

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

Financial Statements

January 31, 2019 and 2018

(With Independent Auditor's Report Thereon)

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Table of Contents

Financial Statements:	<u>Page No.</u>
Independent Auditor's Report.....	1
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets.....	4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7
Supplemental Information	
Schedule of Expenditures of Federal Awards.....	16
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	18
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	20
Schedule of Findings and Questioned Costs.....	22
Summary Schedule of Prior Year Audit Findings.....	24



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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 statements of financial position as of January 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the fiscal 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, 2019 and 2018, and the changes in its net assets and its cash flows for the fiscal 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 Schedule of Expenditures and Federal Awards 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 June 28, 2019 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.



Lebanon, TN
June 28, 2019

Southeast Mississippi Rural Health Initiative, Inc.
Statements of Financial Position
January 31, 2019 and 2018

	2019	2018
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 2,832,608	\$ 3,754,455
Certificates of Deposit	1,187,012	1,175,048
Assets Limited to Use- USDA Escrow	262,944	262,944
Accounts Receivable Net	1,290,297	1,152,044
Other Receivables	1,767,222	548,278
Inventory	419,627	363,444
Prepaid Expenses	54,006	63,914
<i>Total Current Assets</i>	7,813,716	7,320,127
 <i>Property and Equipment</i>		
Property and Equipment, at Cost, Net of Accumulated Depreciation	7,312,644	7,047,201
<i>Total Property and Equipment</i>	7,312,644	7,047,201
 <i>Other Assets</i>		
Other Assets	1,007,400	1,886,256
<i>Total Other Assets</i>	1,007,400	1,886,256
 Total Assets	\$ 16,133,760	\$ 16,253,584
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 769,527	\$ 580,594
Accrued Compensated Absences	526,799	414,869
Payroll Liabilities	649,086	1,025,754
Current Portion of Long Term Debt	1,719,283	233,320
<i>Total Current Liabilities</i>	3,664,695	2,254,537
 Notes Payable	3,250,251	3,489,013
Less Current Portion of Long Term Debt	(1,719,283)	(233,320)
<i>Total Long-Term Liabilities</i>	1,530,968	3,255,693
 Total Liabilities	5,195,663	5,510,230
 <i>Net Assets</i>		
Net Assets - With Donor Restrictions	194,527	208,282
Net Assets - Without Donor Restrictions	10,743,570	10,535,072
<i>Total Net Assets</i>	10,938,097	10,743,354
 Total Liabilities and Net Assets	\$ 16,133,760	\$ 16,253,584

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

Southeast Mississippi Rural Health Initiative, Inc.
Statements of Activities and Changes in Net Assets
For the Fiscal Years Ended January 31, 2019 and 2018

	2019	2018
Support and Revenues:		
Net Patient Revenue	\$ 8,952,331	\$ 8,650,671
Public Support - Federal Grants - Operational	6,990,527	6,911,703
Contracted Pharmacy 340B Revenue	5,019,313	3,144,538
Other Grants and Contracts	335,019	425,324
Donations and Contributions	982,799	159,141
Net Assets Released from Restriction Used for Operations	13,755	162,643
 Total Support and Revenues	22,293,744	19,454,020
Expenses:		
Program Services	19,727,898	15,127,401
Supporting Services		
General and Administrative	2,536,146	4,807,332
Fundraising	32,313	16,988
Total Supporting Services	2,568,459	4,824,320
 Total Expenses	22,296,357	19,951,721
 Change in Net Assets From Operations	(2,613)	(497,701)
Other Income and Expenses:		
Grant for Acquisition of Property or Equipment	217,870	704,319
Interest Income	33,516	12,712
Gain (Loss) on Other Assets	(40,275)	146,588
Gain (Loss) on Disposal of Assets	0	(23,447)
 Total Other Income and Expenses	211,111	840,172
 Excess of Revenue over Expenses	\$ 208,498	\$ 342,471
Net Assets Without Donor Restrictions:		
Excess (Deficiency) of Revenues Over Expenses	\$ 208,498	\$ 342,471
Net Assets With Donor Restrictions:		
Contributions	\$ 0	\$ 101,528
Net Assets Released from Restriction	(13,755)	(162,643)
 Increase (Decrease) in Net Assets With Donor Restrictions	(13,755)	(61,115)
 Change in Net Assets	194,743	281,356
Beginning of Year	10,743,354	10,461,998
 Net Assets at End of Year	\$ 10,938,097	\$ 10,743,354

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

Southeast Mississippi Rural Health Initiative, Inc.
Statements of Functional Expenses
For the Fiscal Years Ended January 31, 2019 and 2018

2019	Supporting Services			Total Supporting Services	Total Expenses
	Program Services	General and Administrative	Fundraising		
Salaries and Wages	\$ 9,316,179	\$ 1,523,641	\$ 0	\$ 1,523,641	\$ 10,839,820
Fringe Benefits	1,670,700	254,843	0	254,843	1,925,543
Purchased Services and Professional Fees	2,820,865	90,202	13,500	103,702	2,924,567
Supplies	3,867,362	98,797	3,615	102,412	3,969,774
Depreciation	583,705	121,498	0	121,498	705,203
Travel, Communication, and Other Expenses	1,469,087	447,165	15,198	462,363	1,931,450
Total	\$ 19,727,898	\$ 2,536,146	\$ 32,313	\$ 2,568,459	\$ 22,296,357

2018	Supporting Services			Total Supporting Services	Total Expenses
	Program Services	General and Administrative	Fundraising		
Salaries and Wages	\$ 8,479,602	\$ 1,696,141	\$ 0	\$ 1,696,141	\$ 10,175,743
Fringe Benefits	1,529,639	305,968	0	305,968	1,835,607
Purchased Services and Professional Fees	1,179,112	1,236,116	11,250	1,247,366	2,426,478
Supplies	2,233,775	662,251	0	662,251	2,896,026
Depreciation	507,117	126,779	0	126,779	633,896
Travel, Communication, and Other Expenses	1,198,156	780,077	5,738	785,815	1,983,971
Total	\$ 15,127,401	\$ 4,807,332	\$ 16,988	\$ 4,824,320	\$ 19,951,721

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

Southeast Mississippi Rural Health Initiative, Inc.
Statements of Cash Flows
For the Fiscal Years Ended January 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in Net Assets	\$ 194,743	\$ 281,356
<i>Adjustments to Reconcile Change in Net Assets to Cash Provided (Used) by Operations:</i>		
Depreciation	705,203	633,896
Grant for Acquisition of Property	(217,870)	(704,319)
Change in:		
Certificates of Deposit	(11,964)	(1,175,048)
Accounts Receivable	(138,253)	92,486
Other Receivable	(1,218,944)	422,339
Inventories	(56,183)	13,549
Prepaid Expenses	9,908	(14,411)
Other Assets	878,856	969,364
Accounts Payable	188,935	62,667
Accrued Expenses	(376,668)	38,458
Accrued Compensated Absences	111,930	2,718
Cash Provided (Used) by Operating Activities	69,693	623,055
Cash Flows Provided (Used) by Investing Activities		
Purchases of Property, Plant and Equipment	(970,648)	(905,490)
Proceeds from Grant for Acquisition of Property	217,870	704,319
Cash Provided (Used) by Investing Activities	(752,778)	(201,171)
Cash Flows Provided (Used) by Financing Activities		
Principal Payments on Notes Payable	(238,762)	(228,818)
Cash Provided (Used) by Financing Activities	(238,762)	(228,818)
Net Increase (Decrease) in Cash and Cash Equivalents	(921,847)	193,066
Cash and Cash Equivalents at Beginning of The Year, including Restricted Cash	4,017,399	3,824,333
Cash and Cash Equivalents at End of The Year, including Restricted Cash	\$ 3,095,552	\$ 4,017,399
Supplemental Data:		
Interest Paid in Financing Activities	\$ 143,532	\$ 162,848

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

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(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) Basis of Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

(c) Cash and Cash Equivalents

Cash-unrestricted

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At January 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts. As of January 31, 2019, approximately \$234,000 was uninsured by Federal Deposit Insurance Coverage or secured by Federal Securities.

Assets limited to use

The Organization had cash balances of \$262,944 at both January 31, 2019 and 2018 that is restricted under loan covenants with the United States Department of Agriculture.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(d) Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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

Property and equipment are depreciated on the straight-line method over estimated useful lives of the assets. Expenditures for maintenance and repairs are expenses when incurred. Expenditures for renewals or betterments are capitalized. The threshold for capitalization is \$1,000. When property is retired or sold, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(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

Some expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

(k) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(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 required payments. The reported amounts are considered fair values.

(3) Availability and Liquidity

The following represents the Organization's financial assets at January 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 2,832,608	\$ 3,754,455
Certificates of Deposit	1,187,012	1,175,048
Accounts Receivable, Net	1,290,297	1,152,044
Contracts and Other Receivable	<u>1,767,222</u>	<u>548,278</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,077,139</u>	<u>\$ 6,629,825</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$5.4 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(4) Accounts Receivable

Included in patient receivables are amounts due from Patients, 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 at January 31, 2019 and 2018 for patient service fees are as follows:

	2019	2018
Patients Fees and Third Party Settlements	\$ 5,006,553	\$ 5,292,509
Less: Allowance for Uncollectible Accounts	(3,716,256)	(4,140,465)
Accounts Receivable, net	\$ 1,290,297	\$ 1,152,044

(5) Grant and Contract Receivables

The Organization has other receivable balances as of January 31, 2019 and 2018 as follows:

	2019	2018
Contract Pharmacies	\$ 424,732	\$ 260,488
Federal Grants Receivable	1,278,348	197,929
Mississippi Department of Health MQHC	26,222	33,923
Other Contract Receivables	37,920	55,938
Grants and Contracts Receivable	\$ 1,767,222	\$ 548,278

(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, 2019 and 2018, the inventory balances were \$419,627 and \$363,444, respectively.

(7) Property and Equipment

A summary of property and equipment at January 31, 2019 and 2018 is as follows:

	2019	2018
Buildings and Improvements	\$ 13,172,627	\$ 11,493,722
Furniture and Equipment	2,256,464	2,275,291
Land	360,525	360,525
Construction in Process	0	755,777
Total	15,789,616	14,885,315
Less Accumulated Depreciation	(8,476,972)	7,838,114
Property and Equipment, Net	\$ 7,312,644	\$ 7,047,201

Property and equipment is depreciated on a straight line basis over the estimated useful life. Depreciation expense for the fiscal years ended January 31, 2019 and 2018 was \$705,203 and \$633,896, respectively.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(8) Other Assets

The Organization has other assets that consist of the following at January 31:

	2019	2018
Deferred Compensation	\$ 1,002,870	\$ 1,881,726
Utility and Security Deposit	4,530	4,530
Total Other Assets	\$ 1,007,400	\$ 1,886,256

(9) Long Term Debt and Obligations

The Organization has a note payable to the U.S. Department of Agriculture (“USDA”) 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%. This note is collateralized by the building in New Augusta, Mississippi and had balances of \$498,174 and \$524,093 as of January 31, 2019 and 2018, respectively.

The Organization has a second note payable to the USDA 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%. This note is collateralized by the building in Brooklyn, Mississippi and had balances of \$464,775 and \$488,647 as of January 31, 2019 and 2018, respectively.

The Organization also has a note payable to the USDA 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%. This note is collateralized by the building in Seminary, Mississippi and had balances of \$571,645 and \$596,083 as of January 31, 2019 and 2018, respectively.

The Organization also has a note payable to the USDA 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%. This note is collateralized by the building in Sumrall, Mississippi and had balances of \$118,661 and \$170,323 as of January 31, 2019 and 2018, respectively.

The Organization also has a note payable with Trustmark Bank with an original principal of \$2,029,087 dated December 19, 2014. This note matures on December 19, 2019 and accrues interest at an annual rate of 4.16%. This note requires monthly payments in the amount of \$15,234 with a balloon payment on the date of maturity. This note is collateralized by the buildings located at 66 Old Airport Road and 5488 Highway 49 and had balances of \$1,596,996 and \$1,709,867 as of January 31, 2019 and 2018, respectively.

Principal payments on notes payable are scheduled as follows for the years ending January 31:

2020	\$ 1,719,283
2021	127,644
2022	92,953
2023	81,294
2024	84,808
Thereafter	1,144,269
Total	\$ 3,250,251

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(10) Commitments and Contingencies

The Organization has an operating lease for office and clinic space rental. The lease began on November 10, 2017 and ends on December 31, 2022. The terms of the lease agreement provides for two additional automatic five-year renewals. The related rent expense for each of the fiscal years ended January 31, 2019 and 2018 was \$48,000. Minimum lease payments are as follows for the years ended January 31:

2020	\$	48,000
2021		48,000
2022		48,000
2023		44,000
Thereafter		<u>0</u>
Total	\$	<u>188,000</u>

(11) Net Patient Revenue

A summary of net patient revenue for the fiscal years ended January 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Gross Patient Revenue	\$ 19,676,177	\$ 17,384,097
Less Discounts and Adjustments	<u>(10,723,846)</u>	<u>(8,733,426)</u>
Total Net Patient Revenue	<u>\$ 8,952,331</u>	<u>\$ 8,650,671</u>

(12) 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.

(13) 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 \$7,208,397 (\$6,990,527 operational and \$217,870 non-operational) and \$7,616,022 (\$6,911,703 operational and \$704,319 non-operational) of which all was obligated for the fiscal years ended January 31, 2019 and 2018, 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.

Of the above amount, the total pass-through to the Organization from other agencies for the fiscal years ended January 31, 2019 and 2018 were \$72,286 and \$216,339, respectively.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(14) Other Grants and Contract Revenue

The Organization also receives revenue through grants and contracts with various organizations. For the fiscal years ended January 31, 2019 and 2018, the Organization's grants and contract revenue are comprised of the following:

	<u>2019</u>	<u>2018</u>
Contract 340B	\$ 5,019,313	\$ 3,144,538
Mississippi State Department of Health-MQHC	145,386	160,715
Mississippi State Department of Health-Shine	71,439	134,747
Other Contract Revenue	<u>118,194</u>	<u>129,862</u>
Total Other Grants and Contract Revenue	<u>\$ 5,354,332</u>	<u>\$ 3,569,862</u>

(15) Donations

Donated Items

The Organization received donated supplies from various sources to be disbursed to indigent patients. The value of these donated supplies is based on the fair market value of each item. The Organization also received a donation of two modular units, the value of this donation is based on fair market value. For the fiscal years ended January 31, 2019 and 2018, the total value of the noncash contributions of received was \$853,632 and \$159,141, respectively. The contributions are reported on the financial statements as revenue and the related expense when received.

Contributions

Effective January 1, 2016, the Organization received a contribution of approximately \$250,000 from "The Pink Ribbon Fund," a separate legal 501(c)3 organization. The funds are designated for medical-related expenses of individuals diagnosed with breast cancer, and the Organization recognizes these contributions as net assets with donor restriction until the funds are used in accordance with specified use designation. The board has elected to outsource the administration and oversight of this fund. During the years ended January 31, 2019 and 2018, \$135,831 and \$101,354, respectively, of contributions (including special event revenue) restricted for use in The Pink Ribbon Fund were received. Contributions received during the year ended January 31, 2019 include gift-in-kind contributions that were utilized in fundraising efforts by the Organization and expensed as such during the fiscal year. The estimated fair value of gift-in-kind contributions recognized totaled \$6,885.

The Organization, through the outsourced administrator, conducted certain fundraising events during the fiscal year ended January 31, 2019. Special event revenue, before expenses, was \$106,904 (\$18,006 – golf tournament, \$85,262 – tea social, and \$3,636 – motorcycle ride). Direct benefits received by donors during these events was approximately \$8,000.

As of January 31, 2019 and 2018, the Organization reported \$194,527 and \$208,282 of net assets with donor restrictions for medical-related expenses of individuals diagnosed with breast cancer.

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Notes to Financial Statements

January 31, 2019 and 2018

(16) 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 matches an additional 4% of employee compensation. The Organization also maintains a section 457 retirement plan for key employees. For the years ended January 31, 2019 and 2018, the Organization contributed \$261,263 and \$249,137, respectively, to the 403(b) retirement plan. There were no contributions to the section 457 plan during the fiscal years ended January 31, 2019 and 2018.

(17) 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 2019 and 2018 was \$4,443,444 and \$3,243,255 respectively.

(18) Significant Source of Revenue

Approximately 31% and 36% of the Organization's revenue was provided by grants from the U.S. Department of Health and Human Services for the fiscal years ended January 31, 2019 and 2018, respectively. The Organization is dependent on this continued funding and the absence of these grants could possibly have a negative effect on operations.

(19) 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.

(20) Related Party Transactions

The Organization is required by its federal grantor to maintain a governing board of individuals of which more than 50% are users of the Organization. Therefore, the Organization does have related party transactions with those directors. These transactions were not material to the operation of the Organization and were conducted at "arms-length."

SUPPLEMENTAL SCHEDULES

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended January 31, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Health and Human Services</u>				
Health Center Program Cluster Health Center Program (Community Health Centers, Migrant Health, Health Care for the Homeless, and Public Housing Primary Care) <i>Grant No. H80CS 00610</i>	93.224	N/A	N/A	\$ 1,993,589
Grants for New and Expanded Service Under the Health Center Program <i>Grant No. H80CS 00610</i>	93.527	N/A	N/A	3,833,934
Grants for New and Expanded Service Under the Health Center Program <i>Grant No. C8DCS29704</i>	93.527	N/A	N/A	<u>217,870</u>
Total Health Center Program Cluster				\$ 6,045,393
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease <i>Grant No. H76HA 00665</i>	93.918	N/A	N/A	783,115
Coordinated Services and Access to Research for Women, Infants, Children, and Youth <i>Grant No. H12HA 31115</i>	93.153	N/A	N/A	<u>307,603</u>
Total Direct Grants				\$ <u>7,136,111</u>
Pass Through Grant Mississippi State Department of Health HIV Care Formula Grants <i>Grant No. X07HA00036</i>	93.917	None	N/A	\$ 14,374
Pass Through Grant Mississippi State Department of Health Centers for Disease Control and Prevention Investigations and Technical Assistance <i>Grant No. H301068H</i>	93.283	None	N/A	<u>57,912</u>
Total Pass Through Grants				\$ <u>72,286</u>
Total Federal Grants				\$ <u><u>7,208,397</u></u>

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Note to Schedule of Expenditures of Federal Awards

For the Year Ended January 31, 2019

Note A- Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award (the "Schedule") of Southeast Mississippi Rural Health Initiative, Inc. under programs of the federal government for the year ended January 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Southeast Mississippi Rural Health Initiative, Inc. , it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southeast Mississippi Rural Health Initiative, Inc.

Note B-Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Southeast Mississippi Rural Health Initiative, Inc. has elected not to use the 10 percent de minimus indirect cost rate allowed under Uniform Guidance.

Note C- Loans Outstanding

The Organization had the following loan balances outstanding at January 31, 2019:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Community Facilities Loan	10.766	\$ 464,775
Community Facilities Loan	10.766	498,174
Community Facilities Loan	10.766	571,645
Community Facilities Loan	10.766	118,661



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Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

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 statements of financial position as of January 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

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 June 28, 2019.

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.



Lebanon, TN
June 28, 2019



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Independent Auditor's Report on Compliance for Each Major Federal Program and
on Internal Control Over Compliance Required by the Uniform Guidance

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 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 fiscal year ended January 31, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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.

Opinion on Each Major Federal Program

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 major federal programs for the fiscal year ended January 31, 2019.

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 Uniform Guidance, 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

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



Lebanon, TN
June 28, 2019

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended January 31, 2019

Section A-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material Weakness(es) identified? _____yes X no
Significant Deficiency(ies) identified? _____yes X none reported
Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:
Material Weakness(es) identified? _____yes X no
Significant Deficiency(ies) identified? _____yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____yes X no

Identification of major programs:

CFDA Number

93.224 and 93.527 _____

93.918 _____

93.153 _____

Name of Federal Program

Health Center Program Cluster

Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Coordinated Services and Access to Research for Women, Infants, Children, and Youth

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____X yes _____no

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Schedule of Findings and Questioned Costs

For the Year Ended January 31, 2019

Section B- Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the financial statements for which Government Auditing Standards requires reporting.

None

Section C-Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a), significant deficiencies, material weaknesses, material instances of noncompliance, including questioned costs, and material abuse.

None

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Summary Schedule of Prior Year Audit Findings

January 31, 2019

There were no findings in the prior year audit. However, there were certain matters involving internal control structure and its operation 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 had been taken to improve these controls.

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

Report to the Board of Directors

January 31, 2019

SOUTHEAST MISSISSIPPI RURAL HEALTH INITIATIVE, INC.

Report to the Board of Directors

January 31, 2019

Table of Contents

❖ Transmittal Letter.....	1
❖ Summary of Professional Services.....	2
❖ Required Auditor Communications.....	3
❖ Management Letter.....	6



TERRY L. HORNE, CPA

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June 28, 2019

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, 2019. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated June 28, 2019. We are presenting an oral presentation of the financial statements and the results of the compliance audit in accordance with Government Auditing Standards and Uniform Guidance 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 Uniform Guidance, “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 Uniform Guidance.*

- ◇ *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 Uniform Guidance **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) 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, 2019 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 audit adjustments. These audit adjustments were related to adjusting payroll liabilities, accounts receivable, allowance for uncollectible, accrued expenses and payables, and net assets with donor restrictions.*

❖ **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, 2019, 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 June 28, 2019, on the financial statements of Southeast Mississippi Rural Health Initiative, Inc.

I. Accounts Receivable Controls

1. The Organization currently records certain contract pharmacy revenue based on the contractor's invoice date instead of the date of service. Proper accounting procedures require that these amounts be recorded as a receivable in the general ledger as they are earned. It is recommended that the Organization record the contract pharmacy revenue and reconcile the related receivable to the general ledger on a monthly basis.

Management's Response:

Management concurs. Procedures will be established to record the contract pharmacy revenues based on the date of service on a monthly basis as recommended above.

2. A large amount of the patient accounts receivable balance (73% or \$3.7 million) is more than 90 days old. This balance has resulted mainly from collecting insufficient payments from the patients or failure to collect from third party payers. Aggressive collection efforts should be applied to these large outstanding balances.

Management's Response:

Management concurs. Procedures have been established to increase collection efforts on old outstanding balances and to improve the collections from patients and third party payers as recommended above.

II. Pharmacy Controls

1. Currently less than 15% of the pharmacy's prescriptions are being billed to third party payers. To improve pharmacy collections, efforts should be made to bill Medicaid and other third party payers for prescriptions in all possible cases.

Management's Response:

Management concurs. Procedures will be established to bill Medicaid and other third party payers for prescriptions as recommended above.

III. Accounting Controls

1. During the audit it was noted that the Organization's liability for accrued payroll was not correctly recorded to reflect the correct liability in the general ledger. It is recommended that each payroll accrual calculation be reviewed for accuracy and that balances be correctly tied to the general ledger.

Management's Response:

Management concurs. Procedures will be established to ensure that payroll accruals are correctly calculated and recorded as recommended above.

2. Procedures have not been developed to ensure that general ledger balances are accurately reviewed each month. Proper accounting controls recommend that management review monthly transactions, journal entries, and bank reconciliations to ensure completeness and accuracy. This review should be completed before financial information is presented to the board or any party outside the Organization. It is recommended that a checklist be used to document this review.

Management's Response:

Management concurs. Financial Statement Preparation Checklists will be developed to assist the current CFO with the required elements of financial statement preparation.

IV. Revenue Controls

1. During the audit, it was noted that the Organization is not correctly recording donor restricted contributions as Net Assets with Donor Restrictions and recognizing the related income upon release of donor restriction. U.S. generally accepted accounting principles require that restricted funds received from donors remain classified as restricted until the funds have been used for the intended purpose.

Management's Response:

Management concurs. Procedures will be established to ensure that monies received with donor restrictions are classified as recommended above.

2. During the audit it was noted that in-kind donations and the related fundraising expenses are not being recorded in the general ledger. U.S. generally accepted accounting principles require that the value of in-kind donations and fundraising expense be properly recorded and posted separately in the Organization's financial statements.

Management's Response:

Management concurs. Procedures will be established to ensure that donations and fundraising expenses are correctly recorded in the financial statements as recommended above.

3. The Organization is currently combining fundraising income and the related expenses with Pink Ribbon donations. Proper accounting procedures require that fund raising revenue and expenses be reported separate from general donations.

Management's Response:

Management concurs. Procedures will be established to ensure that fund raising related revenue and expenses are reported separate from general donations 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.



June 28, 2019
