

**AARON E. HENRY COMMUNITY HEALTH  
CARE SERVICES, INC.**

**AUDITED FINANCIAL STATEMENTS**

**MAY 31, 2014  
(With Summarized Financial  
Information for 2013)**

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
 May 31, 2014  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Aaron E. Henry Community Health Care Services, Inc.  
Clarksdale, Mississippi

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Aaron E. Henry Community Health Care Services, Inc., (a nonprofit organization) which comprise the statement of financial position as of May 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 *Governmental 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Clarksdale, Mississippi

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aaron E. Henry Community Health Care Services, Inc., as of May 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited Aaron E. Henry Community Health Care Services, Inc.'s 2013 financial statements, and our report dated February 17, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other-Matters**

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and 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 as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2015, on our consideration of Aaron E. Henry Community Health Care Services, 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* in considering Aaron E. Henry Community Health Care Services, Inc.'s internal control over financial reporting and compliance.

*Barr, Fing, White & Co.*

Ridgeland, Mississippi  
February 20, 2015

## EXHIBIT I

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Statement of Financial Position  
May 31, 2014  
(With Summarized Financial Information for 2013)

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 45,077	\$ 7,710
Patient care receivables, less allowance of \$1,979,199 for doubtful accounts	722,697	307,403
Grants and contracts receivable	378,680	321,613
Other receivable	21,970	19,865
Prepaid expenses	<u>500</u>	<u>3,638</u>
Total Current Assets	<u>1,168,924</u>	<u>660,229</u>
Fixed Assets:		
Land	131,926	116,638
Construction In Progress	173,162	607,963
Building and improvements	5,139,982	4,386,816
Leasehold improvements	70,555	70,555
Furniture and equipment	1,658,836	1,658,836
Vehicles	<u>3,459,595</u>	<u>3,459,595</u>
	10,634,056	10,300,403
Less: Accumulated depreciation	<u>(6,649,645)</u>	<u>(6,281,080)</u>
Net Fixed Assets	<u>3,984,411</u>	<u>4,019,323</u>
OTHER ASSETS		
Deposits	<u>115,315</u>	<u>115,315</u>
TOTAL ASSETS	<u>\$ 5,268,650</u>	<u>\$ 4,794,867</u>

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

EXHIBIT I  
(Continued)

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Statement of Financial Position  
May 31, 2014  
(With Summarized Financial Information for 2013)

<u>LIABILITIES AND NET ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Accounts payable, trade	\$ 663,921	\$ 516,028
Payroll taxes payable	428,467	439,467
Other payroll deductions	50,069	42,651
Salaries payable	175,182	150,729
Accrued annual leave	241,838	238,169
Line of credit payable	65,344	70,344
Mortgage & notes payable, current portion	375,586	249,828
Other liabilities	-	5,495
Total Current Liabilities:	<u>2,000,407</u>	<u>1,712,711</u>
Long-Term Liabilities		
Notes payable, net of current portion	67,033	433,439
Mortgage payable, net of current portion	<u>1,659,279</u>	<u>1,689,318</u>
Total Long-Term Liabilities	<u>1,726,312</u>	<u>2,122,757</u>
Total Liabilities	<u>3,726,719</u>	<u>3,835,468</u>
Net Assets:		
Unrestricted		
Operating	(1,353,330)	(2,080,773)
Fixed assets	<u>2,895,261</u>	<u>3,040,172</u>
Total Net Assets	<u>1,541,931</u>	<u>959,399</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,268,650</u>	<u>\$ 4,794,867</u>

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

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Statement of Activities  
For the Year Ended May 31, 2014  
(With Summarized Financial Information for 2013)

	<u>CURRENT UNRESTRICTED</u>		<u>2014</u>	<u>2013</u>
	<u>Operations</u>	<u>Fixed Assets</u>		
<b>SUPPORT AND REVENUES</b>				
Support:				
Grants and contracts	\$ 3,691,645	-	\$ 3,691,645	\$ 4,558,266
Total Support	<u>3,691,645</u>	<u>-</u>	<u>3,691,645</u>	<u>4,558,266</u>
Revenue:				
Health care services, net of charity, bad debts and contractual adjustments of \$(1,868,348)	3,042,676	-	3,042,676	2,495,010
Contractual income	398,494	-	398,494	291,933
Farebox income	154,673	-	154,673	152,800
Interest income	7	-	7	2
Other income	718,757	-	718,757	482,502
Total Revenue	<u>4,314,607</u>	<u>-</u>	<u>4,314,607</u>	<u>3,422,247</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>8,006,252</u>	<u>-</u>	<u>8,006,252</u>	<u>7,980,513</u>
<b>EXPENSES</b>				
Program Services				
Health care services	3,169,614	-	3,169,614	3,128,917
Transportation services	1,212,040	111,788	1,323,828	1,474,872
Community services	444,786	-	444,786	297,400
Total Program Services	<u>4,826,440</u>	<u>111,788</u>	<u>4,938,228</u>	<u>4,901,189</u>
Supporting Services				
Management and general	2,209,127	256,777	2,465,904	2,310,480
Total Supporting Services	<u>2,209,127</u>	<u>256,777</u>	<u>2,465,904</u>	<u>2,310,480</u>
<b>TOTAL EXPENSES</b>	<u>7,035,567</u>	<u>368,565</u>	<u>7,404,132</u>	<u>7,211,669</u>
Change in net Assets	<u>970,685</u>	<u>(368,565)</u>	<u>602,120</u>	<u>768,844</u>
Net Assets, Beginning of Year	(2,080,773)	3,040,172	959,399	156,876
Prior period adjustment	(19,588)	-	(19,588)	33,679
Net Assets, as restated	<u>(2,100,361)</u>	<u>3,040,172</u>	<u>939,811</u>	<u>190,555</u>
Other changes in net assets				
Acquisition of fixed assets	(223,654)	223,654	-	-
	<u>(223,654)</u>	<u>223,654</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ (1,353,330)</u>	<u>2,895,261</u>	<u>\$ 1,541,931</u>	<u>\$ 959,399</u>

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

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Statement of Cash Flows  
For the Year Ended May 31, 2014  
(With Summarized Financial Information for 2013)

## CASH FLOWS USED FOR OPERATING ACTIVITIES:

	<u>2014</u>	<u>2013</u>
Changes in Net Assets	\$ 602,120	\$ 768,844
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	368,565	386,633
Prior period adjustment	(19,588)	33,679
Decrease (increase) in:		
Patient care receivables	(415,294)	(60,324)
Grants and contracts receivable	(57,067)	(83,329)
Other receivable	(2,105)	(4,827)
Prepaid expenses	3,138	(3,638)
Increase (decrease) in:		
Accounts payable	147,893	157,494
Payroll taxes payable	(11,000)	(184,799)
Other payroll deductions	7,414	1,394
Salaries payable	24,453	(3,937)
Accrued annual leave	3,668	(12,435)
Other liabilities	(5,490)	(3,581)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>646,707</u>	<u>991,174</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	<u>(333,654)</u>	<u>(980,686)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(333,654)</u>	<u>(980,686)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) borrowings on line of credit	(5,000)	-
Proceeds from indebtedness	-	220,175
Principal reduction in mortgage and notes payable	<u>(270,686)</u>	<u>(247,516)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(275,686)</u>	<u>(27,341)</u>
NET (DECREASE) INCREASE IN CASH	37,367	(16,853)
CASH, BEGINNING OF YEAR	<u>7,710</u>	<u>24,563</u>
CASH, END OF YEAR	<u>\$ 45,077</u>	<u>\$ 7,710</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid during the year for:		
Interest expense	<u>\$ 91,761</u>	<u>\$ 112,133</u>

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

## EXHIBIT IV

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
 Schedule of Functional Expenses  
 For the Year Ended May 31, 2014  
 (With Summarized Financial Information for 2013)

	PROGRAM SERVICES				SUPPORTING SERVICES		2014	2013
	Health Care Services	Transportation Services	Community Services	Total Program Services	Management and General			
Personnel	\$ 2,257,669	613,206	350,038	3,220,913	894,455	\$ 4,115,368	\$ 4,122,071	
Payroll taxes	140,408	40,637	19,813	200,858	68,764	269,622	269,317	
Fringe benefits	198,292	69,574	23,543	291,409	212,681	504,090	432,906	
Travel	21,997	16,498	12,256	50,751	43,593	94,344	61,433	
Supplies	318,674	6,382	9,883	334,939	142,176	477,115	359,759	
Contractual	190,003	10,263	20,000	220,266	159,721	379,987	290,805	
Fuel costs	500	247,262	-	247,762	-	247,762	276,037	
Legal and accounting	16,658	15,000	-	31,658	360	32,018	28,604	
Dues and subscriptions	-	570	-	570	18,641	19,211	25,906	
Utilities	2,297	-	-	2,297	82,740	85,037	77,441	
Repairs and maint.	478	710	-	1,188	202,706	203,894	175,041	
Insurance	7,447	124,948	-	132,395	73,019	205,414	207,688	
Staff recruitment	-	-	-	-	27,575	27,575	13,231	
Advertisement	-	162	-	162	10,907	11,069	5,097	
Uniform rental	-	8,274	-	8,274	1,422	9,696	9,274	
Continuing education	-	-	1,500	1,500	-	1,500	-	
Communications	5,710	16,065	6,125	27,900	108,045	135,945	135,506	
Property taxes	9,304	-	-	9,304	-	9,304	4,578	
Pest control	-	-	-	-	5,762	5,762	6,896	
Space cost	-	-	-	-	4,290	4,290	3,797	
Interest	-	-	-	-	91,761	91,761	112,133	
Bank charges	-	2,570	1,628	4,198	15,600	19,798	14,072	
Garbage collections	-	-	-	-	11,206	11,206	12,242	
Board expenses	-	-	-	-	3,335	3,335	4,239	
Vehicle repair	-	39,844	-	39,844	-	39,844	59,830	
Penalties and interest	-	-	-	-	9,982	9,982	103,517	
Other	177	75	-	252	20,386	20,638	13,616	
Total expenses before depreciation	3,169,614	1,212,040	444,786	4,826,440	2,209,127	7,035,567	6,825,036	
Depreciation	-	111,788	-	111,788	256,777	368,565	386,633	
Total Expenses	\$ 3,169,614	1,323,828	444,786	4,938,228	2,465,904	\$ 7,404,132	\$ 7,211,669	

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

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

NOTE 1 - ABOUT THE ORGANIZATION

Aaron E. Henry Community Health Care Services, Inc., a non-profit corporation, was incorporated in the State of Mississippi on April 17, 1979, for the purpose of providing physical health and social service care for residents in the area. The Center is also dedicated to the purposes of encouraging and sponsoring charitable, educational and civic improvement endeavors.

The fiscal year of Aaron E. Henry Community Health Services, Inc. is June 1 to May 31.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Basis of Accounting - The financial statements of Aaron E. Henry Community Health Care Services, Inc., are presented on the accrual basis of accounting.
- B. Basis of Presentation - 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.
- C. Cash and Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less that are not restricted for specific purposes.
- D. Donated Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support 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 support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations 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.
- E. Donated Services - Donated services are recognized as contributions in accordance with FASB Accounting Standards Codification 958, Accounting for Contributions Received and Contributions Made, 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 Center.
- F. Expense Allocation - The cost of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. Fund Accounting - The accounts of the Organization are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.
- H. Property and Equipment - Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Acquisitions in excess of \$5,000 are capitalized. Property, furniture, equipment and buildings are depreciated over their useful lives ranging from 5 to 40 years.
- Acquisition of non-expendable property are treated as expenditures of the program in the period the costs are incurred, and assets values are reported in the fixed asset account group. Property acquired is considered owned by the Organization while used in the program for which it was purchased or in future authorized programs. However, the Federal Government has a reversionary interest in property purchased or acquired with federal funds; its disposition as well as the ownership of any proceeds therefrom is subjected to the regulations of the funding source.
- I. Employees' Annual Leave - The Organization charges annual leave earned by employees which has not been used by them at the end of a period to the period that the leave is earned.
- J. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- K. Patient Service Fees - Revenue for services rendered to patients are recorded at standard rates established by the Organization. The difference between standard rates and the amounts collected from third-party payors and patients qualifying as Poverty Patients is charged as an adjustment to gross revenues.
- L. Allowance for Doubtful Accounts - The Organization provides an allowance for doubtful accounts based upon a review of outstanding patient receivables, historical collection information and existing economic conditions. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

NOTE 3 - FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Center in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: the carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

The estimated fair values of the Center's financial instruments, none of which are held for trading purposes, are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 45,077	\$ 45,077
Financial Liabilities:		
Mortgage and notes payable	\$2,101,898	\$2,101,898
Line of credit payable	\$ 65,344	\$ 65,344

NOTE 4 - CONCENTRATIONS OF CREDIT RISK ARISING FROM DEPOSITS IN EXCESS OF INSURED LIMITS

The Organization maintains its cash balances in three (3) financial institutions located in Mississippi. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At May 31, 2014, the Organization's cash balances were fully insured.

NOTE 5 - PATIENT RECEIVABLES RECEIVABLE AND RELATED ALLOWANCE FOR DOUBTFUL ACCOUNTS

Patient accounts receivable, prior to adjustment for the allowance for doubtful accounts, is summarized as follows at May 31, 2014:

<u>Accounts receivable:</u>	<u>Amount</u>
Patients	\$ 1,778,780
Government	486,053
Other	437,063
	<u>\$ 2,701,896</u>

Allowance for doubtful accounts is summarized as follows at May 31, 2014

<u>Allowance :</u>	<u>Amount</u>
Patients	\$ 1,255,704
All Other	723,495
	<u>\$ 1,979,199</u>

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

NOTE 6 - PATIENT SERVICE REVENUE

A summary of patient service revenue, net of contractual adjustments and discounts, is as follows at May 31, 2014:

Patient Service Revenue	Amount
Patient Service Revenue	\$ 4,911,024
Less: Contractual adjustment under third-party reimbursement program and discounts	(1,777,484)
Provision for bad debts	(90,864)
Net Patient Service Revenue	\$ 3,042,676

NOTE 7 - PATIENT RECEIVABLES

The amount of net patient care receivable at May 31, 2014 was \$2,701,896. Management feels that the actual collectability of the accounts receivable from patients will be realized in the amount as shown in the statement of financial position.

NOTE 8 - LITIGATION

In the ordinary course of its business, Aaron E. Henry Community Health Care Services, Inc. is a party to claims and legal actions by enrollees, providers and others. After consulting with legal counsel, the Company is of the opinion that any liability that may ultimately be incurred as a result of these claims, legal actions, audits or investigations will not have a material adverse effect on the financial position or results of operations of Aaron E. Henry Community Health Care Services, Inc.

NOTE 9 - FIXED ASSETS

The following is a summary schedule of fixed assets and related accumulated depreciation carried in the general property fund.

<u>Assets</u>	
Land	\$ 131,926
Construction In Progress	173,162
Buildings and Improvements	5,139,982
Leasehold Improvements	70,555
Furniture and Equipment	1,658,836
Vehicles	3,459,595
Total Property and Equipment	10,634,056
Less: Accumulated Depreciation	(6,649,645)
Net Property and Equipment	\$ 3,984,411

Depreciation expense was \$368,565 for the year ended May 31, 2014.

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

NOTE 10 - CORPORATE INCOME TAXES

The Organization is exempt from corporate Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from Louisiana income taxes. Therefore, no provision has been made for Federal or Mississippi corporate income taxes in the accompanying financial statements.

The Organization has adopted recently issued accounting principles related to uncertain tax positions for the year ended May 31, 2014 and has evaluated its tax positions taken for all open tax years. Currently, 2011, 2012 and 2013 tax years are open and subject to examination by the Internal Revenue Service; however, the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

Based on the evaluation of the Organization's tax positions, management believes all positions taken would be upheld under an examination; therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended May 31, 2014.

NOTE 11 - CONSTRUCTION AND COMMITMENTS

The Center has under construction the following projects:

Description of Project	Estimated Cost of Project	Balance 5/31/13	Additions	Balance 5/31/14	Estimated Cost to Complete
Coldwater Facility Construction	\$ 471,437	-	173,162	173,162	\$ 298,275
TOTALS	<u>\$ 471,437</u>	<u>-</u>	<u>173,162</u>	<u>173,162</u>	<u>\$ 298,275</u>

NOTE 12 - ADVERTISING

Aaron E. Henry Community Health Care Services, Inc. expenses the cost of advertising as the expense is incurred. During 2013, advertising costs totaled \$11,068.

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

NOTE 13 - SUMMARY OF FUNDING AND SUPPORT

Aaron E. Henry Community Health Care Services, Inc's operations are funded through restricted grants from HHS. Other grants and contracts are received from state and local government agencies. The grants and contracts for the current period are shown below.

Source	Grant Number	Amount
U.S. Dept of Health and Human Services (Community Health Center Cluster)	H80CS00480	\$ 1,961,005
Section 5311 Renovation Grant	502642	63,429
Children's Health Fund	N/A	127,897
State of Mississippi Department of Health (MQHC Grant)	N/A	215,783
State of Mississippi Department of Health (WIC Grant)	N/A	138,900
State of Mississippi Department of Health - Breast & Cervical	N/A	933
State of Mississippi Department of Transportation (Section 5311 Grant)	502605 / 502735	639,600
U. S. Dept of Health and Human Services - Ryan White Grant	H76HA25701	331,462
State of MS Dept of Transportation - Multi-Modal Funds	N/A	26,458
North Delta Planning & Development District (Title III & Title XX Transportation)	AH-2014	11,178
North Delta Planning & Development District (Section 5309 Rural Transportation)	N/A	80,000
W. K. Kellogg Foundation Grant	N/A	95,000
		<u>\$ 3,691,645</u>

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

NOTE 14 - LINE OF CREDIT PAYABLE

The Agency has an operating line of credit with Region's Bank. The limit on this line-of-credit is \$75,000. At May 31, 2014, \$65,344 was outstanding under this agreement.

NOTE 15 - LONG-TERM NOTES PAYABLE

Notes payable consist of the following at May 31, 2014:

4.50% USDA note, dated September 5, 2005, payable in monthly payments of \$6,512 which includes principal and interest; matures March, 2040, collateralized by buildings	\$ 1,180,490
6.8% Region's Bank note, dated March 22, 2010 payable in monthly payments of \$4,402 which includes principal and interest; matures March 22, 2015, collateralized by land and buildings	259,234
10.75% U.S. Dept. of Health and Human Services note, dated June 1, 2011 payable in monthly payments of \$13,740 which includes principal and interest; matures November 2014, collateralized by HHS drawdowns	41,420
5% Region's Bank note, dated June 25, 2012 payable in monthly payments of \$4,162 which includes principal and interest; matures June 25, 2017, collateralized by land and buildings	141,965
4.375% USDA note, dated September 23, 2009, payable in monthly payments of \$2,328 which includes principal and interest; matures September 23, 2049, collateralized by building	<u>478,789</u>
TOTAL NOTES PAYABLE	2,101,898
Less: Current Maturities	<u>(375,586)</u>
TOTAL LONG-TERM NOTES PAYABLE	<u>\$ 1,726,312</u>

Maturities of long-term debt are as follows:

2015	375,586
2016	78,595
2017	82,438
2018	38,873
2019	37,173
Thereafter	<u>1,489,233</u>
Totals	<u>\$ 2,101,898</u>

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to the Financial Statements  
May 31, 2014

Note 16 - PAYROLL TAXES PAYABLE

The Center entered into a settlement agreement with the Internal Revenue Service regarding prior year unpaid payroll taxes. This settlement requires the Center to make monthly payments of \$2,750, beginning in February 2014, until the balance is paid in full. At May 31, 2014, the outstanding balance remaining is \$428,467.

NOTE 17 - CONCENTRATION OF CONTRIBUTIONS OR GRANTS

Approximately 29% of the Organization's funding is provided by direct grants from the U. S. Department of Health and Human Services.

NOTE 18 - GRANT BALANCES AND GRANT CONDITIONS

The Organization has responsibility for expending grant funds in accordance with specified instructions from its funding sources. Any deficits resulting from over expenditures and/or questioned costs are the responsibility of the Organization.

Any unexpended grant funds at the end of the grant period may be refundable or carried over to the following period at the discretion of the funding sources. Notwithstanding the audits by independent certified public accountants, all costs included in this report remain subject to audit by the agencies providing financial support within the limits of the Single Audit Act of 1996, as amended. The determination as to whether costs will be allowable or unallowable under the grants will be made by representatives of the funding sources having authority to make and enforce contracts.

NOTE 19 - COMPARATIVE FINANCIAL STATEMENT INFORMATION

The financial statements include certain prior-year summarized information in total but not by net asset class. Prior-year information is not provided for the notes to the financial statements. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended May 31, 2013, from which the summarized information was derived.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 20, 2015, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY INFORMATION

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Schedule of Expenditures of Federal Awards  
For the Year Ended May 31, 2014

Federal Grant/ Pass-Through Grantor Program Title	Federal Number	Pass-Through Grant Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Health Resource & Service Administration Bureau of Primary Health Care			
Direct Grants:			
Health Centers Cluster			
Consolidated Health Centers	93.224	H80CS00480	\$ 699,312
Affordable Care Act Grants for New and Expanded Services Under the Health Care Program	93.527	H80CS00480	<u>1,261,693</u>
Total Health Centers Cluster			<u>1,961,005</u>
Direct Program:			
Outpatient Early Intervention Services with Respect to HIV Disease - Ryan White	93.918	7H76HA25701-01-00	6,544
Outpatient Early Intervention Services with Respect to HIV Disease - Ryan White	93.918	6H76HA25701-02-02	<u>324,918</u>
Total Outpatient Early Intervention			<u>331,462</u>
Pass through State of MS Dept. of Health: Pass through North Mississippi Planning & Development District			
Title III-B Transportation	93.052	AH-2013	<u>11,178</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>2,303,645</u>
<u>U. S. Department of Agriculture</u>			
Pass Through State of MS Dept. of Health			
Special Supplement Food Program for Women, Infants and Children	10.577	N/A	<u>138,900</u>

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended May 31, 2014

Federal Grant/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grant Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Pass through State of Mississippi Dept. of Transportation			
Section 5311 Rural Transportation	20.509	502605	180,489
Section 5311 Rural Transportation	20.509	502642	63,429
Section 5311 Rural Transportation	20.509	502735	<u>459,111</u>
			<u>703,029</u>
 TOTAL U.S. DEPARTMENT OF TRANSPORTATION			 <u>703,029</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ <u><u>3,145,574</u></u>

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended May 31, 2014

**BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the schedule) has been generally prepared on the accrual basis of accounting. The purpose of the schedule is to present a summary of those activities represented by Aaron E. Henry Community Health Care Services, Inc., for the year ended May 31, 2014, which have been financed by the U.S. Government (federal awards). For the purpose of the schedule, federal awards include all federal assistance and procurement relationships entered into directly between Aaron E. Henry Community Health Care Services, Inc., it is not intended to and does not present either the financial position or the changes in net assets of Aaron E. Henry Community Health Care Services, Inc.



INDEPENDENT AUDITOR'S 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  
Aaron E. Henry Community Health Care Services, Inc.  
Clarksdale, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Aaron E. Henry Community Health Care Services, Inc., which comprise the statement of financial position as of May 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Aaron E. Henry Community Health Care Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aaron E. Henry Community Health Care Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Aaron E. Henry Community Health Care Services, Inc.'s internal control.

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 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not considered to be material weaknesses. . Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency and is listed as finding 2014-1.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aaron E. Henry Community Health Care Services, Inc.'s financial statements are free from 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*.

### Aaron E. Henry Community Health Care Service's Response to Finding

Aaron E. Henry Community Health Care Services, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Aaron E. Henry Community Health Care Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Barr, Fry, White & Co.*  
Ridgeland, Mississippi  
February 20, 2015



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of  
Aaron E. Henry Community Health Care Services, Inc.  
Clarksdale, Mississippi

**Report on Compliance for Each Major Federal Program**

We have audited Aaron E. Henry Community Health Care 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 Aaron E. Henry Community Health Care Services, Inc.'s major federal programs for the year ended May 31, 2014. Aaron E. Henry Community Health Care Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Aaron E. Henry Community Health Care Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 Aaron E. Henry Community Health Care 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Aaron E. Henry Community Health Care Services, Inc. compliance.

**Basis for Qualified Opinion on CFDA#93.918, Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease**

As described in the accompanying schedule of findings and questioned costs, Aaron E. Henry Community Health Care Services, Inc. did not comply with requirements regarding program income that is applicable to its Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease Grant. Compliance with such requirements is necessary, in our opinion, for Aaron E. Henry Community Health Care Services, Inc. to comply with the requirements applicable to those programs.

### **Qualified Opinion on CFDA#93.918, Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease**

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, Aaron E. Henry Community Health Care Services, Inc. complied, in all material respects, with the types of 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, 2014.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, Aaron E. Henry Community Health Care Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs for the year ended May 31, 2014.

### **Other Matters**

Aaron E. Henry Community Health Care Services, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Aaron E. Henry Community Health Care Services, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Aaron E. Henry Community Health Care Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aaron E. Henry Community Health Care Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance 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 Aaron E. Henry Community Health Care 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 of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Barr, Fing, White & Co.*  
Ridgeland, Mississippi  
February 20, 2015

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Summary Schedule of Prior Audit Findings  
Year Ended May 31, 2014

There were no audit findings for the year ended May 31, 2013.

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
 Schedule of Findings and Questioned Costs  
 Year Ended May 31, 2014

Section 1: Summary of Auditor's Results

- |    |   |            |
|----|---|------------|
| 1. | Type of auditor's report issued on the financial statements.                              | Unmodified |
| 2. | Material noncompliance relating to the financial statements.                              | None       |
| 3. | Internal control over financial reporting:  |            |
|    | a. Material weaknesses identified?  | None       |
|    | b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes        |

Federal Awards:

- |    |   |               |
|----|---|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs<br>Unmodified for all major programs except for Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease |               |
| 5. | Internal control over major programs:   |               |
|    | a. Material weaknesses identified?  | No            |
|    | b. Significant deficiencies identified that are not considered to be material weaknesses?   | None Reported |
| 6. | Any audit findings reported as required by Section __.510(a) of Circular A-133?   | Yes           |
| 7. | Federal programs identified as major programs:  |               |

Name of Program	CFDA NUMBER
Health Centers Cluster	
Consolidated Health Centers	93.224
Affordable Care Act Grants for New and Expanded Services Under the Health Care Program	93.527
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918

- |    |  |  |
|----|--|--|
| 8. | The dollar threshold used to distinguish between type A and Type B programs: \$300,000 |  |
| 9. | Auditee did not qualify as a low-risk auditee.   |  |

Section 2 - Findings - Financial Statements Audit

**2014-1**

**Unrecorded Depreciation Expense**

**Condition**

During our testing of fixed assets, it was noted that depreciation expense was not recorded on the general ledger during the year.

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Schedule of Findings and Questioned Costs  
Year Ended May 31, 2014

**Cause**

Fixed asset computer module crashed and the client did not manually compute depreciation expense and record in the general ledger

**Effect**

Assets were overstated and expenditures were understated

**Criteria**

The Organization's Accounting and Procedures Manual states that "All tangible personal property with a useful life of more than one year will be capitalized and depreciated over its useful life using the straight-line method of depreciation.

**Auditor's Recommendation**

We strongly suggest that an adequate back up system is maintained for the fixed asset software module and that a manual spreadsheet be maintained in the event that the software system is unavailable. In addition, in order to provide more accurate monthly financial statements, we recommend that depreciation be recorded on a monthly basis and be recorded based on an estimated annual basis if the actual calculations are unavailable.

**Section 3 - Findings and Questioned Costs - Major Federal Award Program Audit**

**FINDING 2014-2**

**U. S. Department of Health and Human Services  
CFDA #93.918, Grants to Provide Outpatient Early Intervention Services  
with Respect to HIV Disease**

**Condition**

During our testing of program income and the selection of participant files, we noted the following:

1. No documentation to support proof of identity for 18 out of 25 participants
2. No documentation to support proof of income for 5 out of 25 participants

**Cause**

Failure to follow program policies and procedures

**Effect**

No supporting documentation to support proof of identity or proof of income

**Criteria**

The policies and procedures of the Ryan White grant program require that proof of identity be maintained and included in the patient file during the visit to the clinic and that proof of income is verified via a letter from a family member, friend or spouse.

AARON E. HENRY COMMUNITY HEALTH CARE SERVICES, INC.  
Schedule of Findings and Questioned Costs  
Year Ended May 31, 2014

**Auditor's Recommendation**

The Organization should adopt internal administrative controls to ensure that the polices and procedures of the Ryan White grant program are adhered to and the proper supporting documentation is maintained in the patient files.



AURELIA JONES-TAYLOR  
Chief Executive Officer

WILLIAM L. BOOKER, MD  
Chief Medical Officer

February 27, 2015

Banks, Finley, White & Company  
308 Highland Park Cove  
Ridgeland, MS 39157

RE: Response to FY 2014 Audit Findings

Finding 2014-1

Condition

During our testing of fixed assets, it was noted that depreciation expense was not recorded on the general ledger during the year.

Response

Prior to this year, the agency had the fixed asset software located on a different server from the accounting software. These systems were never merged because the server crashed prior to implementation. Staff was required to search old computer hard drives to recover historical data which was not complete at the time of the audit. This has been rectified. Currently, fixed asset is a module in Accufund, the new accounting system. The agency will also allow Accufund to host the accounting software offsite to ensure that the system has an adequate backup and has all the current updates. Currently, the accounting system has been updated and depreciation will be recorded monthly in the general ledger.

Finding 2014-2

Condition

During our testing of program income and the selection of participant files, we noted the following:

1. No documentation to support proof of identity for 18 out of 25 participants
2. No documentation to support proof of income for 5 out of 25 participants

ADMINISTRATION  
Post Office Drawer 1216  
510 Highway 322  
Clarksdale, MS 38614  
662.624.4292 Voice  
662.624.4354 Fax

BATESVILLE CLINIC  
216 Highway 51 North  
Batesville, MS 38606  
662.563.1858 Voice  
662.563.0617 Fax  
662.592.4526 Deaf/Voice

CLARKSDALE CLINIC  
800 Ohio Street  
Clarksdale, MS 38614  
662.624.2504 Voice  
662.627.3629 Fax  
662.624.2778 Deaf/Voice

TUNICA CLINIC  
Post Office Box 1823  
1820 Peabody Street  
Tunica, MS 38676  
662.363.3656 Voice  
662.363.3789 Fax

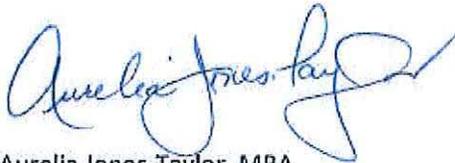
Response

Aaron E. Henry's policy and procedure is to collect consumer proof of identity at the time of enrollment into the health center for services. The agency has the documentation to support proof of identity for the 18 patients aforementioned however; the identifications weren't submitted to the auditors. The auditors discussed the missing documentation with the Ryan White Project Director instead of the CFO. Unfortunately, this lapse in communication within the agency resulted in a failure to correct the errors promptly prior to the completion of the auditors' field work.

The agency's policy is to collect proof of income from all patients. Proof of income is requested at the time of service however if it is not received at that time, the consumer has 48 hours to submit it to the clinic. There was a lapse in communication between the Ryan White Director and front desk staff that resulted in the missing information. This has been corrected to ensure the registrar collects all income related information prior to meeting with Ryan White case managers. The consumer doesn't qualify for the sliding fee program without the proof of income.

If any additional information is required, please do not hesitate to contact me at (662) 624-4292, ext. 1119 or [ataylor@aeHchc.org](mailto:ataylor@aeHchc.org).

Sincerely,



Aurelia Jones-Taylor, MBA  
Chief Executive Officer