

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

Financial Statements

January 31, 2014 and 2013

(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.

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Mississippi Rural Health Initiative, Inc. (the Organization) which comprise the statement of financial position as of January 31, 2014 and 2013, and the related statements of activities, 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 *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 from 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.

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by 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 is 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 May 2, 2014 on our consideration of Southeast Mississippi Rural Health Initiative, 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* considering Southeast Mississippi Rural Health Initiative, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jenny Home CPA". The signature is written in a cursive style and is positioned above the typed name and date.

Lebanon, TN
May 2, 2014

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Statement of Financial Position

January 31, 2014 and 2013

ASSETS		
	<u>2014</u>	<u>2013</u>
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 1,730,406	\$ 2,561,323
Accounts Receivable Net (Note 5)	736,935	650,270
Grant and Other Contract Receivables (Note 6)	364,892	75,833
Inventory (Note 7)	383,191	478,642
Prepaid Expenses	66,894	77,429
<i>Total Current Assets</i>	<u>3,282,318</u>	<u>3,843,497</u>
<i>Property and Equipment</i>		
Property and Equipment, at cost, net of accumulated depreciation (Note 8)		
<i>Total Property and Equipment</i>	6,698,925	6,084,717
<i>Other Assets</i>		
Other Assets (Note 9)	2,348,747	2,305,751
<i>Total Other Assets</i>	<u>2,348,747</u>	<u>2,305,751</u>
Total Assets	<u>\$ 12,329,990</u>	<u>\$ 12,233,965</u>
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 692,534	\$ 465,409
Deferred Revenue (Note 10)	163,168	40,000
Accrued Compensated Absences	301,993	232,266
Payroll Liabilities	521,897	551,835
Construction Loan (Note 11)	316,310	-
Current Portion of Long Term Debt (Note 11)	100,811	80,172
<i>Total Current Liabilities</i>	<u>2,096,713</u>	<u>1,369,682</u>
<i>Long-Term Liabilities</i>		
Notes Payable (Note 11)	2,251,104	2,713,906
Less Current Portion of Long Term Debt	(100,811)	(80,172)
<i>Total Long-Term Liabilities</i>	<u>2,150,293</u>	<u>2,633,734</u>
Total Liabilities	<u>4,247,006</u>	<u>4,003,416</u>
Net Assets - Temporarily Restricted (Note 13)	234,618	208,322
Net Assets - Unrestricted	7,848,366	8,022,227
Total Net Assets	8,082,984	8,230,549
Total Liabilities and Net Assets	<u>\$ 12,329,990</u>	<u>\$ 12,233,965</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, 2014 and 2013

Support and Revenues:

	<u>2014</u>	<u>2013</u>
Net Patient Revenue (Note 14)	\$10,056,191	\$9,447,201
Public Support - U.S. Department of Health and Human Services Operational Grants (Note 16)	6,106,029	6,497,810
Other Grants and Contracts (Note 17)	763,648	781,514
Donations	645,935	501,145
 <i>Total Support and Revenues</i>	17,571,803	17,227,670

Expenses:

Program Services Expenses	14,524,283	13,154,060
General and Administrative Expenses	3,678,755	3,293,088
 <i>Total Expenses</i>	18,203,038	16,447,148
 <i>Excess (Deficiency) of Support and Revenues Over Expenses from Operations</i>	(631,235)	780,522

Other Income and Expenses:

Public Support - U.S. Department of Health and Human Services Non-Operational Grants (Note 16)	467,707	-
Interest Income	18,030	31,179
Loss on Asset Disposal	(2,067)	-
 <i>Total Other Income and Expenses</i>	483,670	31,179
 <i>Excess (Deficiency) of Support and Revenues Over Expenses</i>	(147,565)	811,701

Net Assets

Increase in Unrestricted Net Assets	(173,861)	785,404
Increase in Temporarily Restricted Net Assets	26,296	26,297
Beginning of Year	8,230,549	7,418,848
 <i>End of the Year</i>	\$8,082,984	\$8,230,549

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, 2014 and 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2014 Total</u>	<u>2013 Total</u>
Personnel	\$8,193,674	\$1,622,971	\$9,816,645	\$8,769,595
Fringe Benefits	2,159,674	427,691	2,587,365	2,316,121
Contractual Services	755,820	574,705	1,330,525	1,144,868
Supplies	1,736,278	359,398	2,095,676	1,794,848
Travel and Training	90,794	169,877	260,671	286,711
Insurance	9,114	42,397	51,511	43,359
Telephone and Postage	328,704	36,523	365,227	360,254
Building Rent	159,696	-	159,696	146,732
Utilities	215,770	23,974	239,744	208,967
Depreciation	443,611	146,565	590,176	597,184
Repairs and Maintenance	200,445	55,289	255,734	263,492
Interest Expense	93,422	10,380	103,802	131,634
Promotion and Recruitment	17,174	89,608	106,782	152,343
Licenses, Dues, Printing and Other	120,108	119,376	239,484	231,040
Total	<u>\$14,524,283</u>	<u>\$3,678,755</u>	<u>\$18,203,038</u>	<u>\$16,447,148</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, 2014 and 2013

Cash Flows From Operating Activities:

	<u>2014</u>	<u>2013</u>
Excess (Deficiency) of Revenues Over Expenses	\$ (631,235)	\$ 780,522
<i>Adjustments to Reconcile Net Income to</i>		
<i>Cash Provided (Used) by Operations:</i>		
Interest Income	18,030	31,179
Depreciation	590,176	597,184
(Increase) Decrease in Accounts Receivable	(86,665)	114,842
(Increase) Decrease in Other Receivables	(289,059)	80,410
(Increase) Decrease in Inventories	95,451	(51,025)
(Increase) Decrease in Prepaid Expenses	10,535	3,065
Increase (Decrease) in Accounts Payable	227,125	7,928
Increase (Decrease) in Accrued Expenses	(29,938)	120,945
Increase (Decrease) in Accrued Compensated Absences	69,727	(4,280)
Increase (Decrease) in Deferred Revenue	123,168	(15,000)
Cash Provided (Used) by Operating Activities:	<hr/> 97,315	<hr/> 1,665,770

Cash Flows Provided (Used) by Investing Activities:

Purchases of Property, Plant and Equipment	(1,206,451)	(125,921)
Capital Grant Funds Received	467,707	-
(Increase) Decrease in Other Investment Activities	(42,996)	(55,655)
Book Value of Assets Disposed	2,067	-
Gain (Loss) on Assets Disposed	(2,067)	-
Cash Provided (Used) by Investing Activities	<hr/> (781,740)	<hr/> (181,576)

Cash Flows Provided (Used) by Financing Activities:

Increase (Decrease) in Notes Payable	(146,492)	(477,067)
Cash Provided (Used) by Investing Activities	<hr/> (146,492)	<hr/> (477,067)
Net Increase (Decrease) in Cash and Cash Equivalents	<hr/> (830,917)	<hr/> 1,007,127
Cash and Cash Equivalents at Beginning of The Year	2,561,323	1,554,196
Cash at End of The Year	<u><u>\$ 1,730,406</u></u>	<u><u>\$2,561,323</u></u>
Supplemental Data:		
Interest Paid in Financing Activities	\$ 103,802	\$ 131,634

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

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2014 and 2013

(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 Initiative, Inc. 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.

The financial statements include prior-year comparative information and certain modifications have been made to conform to the current year presentation. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended January 31, 2013 from which the prior-year information was derived.

(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. 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, 2014 and 2013

(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. As of the date of this report the current and two most recent prior years are available for IRS audit.

(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, 2014 and 2013

(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 \$1,130,062 and \$1,113,362 as of January 31, 2014 and 2013, respectively.

(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. As of January 31, 2014 exceeded the FDIC limit by \$1,359,925.

(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, 2014 and 2013 for patient service fees are:

	<u>2014</u>	<u>2013</u>
Patients Fees	\$2,272,676	\$1,199,020
Less Allowance for Uncollectible Accounts	(1,535,741)	(548,750)
Accounts Receivable, Net	<u>\$ 736,935</u>	<u>\$ 650,270</u>

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2014 and 2013

(6) Grant and Contract Receivables

The Organization has other receivable balances as of January 31, 2014 and 2013 that are summarized below:

	<u>2014</u>	<u>2013</u>
Mississippi Department of Health Breast Cancer Program	\$ 53,006	\$ 29,578
Mississippi Department of Health Ryan White HIV Prevention	19,195	13,382
Mississippi Department of Health MQHC	22,866	16,095
Forrest General Hospital PAC	56,538	-
Mississippi Department of Health Ryan White Part B	70,000	-
Contracted Pharmacies	126,050	-
Other Contract Receivables	<u>17,237</u>	<u>16,778</u>
Other Receivables, Net	<u>\$364,892</u>	<u>\$ 75,833</u>

(7) 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, 2014 and 2013, the inventory of items on hand at cost consisted of the following:

	<u>2014</u>	<u>2013</u>
Pharmaceutical Supply Inventory	\$ 123,226	\$ 183,326
Medical, Dental, and Other Supply Inventory	<u>259,965</u>	<u>295,316</u>
Total Inventories	<u>\$383,191</u>	<u>\$478,642</u>

(8) Property and Equipment

A summary of property and equipment at January 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 360,525	\$ 260,525
Construction in Progress	990,829	-
Buildings and Improvements	8,806,051	8,783,867
Furniture and Equipment	<u>2,011,912</u>	<u>1,949,480</u>
Total	12,169,317	10,993,872
Less Accumulated Depreciation	<u>(5,470,392)</u>	<u>(4,909,155)</u>
Property and Equipment, Net	<u>\$ 6,698,925</u>	<u>\$ 6,084,717</u>

Property and equipment is depreciable on a straight line basis over the estimated useful life. The depreciation for the fiscal years ended January 31, 2014 and 2013 is \$590,176 and \$597,184 respectively.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2014 and 2013

(9) Other Assets

The Organization has other assets that consist of the following:

	<u>2014</u>	<u>2013</u>
New York Life Annuity (Note 3)	\$1,130,062	\$1,113,362
Deferred Compensation	978,571	978,571
USDA Loan Reserve (Note 13)	234,618	208,322
Utility and Security Deposit	<u>5,496</u>	<u>5,496</u>
Total Other Assets	<u>\$2,348,747</u>	<u>\$2,305,751</u>

(10) Deferred Revenue

During the year, the Organization received grant H80CS00610 from the U.S Department of Health and Human Services in the amount of \$4,663,721. As of January 31, 2014, \$4,663,721 of these funds had been drawn but only \$4,500,553 had been used for the intended purpose, resulting in deferred grant revenue of \$163,168.

(11) Long Term Debt and Obligations

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 \$617,659 as of January 31, 2014.

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 4.375% A.P.R. This note is collateralized by the building in Brooklyn, Mississippi and has a balance of \$574,709 as of January 31, 2014.

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 \$684,678 as of January 31, 2014.

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 \$374,058 as of January 31, 2014.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2014 and 2013

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

Year Ending January 31:

2015	\$ 100,811
2016	104,916
2017	109,511
2018	114,311
2019	119,320
Thereafter	<u>1,702,235</u>
Total Liability	<u>\$2,251,104</u>

The Organization also has a short term construction loan with Trustmark Bank with an original principal of \$935,000 with loan advances totaling 316,310 as of January 31, 2014. This note matures on December 19, 2014 and accrues interest at an annual rate of 3.250% A.P.R. This note is collateralized by the administrative building and has a balance of \$316,310 as of January 31, 2014.

(12) 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:

2015	\$ 72,128
2016	50,794
2017	29,460
2018	29,460
2019	29,460
Thereafter	-
Total	<u>\$211,302</u>

(13) 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, 2014, this required escrow balance was \$234,618. These restrictions are considered to be temporary.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2014 and 2013

(14) Net Patient Revenue

A summary of net patient revenue at January 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Gross Patient Revenue	\$15,520,215	\$14,604,931
Less Discounts and Adjustments	<u>(5,464,024)</u>	<u>(5,157,730)</u>
Total Net Patient Revenue	<u>\$10,056,191</u>	<u>\$ 9,447,201</u>

(15) 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.

(16) Federal Grant Support

The Organization received grants from the U. S. Department of Health and Human Services and a pass through grant from the Mississippi State Department of Health for a total of for \$6,573,736 (\$6,106,029 operational and \$467,707 non operational) and \$6,497,810 (operational) of which all was obligated for the fiscal years ended January 31, 2014 and 2013 respectively. 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.

(17) Other Contract Revenue

The Organization also receives revenue through contracts with various organizations. As of the year ended January 31, 2014 and 2013 the contracts revenue consisted of the following:

	<u>2014</u>	<u>2013</u>
Meaningful Use Contract	\$225,250	\$280,500
Mississippi State Department of Health-MQHC	220,015	178,020
Patient Centered Medical Home	100,512	106,362
Mississippi State Department of Health-Breast Cancer	96,196	107,880
Avon Breast Cancer	55,000	60,900
Other Contract Revenue	<u>66,675</u>	<u>47,852</u>
Grants and Contracts Revenue	<u>\$763,648</u>	<u>\$781,514</u>

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2014 and 2013

(18) Donations

Donated Supplies

The Organization received donated supplies from Direct Relief International and Forrest General Hospital to be disbursed to indigent patients. The value of these donated supplies is based on the fair market value of each item. For the year ended January 31, 2014 and 2013 the total value of the contributions received was \$366,933 and \$250,112. The contributions are reported on the financial statements as revenue and the related expense when received.

Donated Personnel

The Organization received donated pharmacy personnel from Forrest General Hospital. The value of these donated personnel is based on the fair market value of similar personnel. For the years ended January 31, 2014 and 2013 the total value of the contributions received was \$179,002 and \$251,033.

Donated Land

The Organization received donated land from the Petal School District to be used for the FQHC medical clinic. The value of this donated land is based on the fair market value at the time of the donation. For the year ended January 31, 2014 the total value of the contribution received was \$100,000.

(19) 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 457(a) retirement plan for key employees. For the years ending January 31, 2014 and 2013, the Organization had contributed \$709,854 and \$791,715 to these retirement plans.

(20) 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 charity amount calculation is based on the Organization's standard billing rates for services provided. These fees approximate the total cost of providing charity care. The amount of charity care for the fiscal year ended 2014 and 2013 was \$4,604,964 and \$5,515,129 respectively.

(21) Significant Source of Revenue

Approximately 36% of the Organization's revenue was provided by grants from the U.S. Department of Health and Human Services. The Organization is dependent on this continued funding and the absence of these grants could possibly have a negative effect on operations.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2014 and 2013

(22) Subsequent Events

Management has evaluated the events and transactions subsequent to the statement of financial position through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

SUPPLEMENTAL SCHEDULES

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended January 31, 2014

<u>FEDERAL GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Direct Grant Awards		
<u>U.S. Department of Health and Human Services</u>		
Health Center Cluster Consolidated Health Centers Program <i>Grant No. H80 CS00610</i>	93.224	\$2,576,591
Affordable Care Act-Grants for expanded service under Health Center Program <i>Grant No. H80 CS00610</i>	93.527	<u>1,923,962</u>
Total Health Center Cluster		<u>\$4,500,553</u>
Affordable Care Act School Based Capital Program <i>Grant No. C12CS25511</i>	93.501	\$467,707
Teenage Pregnancy Prevention Program Grant No. TP1AH000033	93.297	448,443
Ryan White Part C <i>Grant No. H76 HA00665</i>	93.918	715,120
Total Direct Grant Awards		<u>\$6,131,823</u>
Non-Direct Grant Awards		
Ryan White Part B <i>Grant No. X07HA00036</i>	93.917	\$370,000
HIV Prevention Services <i>Grant No. 1U62PS003674</i>	93.940	<u>71,913</u>
Total Non-Direct Grant Awards		<u>\$441,913</u>
Total All Federal Grants		<u>\$6,573,736</u>

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended January 31, 2014

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, 2014

Section A-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Significant Deficiency disclosed? _____yes___ X___no
Significant Deficiencies reported
as Material Weaknesses? _____yes___ X___no
Noncompliance material to financial statements noted? _____yes___ X___no

Federal Awards

Internal Control over major programs:
Significant Deficiency identified? _____X___yes___no
Significant deficiencies reported
as Material Weaknesses? _____X___yes___no

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

Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of OMB Circular A-133? _____X___yes___no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.224 and 93.527 _____	<u>Health Center Cluster</u>
93.918 _____	<u>Ryan White Part C</u>
93.917 _____	<u>Ryan White Part B</u>
93.297 _____	<u>Teenage Pregnancy Prevention Program</u>
93.501 _____	<u>Affordable Care Act-School Based Capital Program</u>

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, 2014

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.

Material Weaknesses

Finding: 2014-001- Patient Income-Ryan White Program

Federal Program Identification: U.S. Department of Health and Human Services
Ryan White Title III, CFDA 93.918
Grant No. H76 HA00665

Condition: Ryan White patients were charged in excess of the amount allowed under the Ryan White program requirements. These patients qualified for the zero charge category.

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

Context: During an examination of patients receiving Ryan White services, it was noted that six patients qualifying for the zero charge category were charged for services. This is a direct violation of the Ryan White compliance requirements.

Cause: Procedures are not developed to ensure that patients' qualifying for the zero charge category not be charged for any services provided.

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

Recommendation: We recommend that procedures be established to ensure that Ryan White zero category patients are not charged for services received.

Auditee's Response and Corrective Action Plan: Management concurs with the above audit finding. Procedures will be established to ensure that Ryan White zero category patients are not charged for services received.

Contact Person: Polly Eubanks

Anticipated Date of Completion: May 31, 2014

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings, Questioned Costs, and Corrective Action Plan

For the Year Ended January 31, 2014

Finding: 2014-002- Cash Management- Federal Grant Draws

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

Condition: The Organization failed to comply with grant guidelines regarding federal grant draws. The grant draws exceeded the three day cash needs for related expenditures by \$163,168.

Criteria: OMB Circular A-133 Compliance Supplement

Context: During the review of federal grant draws it was noted that excess funds were drawn on the last day of the grant year.

Cause: Failure to develop written policies and procedures regarding grant draw restrictions and ensuring federal cash is held no more than three business days.

Effect: As a result of the lack of policies and procedures, federal funds were drawn in excess of related expenditures.

Recommendation: It is recommended that before the Organization makes a draw of federal funds, a report of year to date program expenditures as well as year to date funds drawn be reviewed to ensure that no excess federal funds are drawn down.

Auditee's Response and Corrective Action Plan: Management concurs with the above audit finding. This excess grant draw on the last day of the fiscal year was an oversight. Grant draw personnel were not aware that the additional funding was required to be carried over to the next fiscal year. Procedures will be developed to ensure that federal funds are not drawn in excess of program expenditures.

Contact Person: Polly Eubanks

Anticipated Date of Completion: May 31, 2014

Significant Deficiencies

Finding: 2014-003 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 has not filed the required federal Form 5500 Annual Report of Employee Benefit Plan since 2009.

Criteria: OMB Circular A-133 Compliance Supplement

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings, Questioned Costs, and Corrective Action Plan

For the Year Ended January 31, 2014

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 and Corrective Action Plan: Efforts are being made to file all prior year 5500 returns. Currently the 5500 forms for plan years ending 2010 and 2011 have been prepared and are being held until all plan years are prepared by the plan auditors. It is anticipated that all of the 5500 forms will be completed by October 31, 2014. Upon completion, all (2010 through 2014) returns will be filed together to qualify for the Delinquent Filer Voluntary Compliance Program (DFVCP) submission procedures.

Contact Person: Polly Eubanks

Anticipated Date of Completion: May 31, 2014

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

Independent Auditor's Report

The Governing Board
Southeast Mississippi Rural Health Initiative, Inc.

We have audited, in accordance with the 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, the financial statements of Southeast Mississippi Rural Health Initiative, Inc. which comprise the statement of financial position as of January 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 May 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southeast Mississippi Rural Health Initiative, Inc. 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 Southeast Mississippi Rural Health Initiative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Mississippi Rural Health Initiative, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Mississippi Rural Health Initiative, 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*.**

We noted certain matters that we reported to management of Southeast Mississippi Rural Health Initiative, Inc. in a separate letter dated May 2, 2014.

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.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is positioned above the typed name and date.

Lebanon, TN
May 2, 2014



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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

Independent Auditor's Report

The Governing Board
Southeast Mississippi Rural Health Initiative, Inc.

Report on Compliance for Each Major Federal Program

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, 2014. 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.

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 Southeast Mississippi Rural Health Initiative, 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Southeast Mississippi Rural Health Initiative, Inc.'s compliance.

Basis for Qualified Opinion on Ryan White Title III Program and Health Center Cluster Program

As described in the accompanying schedule of findings and questioned costs, Southeast Mississippi Rural Health Initiative, Inc. did not comply with requirements regarding income and cash management that is applicable to its Ryan White Program and Health Center Cluster Program as described in finding 2014-001 and 2014-002. Compliance with such requirements is necessary, in our opinion, for Southeast Mississippi Rural Health Initiative, Inc. to comply with the requirements applicable to these programs.

Qualified Opinion on Ryan White Title III Program and Health Center Cluster Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Southeast Mississippi Rural Health Initiative, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Ryan White Program and Health Center Cluster Program for the year ended January 31, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Southeast Mississippi Rural Health Initiative, 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 section of the accompanying schedule of findings and questioned costs for the year ended January 31, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

Southeast Mississippi Rural Health Initiative, Inc.'s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, 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 Southeast Mississippi Rural Health Initiative, 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a 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 reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-003 to be a significant deficiency.

Southeast Mississippi Rural Health Initiative, Inc.'s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Southeast Mississippi Rural Health Initiative, 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.

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.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is positioned above a horizontal line.

Lebanon, TN
May 2, 2014

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Summary Schedule of Prior Year Audit Findings

January 31, 2014

Prior Year Finding: 2013-C1

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

Status of Finding – Resolved.

Prior Year Finding: 2013-C2

The Organization has not filed the required federal Form 5500 Annual Report of Employee Benefit Plan since 2009.

Status of Finding – Unresolved. Reported as current year finding 2014-003.

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

Report to the Board of Directors

January 31, 2014

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Report to the Board of Directors

January 31, 2014

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TERRY L. HORNE, CPA

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May 2, 2014

To the Board of Directors
Southeast Mississippi Rural Health Initiative, Inc.

We have completed our audit of the financial statements of Southeast Mississippi Rural Health Initiative, Inc. for the year ended January 31, 2014. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated May 2, 2014. We are presenting an oral presentation of the financial statements and the results of the compliance audit in accordance with Government Auditing Standards and OMB Circular A-133 to the Governing Board.

We appreciate the courtesies extended to us during the audit and the assistance provided by the staff of Southeast Mississippi Rural Health Initiative, Inc.

Sincerely,

Terry Horne, CPA

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Summary of Professional Services

- ❖ Annual audit of financial statements
- ❖ Annual compliance audit in accordance with Government Auditing Standards and OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Centers”
- ❖ Annual federal tax information return
- ❖ Annual Data Collection Form SF-SAC
- ❖ Annual Federal Financial Report
- ❖ Annual report to management on observations and recommendations for improvements
- ❖ Attendance at board meetings as requested

**SOUTHEAST MISSISSIPPI RURAL
HEALTH INITIATIVE, INC.
Required Auditor Communications**

Items to be Communicated and Auditors' Response

❖ **The auditor's responsibility under generally accepted auditing standards.**

The auditors should communicate the level of responsibility assumed for internal control, illegal acts, and other matters under generally accepted auditing standards.

◇ *Our responsibility, as described by professional standards, is to plan and perform our audit to obtain **reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.** Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.*

*In planning and performing our audit, we considered **Southeast Mississippi Rural Health Initiative, Inc.'s (Organization) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.** We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.*

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests in compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133 we examined, on a test basis, evidence about the Organization's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the Organization's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the Organization's compliance with those requirements.

**SOUTHEAST MISSISSIPPI RURAL
HEALTH INITIATIVE, INC.
Required Auditor Communications**

Items to be Communicated and Auditors' Response

- ❖ **Significant accounting policies and unusual transactions.**

The auditors should determine that the Board is informed about the initial selection of and changes in significant accounting policies as well as the methods used to account for significant unusual transactions.

 - ◇ *There were none.*

- ❖ **Management judgments and accounting estimates.**

The Board should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditors' conclusions regarding the reasonableness of these estimates.

 - ◇ *The most significant estimate at January 31, 2014 is the allowance for uncollectible patient accounts. Based on computations within industry standards applied to test the reserve for uncollectible patient accounts the estimates appear reasonable.*

- ❖ **Disagreements with management.**

Disagreements with management, whether satisfactorily resolved, about matters that could be significant to the entity's financial statements or the auditors' report should be communicated to the Board.

 - ◇ *There were no disagreements with management.*

- ❖ **Consultation with other accountants.**

When the auditors are aware that management has consulted with other accountants about significant accounting or auditing matters, the auditors' views about the subject of the consultation should be communicated to the Board.

 - ◇ *To our knowledge, there were no consultations made by management.*

**SOUTHEAST MISSISSIPPI RURAL
HEALTH INITIATIVE, INC.
Required Auditor Communications**

Items to be Communicated and Auditors' Response

❖ **Significant audit adjustments.**

All significant adjustments arising from the audit should be communicated to the Board.

◇ *There were several significant adjustments related to deferred revenue, donations, pharmacy revenue and related receivables.*

❖ **Major issues discussed with management prior to retention.**

Any major issues that were discussed with management in connection with our initial or recurring retention should be communicated to the Board.

◇ *There were none.*

❖ **Difficulties encountered in performing the audit.**

Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of the Board.

◇ *There were none.*

❖ **Uncorrected financial statement misstatements.**

Any uncorrected financial statement misstatements should be disclosed to the Board.

◇ *There were none.*

This report is intended solely for the use of the Board of Directors.



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MANAGEMENT LETTER

Board of Directors
Southeast Mississippi Rural Health Initiative, Inc.

In planning and performing our audit of the financial statements of Southeast Mississippi Rural Health Initiative, Inc. for the year ended January 31, 2014, we considered the Organization's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated May 2, 2014, on the financial statements of Southeast Mississippi Rural Health Initiative, Inc.

I. Cash Controls

1. The Organization is required to safe guard all assets owned including funds held by financial institutions. During the year ended January 31, 2014 the Organization had cash balances with its depositories exceeding the FDIC limit by \$1,359,925. It is recommended that all of the Organization's funds be insured or collateralized with government securities. This can be done by maintaining deposit accounts less than \$250,000 at different financial institutions or obtaining a collateral agreement with the financial institution to secure balances in excess of \$250,000.

Management's Response:

Management concurs. Efforts will be made to make arrangements with the bank to insure or properly collateralize all of the Organization's funds.

II. Grant Controls

1. Procedures have not been developed to verify that the time and effort of personnel are being charged to special grants on a consistent and routine basis. Without such reviews personnel cost could be incorrectly charged to grants without being detected and cause excess federal funds to be drawn. These reports verifying that the personnel time and efforts are allocated to special grants should be obtained by management and approved on a quarterly basis.

Management's Response:

Management concurs. Procedures will be established to verify that personnel efforts are being assigned to the correct grant on quarterly basis.

III. Revenue Controls

1. Revenue and related accounts receivable for pharmacy contract services are not being recorded on accrual basis but on a cash basis as payments are received. Proper accounting procedures require that revenue and related receivables be recorded in the proper period that these amounts are earned. We recommend that efforts be made to ensure that revenue is correctly accounted for in the period it is earned by the Organization regardless of when payments are received and that revenue be recorded at gross along with any applicable fees.

Management's Response:

Management concurs. Efforts will be made to ensure that revenue is recorded in the correct period as recommended above.

2. Policy and procedures have not been developed to regulate activity for the 340B contract pharmacy services. Procedures should be established to include periodic reviews of prescriptions filled by contract pharmacy to ensure:
 1. All patients receiving prescriptions are patients of the Organization
 2. All prescriptions filled are written by providers of the Organization
 3. All contracted pharmacies have current signed contracts on file
 4. The office of pharmacy affairs website is up to date and reporting accurate Organization information

It is recommended that all employees engaged in 340B pharmacy contract services should read and sign the policies to ensure compliance.

Management's Response:

Management concurs. Procedures will be established to review policies and procedures as recommended above.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the board of trustees, management and others within the Organization.



Jerry Home CPA

May 2, 2014