31, 2012

**Questioned Costs: None Reported**



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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

The Governing Board  
Sandhills Medical Foundation, Inc.

We have audited the financial statements of Sandhills Medical Foundation, Inc. as of and for the year ended May 31, 2012, and have issued our report thereon dated October 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Sandhills Medical Foundation, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sandhills Medical Foundation, 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 Sandhills Medical Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sandhills Medical Foundation, Inc.'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management of employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sandhills Medical Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

We noted certain matters that were reported to management of Sandhills Medical Foundation, Inc.'s in a separate letter dated October 8, 2012.

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

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

October 8, 2012



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

The Governing Board  
Sandhills Medical Foundation, Inc.

**Compliance**

We have audited Sandhills Medical Foundation, 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 Sandhills Medical Foundation, Inc.'s major federal programs for the year ended May 31, 2012. Sandhills Medical Foundation, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Sandhills Medical Foundation, Inc.'s management. Our responsibility is to express an opinion on Sandhills Medical Foundation, 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 Sandhills Medical Foundation, 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 Sandhills Medical Foundation, Inc.'s compliance with those requirements.

As described in item 2012-C1 through 2012-C3 in the accompanying schedule of findings and questioned costs, Sandhills Medical Foundation, Inc. did not comply with requirements regarding eligibility, reporting, and income that are applicable to its Health Center Cluster Program, ARRA Capital improvement Program, and Ryan White Program respectively. Compliance with such requirements is necessary, in our opinion, for Sandhills Medical Foundation, Inc. to comply with the requirements applicable to that program.

**In our opinion, except for the noncompliance described in the preceding paragraph, Sandhills Medical Foundation, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2012.**

Internal Control Over Compliance

Management of Sandhills Medical Foundation, 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 Sandhills Medical Foundation, 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 purposes of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sandhills Medical Foundation, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a 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. **We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-C1 through 2012-C3 to be material weaknesses.**

Sandhills Medical Foundation, 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 Sandhills Medical Foundation, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.

October 8, 2012



**SANDHILLS MEDICAL FOUNDATION, INC.**

Summary Schedule of Prior Year Audit Findings

May 31, 2012

**Prior Year Finding 2011-01**

The Organization submitted several quarterly ARRA reports with incorrect ARRA expenditures and/or grant receipts and one report was not submitted.

**Status of Finding** – Unresolved. Reported as current year finding 2012-C1.