

**SOUTHEAST MISSISSIPPI RURAL HEALTH
INITIATIVE, INC.**

Financial Statements

January 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

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Independent Auditor's Report

The Governing Board
Southeast Mississippi Rural Health Initiative, Inc.

We have audited the accompanying statement of financial position of Southeast Mississippi Rural Health Initiative, Inc. (the Organization) as of January 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 Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, Inc. as of January 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

May 24, 2012

Terry L. Horne CPA

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Statement of Financial Position

January 31, 2012 and 2011

ASSETS		
	<u>2012</u>	<u>2011</u>
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 1,736,222	\$ 834,141
Accounts Receivable Net (Note 5)	765,112	673,457
Other Receivables	156,243	60,681
Inventory (Note 6)	427,617	363,783
Prepaid Expenses	78,262	113,205
<i>Total Current Assets</i>	<u>3,163,456</u>	<u>2,045,267</u>
<i>Property and Equipment</i>		
Property and Equipment, at cost, net of accumulated depreciation (Note 7)		
<i>Total Property and Equipment</i>	6,555,980	6,778,105
<i>Other Assets -</i>		
Investment (Note 3)	1,084,003	1,046,295
Deposits	7,728	6,653
<i>Total Other Assets</i>	<u>1,091,731</u>	<u>1,052,948</u>
Total Assets	<u>\$ 10,811,167</u>	<u>\$ 9,876,320</u>
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 457,481	\$ 273,195
Deferred Revenue	55,000	0
Accrued Compensated Absences	236,546	212,367
Payroll Liabilities	430,890	374,325
Current Portion of Long Term Debt (Note 8)	115,263	148,744
<i>Total Current Liabilities</i>	<u>1,295,180</u>	<u>1,008,631</u>
<i>Long-Term Liabilities</i>		
Notes Payable (Note 8)	3,190,973	3,652,644
Less Current Portion of Long Term Debt	(115,263)	(148,744)
<i>Total Long-Term Liabilities</i>	<u>3,075,710</u>	<u>3,503,900</u>
Total Liabilities	<u>4,370,890</u>	<u>4,512,531</u>
Net Assets - Temporarily Restricted (Note 9)	182,025	155,729
Net Assets - Unrestricted	6,258,252	5,208,060
Total Net Assets	6,440,277	5,363,789
Total Liabilities and Net Assets	<u>\$ 10,811,167</u>	<u>\$ 9,876,320</u>

The accompanying notes are an integral part of this financial statement.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Statement of Activities

For the Years Ended January 31, 2012 and 2011

Support and Revenues:

	<u>2012</u>	<u>2011</u>
Net Patient Revenue (Note 10)	\$9,178,833	\$8,862,196
Public Support - U.S. Department of Health and Human Services Operational Grants (Note 12)	5,698,963	5,856,864
Other Grants and Contracts	1,033,145	494,971
Rental Income	-	20,020
<i>Total Support and Revenues</i>	<u>15,910,941</u>	<u>15,234,051</u>

Expenses:

Program Services Expenses	12,732,674	12,061,714
General and Administrative Expenses	2,508,824	2,776,519
<i>Total Expenses</i>	<u>15,241,498</u>	<u>14,838,233</u>
<i>Excess (Deficiency) of Support and Revenues Over Expenses from Operations</i>	669,443	395,818

Other Income and Expenses:

Public Support - U.S. Department of Health and Human Services Non-Operational Grants (Note 12)	367,282	826,383
Interest Income	39,763	35,825
<i>Total Other Income and Expenses</i>	<u>407,045</u>	<u>862,208</u>
<i>Excess (Deficiency) of Support and Revenues Over Expenses</i>	<u>1,076,488</u>	<u>1,258,026</u>

Net Assets

Increase in Unrestricted Net Assets	1,050,192	1,231,730
Increase in Temporarily Restricted Net Assets	26,296	26,296
Beginning of Year	5,363,789	4,105,763
<i>End of the Year</i>	<u><u>\$6,440,277</u></u>	<u><u>\$5,363,789</u></u>

The accompanying notes are an integral part of this financial statement.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Statement of Functional Expenses

For the Years Ended January 31, 2012 and 2011

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2012 Total</u>	<u>2011 Total</u>
Personnel	\$7,255,908	\$942,744	\$8,198,652	\$7,508,123
Fringe Benefits	1,949,482	253,322	2,202,804	2,101,087
Contractual Services	791,660	442,990	1,234,650	1,440,819
Supplies	974,459	254,410	1,228,869	1,343,605
Travel and Training	95,229	138,438	233,667	200,955
Insurance	33,487	3,721	37,208	35,386
Telephone and Postage	273,303	30,367	303,670	339,125
Building Rent	105,275	42,668	147,943	157,000
Utilities	186,851	20,761	207,612	212,420
Depreciation	541,812	135,448	677,260	647,336
Repairs and Maintenance	200,982	63,352	264,334	308,414
Interest Expense	154,747	-	154,747	184,213
Promotion and Recruitment	50,806	78,629	129,435	146,898
Licenses, Dues, Printing and Other	118,674	101,973	220,647	212,852
Total	<u>\$12,732,674</u>	<u>\$2,508,824</u>	<u>\$15,241,498</u>	<u>\$14,838,233</u>

The accompanying notes are an integral part of this financial statement.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Statement of Cash Flows

For the Years Ended January 31, 2012 and 2011

Cash Flows From Operating Activities:

	<u>2012</u>	<u>2011</u>
Excess (Deficiency) of Revenues Over Expenses	\$1,076,488	\$1,258,026
<i>Adjustments to Reconcile Net Income to</i> Cash Provided (Used) by Operations:		
Depreciation	677,260	647,336
(Increase) Decrease in Accounts Receivable	(91,655)	(180,539)
(Increase) Decrease in Other Receivables	(95,562)	(6,083)
(Increase) Decrease in Inventories	(63,834)	2,891
(Increase) Decrease in Prepaid Expenses	34,943	91,185
Increase (Decrease) in Accounts Payable	184,286	(330,223)
Increase (Decrease) in Accrued Expenses	56,565	(31,522)
Increase (Decrease) in Accrued Compensated Absences	24,179	50,946
Increase (Decrease) in Deferred Revenue	55,000	(108,296)
Cash Provided (Used) by Operating Activities:	<u>1,857,670</u>	<u>1,393,721</u>
Cash Flows Provided (Used) by Investing Activities:		
Purchases of Property, Plant and Equipment	(455,135)	(824,252)
(Increase) Decrease in Other Investment Activities	(37,708)	(33,389)
(Increase) Decrease in Deposits	(1,075)	(2,382)
Cash Provided (Used) by Investing Activities	<u>(493,918)</u>	<u>(860,023)</u>
Cash Flows Provided (Used) by Financing Activities:		
Increase (Decrease) in Notes Payable	(461,671)	(524,657)
Cash Provided (Used) by Investing Activities	<u>(461,671)</u>	<u>(524,657)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>902,081</u>	<u>9,041</u>
Cash and Cash Equivalents at Beginning of The Year	834,141	825,100
Cash at End of The Year	<u><u>\$1,736,222</u></u>	<u><u>\$834,141</u></u>
Supplemental Data:		
Interest Paid in Financing Activities	\$ 154,747	\$ 184,213

The accompanying notes are an integral part of this financial statement.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

The financial statements of Southeast Mississippi Rural Health Initiative, 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

Southeast Mississippi Rural Health Initiatives incorporated in the State of Mississippi on May 8, 1979 as a non-profit corporation. The primary purpose of the Organization is to provide efficient primary health care services in the southeast Mississippi community area. The Organization is principally funded by grants from the U.S. Department of Health and Human Services.

(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 and certificates of deposit with maturities of less than 90 days.

(d) Contributions

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributed property and equipment is recorded at fair value at the date of donation.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2012 and 2011

(e) Method of Accounting

The Organization maintains its books and prepares its financial statements on the accrual basis of accounting whereby revenue is recognized when earned and expenses are recorded when incurred.

(f) Patient Service Revenue

Patient service revenue is recorded at amounts that the Organization anticipates collecting from Medicare, Medicaid, insurance, or individuals less a provision for uncollectible accounts. The rates on individuals are determined by an income discount scale, which is based on the Federal poverty level guidelines.

(g) Inventories

Inventories of supplies are stated at the lower of cost (first-in, first-out) or market.

(h) Property and Equipment

Property and equipment is stated at cost, except for donated property and equipment, which is recorded at fair market value at the time of the donation. Depreciation is computed on the straight-line method over estimated useful lives of five to thirty-nine years.

(i) Income Taxes

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

(j) Estimated Amounts

The preparation of financial statements in conformity with generally accepted accounting principles requires the 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.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2012 and 2011

(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 fair values.

(3) Investment

The Organization maintains a financial reserve which is in an annuity held by New York Life Insurance Company. This investment is not guaranteed by federal securities, but is backed by the assets of New York Life Insurance Company. This annuity has a balance of \$1,084,003 as of January 31, 2012.

(4) Concentration of Credit Risk

The Organization maintains its cash accounts primarily with banks located in Mississippi. Total cash balances are insured by the FDIC up to \$250,000 per financial institution. The Organization normally has cash balances on deposit with Trustmark National Bank which exceed the standard FDIC limit, however the majority of these accounts are non-interest bearing and qualify for the unlimited FDIC coverage offered for 2012.

(5) 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 January 31, 2011 and 2012 for patient service fees are:

	<u>2012</u>	<u>2011</u>
Patients Fees	\$1,389,259	\$ 795,174
Less Allowance for Uncollectible Accounts	<u>(624,147)</u>	<u>(121,717)</u>
Accounts Receivable, Net	<u>\$ 765,112</u>	<u>\$ 673,457</u>

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2012 and 2011

(6) Inventories

The Organization records supplies as expenses as acquired. On an annual basis, the Organization and all clinical sites conduct a physical inventory. Upon the completion of the physical inventory, the final values are adjusted to the actual inventory per the physical count, which is recorded at cost. The value of the inventory is determined on the First In, First Out Basis (FIFO). At January 31, 2012 and 2011, the physical inventory of items on hand at cost consisted of the following:

	<u>2012</u>	<u>2011</u>
Pharmaceutical Supply Inventory	\$ 201,436	\$ 170,655
Medical, Dental, and Other Supply Inventory	<u>226,181</u>	<u>193,128</u>
Total Inventories	<u>\$427,617</u>	<u>\$363,783</u>

(7) Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Land	\$ 260,525	\$ 260,525
Buildings and Improvements	8,778,303	8,410,521
Furniture and Equipment	<u>1,844,181</u>	<u>1,775,035</u>
Total	10,883,009	10,446,081
Less Accumulated Depreciation	<u>(4,327,029)</u>	<u>(3,667,976)</u>
Property and Equipment, Net	<u>\$ 6,555,980</u>	<u>\$6,778,105</u>

(8) Long Term Debt and Obligations

The Organization also has a balloon note payable to Trustmark National Bank with an original principal of \$437,935 dated February 16, 2007 that matures on April 15, 2014. This note accrues interest at an annual rate of 5.5% A.P.R. and is collateralized by the dental building located in Forrest County, Mississippi. This note requires monthly payments of \$4,665 and has a balance of \$332,530 as of January 31, 2012.

The Organization also has a note payable to the US Department of Agriculture with an original principal of \$800,000 dated March 30, 2004. This note matures on March 30, 2034 and accrues interest at an annual rate of 4.25% A.P.R. This note is collateralized by the building in New Augusta, Mississippi and has a balance of \$658,503 as of January 31, 2012.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2012 and 2011

The Organization also has a note payable to the US Department of Agriculture with an original principal of \$740,000 dated May 26, 2004. This note matures on May 26, 2034 and accrues interest at an annual rate of 4.25% A.P.R. This note is collateralized by the building in Brooklyn, Mississippi and has a balance of \$611,925 as of January 31, 2012.

The Organization also has a note payable to the US Department of Agriculture with an original principal of \$827,000 dated September 27, 2005. This note matures on September 30, 2036 and accrues interest at an annual rate of 4.125% A.P.R. This note is collateralized by the building in Seminary, Mississippi and has a balance of \$723,348 as of January 31, 2012.

The Organization also has a note payable to the US Department of Agriculture with an original principal of \$960,000 dated October 13, 2006. This note matures on October 12, 2036 and accrues interest at an annual rate of 4.375% A.P.R. This note is collateralized by the building in Sumrall, Mississippi and has a balance of \$864,667 as of January 31, 2012.

The principal balance of the above notes due over the next five years is as follows:

Year Ending January 31:

2013	\$ 115,263
2014	120,782
2015	339,519
2016	87,195
2017	92,056
Thereafter	<u>2,436,158</u>
Total Liability	<u>\$3,190,973</u>

(9) Net Assets Temporarily Restricted

A portion of the net assets is restricted by USDA loan agreements requiring an escrow balance to be held by the Organization. As of January 31, 2012, this required escrow balance was \$182,025. These restrictions are considered to be temporary.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2012 and 2011

(10) Net Patient Revenue

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

	<u>2012</u>	<u>2011</u>
Gross Patient Revenue	\$16,208,090	\$ 15,537,997
Less Discounts and Adjustments	<u>(7,029,257)</u>	<u>(6,675,801)</u>
Total Net Patient Revenue	<u>\$ 9,178,833</u>	<u>\$ 8,862,196</u>

(11) 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.

(12) Grant Support

The Organization received grants from the U. S. Department of Health and Human Services for \$6,066,245 of which all was obligated for the fiscal year ended January 31, 2012. Under the terms of these grants the Organization is required to comply with certain federal guidelines and the Federal Government retains a residual interest in assets acquired with grant funds.

(13) Commitments and Contingencies

The Organization has operating leases with several entities in effect for office and clinic space rental. These leases vary in term from one to ten years and require monthly payments of \$12,878.

Minimum Lease Payments for the Year Ended January 31:

2013	\$ 84,692
2014	69,452
2015	72,128
2016	50,794
2017	29,460
Thereafter	<u>58,918</u>
Total	<u>\$365,444</u>

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2012 and 2011

(14) Retirement Plan

The Organization maintains a Section 403(b) retirement plan as identified under Internal Revenue Code regulations. All employees of the Organization are eligible to participate in the plan provided they have completed specific requirements of the plan. The employer contributes 4% of all employee compensation and also matches an additional 4% of employee compensation. The Organization also maintains a section 401(a) retirement plan for key employees. For the years ending January 31, 2012 and 2011, the Organization had contributed \$804,596 and \$821,736 to these retirement plans.

(15) 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 \$5,926,070 and \$5,787,134 respectively.

(16) Significant Source of Revenue

Approximately 37% of revenue was attributable to the U.S. Department of Health and Human Services ward for the audit period.

SUPPLEMENTAL SCHEDULES

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended January 31, 2012

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Health and Human Services</u>		
Health Center Cluster <i>Grant No. H80 CS00610</i>	93.224	\$4,270,008
ARRA Cluster- Center Integrated Services Development Initiative :Capital Improvement Project <i>Grant No. C81 CS13754</i>	93.703	\$367,282
Ryan White Part C <i>Grant No. H76 HA00665</i>	93.918	\$542,217
Ryan White Part D <i>Grant No. H12 HA23006</i>	93.153	\$535,388
Pregnancy Prevention Program <i>Grant No. TP1AH000033</i>	93.297	<u>\$351,350</u>
Total All Federal Grants		<u>\$6,066,245</u>

Summary:

Operational Grants	\$5,698,963
Non-Operational Grants	<u>367,282</u>
Total Federal Grants	<u>\$6,066,245</u>

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 Southeast Mississippi Rural Health Initiative, 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.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings, Questioned Costs, and Corrective Action Plan

For the Year Ended January 31, 2012

Section A-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Material weaknesses identified? yes X no
Significant Deficiencies identified? yes X no
Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:
Material weaknesses identified? yes X no
Significant deficiencies identified? X yes no

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

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 _____

93.918 _____

93.153 _____

93.297 _____

93.703 _____

Name of Federal Program

Health Center Cluster

Ryan White Part C

Ryan White Part D

Pregnancy Prevention Program

ARRA Cluster-Health Center Integrated Services Development Initiative: Capital Improvement Program

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

Auditee qualified as low-risk auditee? yes X no

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings, Questioned Costs, and Corrective Action Plan

For the Year Ended January 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.

Significant Deficiencies

Finding: 2012-C1 Procurement Procedures- Bid Requirements

Federal Program Identification: ARRA Cluster-Health Center Integrated Services
Development Initiative: Capital Improvement Program
CFDA 93.703, Grant Number C81 CS13754

Condition: The Organization did not obtain competitive bids for several American Recovery and Reinvestment Act (ARRA) capital expenditures.

Criteria: OMB Circular A-133 Compliance Supplement, OMB Circular A-110 Procurement Procedures, and OMB A-102 Common Rule.

Context: Seventy-one cash disbursements were selected for review. Subsequent test and analysis revealed that several ARRA expenditures were not supported by competitive bids.

Cause: It appears that the above exceptions resulted primarily from failure to follow established policies and procedures related to bid requirements.

Effect: The Organization did not comply with procurement requirements related to competitive bids.

Recommendation: We recommend that the personnel be trained to follow policies and procedures relating to competitive bid requirements.

Auditee's Response: Management concurs with the above audit finding.

Corrective Action Plan: Procedures will be established to ensure that personnel obtain competitive bids for capital expenditures as recommended above.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings, Questioned Costs, and Corrective Action Plan

For the Year Ended January 31, 2012

Finding: 2012-C2 Federal Form 5500 not filed

Federal Program Identification: U.S. Department of Health and Human Services
Health Center Cluster, CFDA 93.224
Grant Number H80 CS00610

Condition: The Organization did not file the required federal Form 5500 Annual Report of Employee Benefit Plan.

Criteria: OMB Circular A-133 Compliance Supplement

Context: During the review of the federal filing requirements, it was noted that the Form 5500 had not been filed.

Cause: The failure to file the Form 5500 was an administrative oversight.

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

Recommendation: It is recommended that a due date calendar be developed to remind management of the Form 5500 filing requirements to ensure future reports are filed.

Auditee's Response: Management concurs with the above audit finding.

Corrective Action Plan: Efforts were made to file prior year 5500 returns, however during a changeover in staff, the current year Form 5500 was inadvertently not filed.

Finding: 2012-C3 – Procurement-Suspension and Debarment

Federal Program Identification: U.S. Department of Health and Human Services
Health Center Cluster, CFDA 93.224
Grant Number H80 CS00610

ARRA Cluster-Health Center Integrated Services
Development Initiative: Capital Improvement Program
CFDA 93.703, Grant Number C81 CS13754

Condition: Procedures have not been established to ensure that the Organization does not purchase contractual services expected to equal or exceed \$25,000 from parties listed on the government-wide Excluded Parties List System (EPLS) in accordance with the OMB guidelines. The EPLS contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority.

Criteria: OMB Circular A-133, Compliance Supplement, Executive Order 12549

Context: The review of organizational policies and interview with various personnel disclosed the deficiency noted above.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings, Questioned Costs, and Corrective Action Plan

For the Year Ended January 31, 2012

Cause: Failure to establish a policy that requires management to confirm that contractual services expected to equal or exceed \$25,000 are not purchased from parties debarred, suspended, or otherwise excluded from participating in federal funds.

Effect: Failure to comply with this federal requirement could result in the Organization becoming ineligible to receive federal funds.

Recommendation: Procedures should be established to ensure that purchases of contractual services equal to or exceeding \$25,000 will not include ineligible parties as listed on the EPLS.

Auditee's Response: Management concurs with the above audit finding.

Corrective Action Plan: Procedures will be established to ensure that contract services expected to equal or exceed \$25,000 will be parties that are not disqualified by the government-wide Excluded Parties List System (EPLS) in accordance with the OMB guidelines.

Material Weaknesses

None Reported

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
Southeast Mississippi Rural Health Initiative, Inc.

We have audited the financial statements of Southeast Mississippi Rural Health Initiative, Inc. as of and for the year ended January 31, 2012, and have issued our report thereon dated May 24, 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 Southeast Mississippi Rural Health Initiative, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southeast Mississippi Rural Health Initiative, 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 be 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 Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, Inc.'s in a separate letter dated May 24, 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 cursive script that reads "Jerry Hone CPA". The signature is written in dark ink and is positioned to the right of the date.

May 24, 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
Southeast Mississippi Rural Health Initiative, Inc.

Compliance

We have audited Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, Inc.'s major federal programs for the year ended January 31, 2012. Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, Inc.'s management. Our responsibility is to express an opinion on Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, 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 on Southeast Mississippi Rural Health Initiative, Inc.'s compliance with those requirements.

In our opinion, Southeast Mississippi Rural Health Initiative, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of finding and questioned costs as items 2012-C1, 2012-C2, and 2012-C3.

Internal Control Over Compliance

Management of Southeast Mississippi Rural Health Initiative, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Southeast Mississippi Rural Health Initiative, Inc.'s internal control over compliance with 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 an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southeast Mississippi Rural Health Initiative, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule do findings and questioned costs as items 2012-C1, 2012-C2, and 2012-C3. 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.

Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, Inc.'s response 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, 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.

Handwritten signature of Jerry Home CPA in cursive script.

May 24, 2012

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Summary Schedule of Prior Year Audit Findings

January 31, 2012

There were no findings in the prior year audit. However, there were certain matters involving internal controls that were reported to the management of Southeast Mississippi Rural Health Initiative, Inc., in a separate letter. These matters were reviewed and it was determined that the necessary corrective action has been taken to improve the related controls.