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RURAL HEALTH OF AMERICA, INC.

FINANCIAL STATEMENTS

Two Years Ended December 31, 1995

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under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-28-96

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Rural Health of America, Inc.

I have audited the accompanying statement of financial position of Rural Health of America, Inc. (a nonprofit organization) as of December 31, 1995, and the related statements of activities, functional expenses, and cash flows for the two years then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Health of America, Inc. as of December 31, 1995, and the changes in its net assets and its cash flows for the two years then ended in conformity with generally accepted accounting principles.

As discussed in note I to the financial statements, the Organization expended certain grant funds in a manner that may have violated certain of the restrictive provisions of the related grants. The possible outcome of these matters, which have been reported to the appropriate grantor officials, is uncertain at the time. Accordingly, no provision for any liability has been made in the financial statements for possible grantor claims for refunds of those grant monies.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of allowable costs on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued a report dated June 21, 1996, on my consideration of Rural Health of America, Inc.'s internal control structure and a report dated June 21, 1996, on its compliance with laws and regulations.

*Jerry L Heck*

June 21, 1996

**RURAL HEALTH OF AMERICA, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 1995

<b>ASSETS</b>	
Cash	\$ 360
Assets restricted for grant repayment	5,629
Property and equipment	<u>323,556</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 329,545</u></b>
 <b>LIABILITIES</b>	
Accrued interest	\$ 131
Refundable advances	5,629
Long-term debt	<u>19,767</u>
<b>TOTAL LIABILITIES</b>	<b>25,527</b>
 <b>NET ASSETS</b>	
Unrestricted	304,018
Temporarily restricted	-
Permanently restricted	<u>-</u>
<b>TOTAL NET ASSETS</b>	<b><u>304,018</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 329,545</u></b>

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

**RURAL HEALTH OF AMERICA, INC.**  
**STATEMENT OF ACTIVITIES**  
Two Years Ended December 31, 1995

<b>UNRESTRICTED NET ASSETS</b>	
Revenue and support	
Donations	\$ 11,046
Interest income	10,538
Other income	<u>500</u>
<b>TOTAL UNRESTRICTED REVENUE AND SUPPORT</b>	<b>22,084</b>
Net assets released from restrictions	
Restrictions satisfied by payments	<u>341,331</u>
<b>TOTAL UNRESTRICTED REVENUE, SUPPORT AND RECLASSIFICATIONS</b>	<b>363,415</b>
Expenses	
Program services	
Health education	41,331
Supporting services	
General and administrative	<u>18,066</u>
<b>TOTAL EXPENSES</b>	<b><u>59,397</u></b>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<b>304,018</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	
Health demonstration grant	41,331
Primary care clinic grant	300,000
Net assets released from restrictions	
Restrictions satisfied by payments	<u>( 341,331)</u>
<b>INCREASE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>-</u></b>
<b>INCREASE IN NET ASSETS</b>	<b>304,018</b>
<b>NET ASSETS AT JANUARY 1, 1994</b>	<b><u>-</u></b>
<b>NET ASSETS AT DECEMBER 31, 1995</b>	<b><u>\$ 304,018</u></b>

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

RURAL HEALTH OF AMERICA, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Two Years Ended December 31, 1995

	<u>Program Services Health Education</u>	<u>Supporting Services General and Admin- istrative</u>	<u>Total</u>
Advertising	\$ 5,854	\$ 987	\$ 6,841
Consultants and lecturers	19,220	-	19,220
Dues and subscriptions	-	15	15
Educational materials	5,419	-	5,419
Entertainment	-	79	79
Interest	-	548	548
Maintenance	-	1,772	1,772
Miscellaneous	-	50	50
Office supplies	-	120	120
Postage	65	-	65
Professional fees	-	12,781	12,781
Rent	6,240	-	6,240
Supplies - food	2,388	-	2,388
Supplies - health screening	1,499	-	1,499
Supplies - miscellaneous	646	-	646
Telephone	-	1,234	1,234
Utilities	-	480	480
	<u>\$ 41,331</u>	<u>\$ 18,066</u>	<u>\$ 59,397</u>

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



**RURAL HEALTH OF AMERICA, INC.**  
**STATEMENT OF CASH FLOWS**  
Two Years Ended December 31, 1995

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in net assets	\$ 304,018
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Donated property	( 6,100)
(Increase) decrease in operating assets:	
Assets restricted for grant repayment	( 5,629)
Increase (decrease) in operating liabilities:	
Accrued interest	131
Refundable advances	<u>5,629</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	298,049
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	( <u>317,456</u> )
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	( 317,456)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from long-term debt	20,009
Payments on long-term debt	( <u>242</u> )
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>19,767</u>
<b>NET INCREASE IN CASH</b>	360
<b>CASH AT January 1, 1994</b>	<u>-</u>
<b>CASH AT DECEMBER 31, 1995</b>	<u><u>\$ 360</u></u>

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



RURAL HEALTH OF AMERICA, INC.  
NOTES TO FINANCIAL STATEMENTS

**NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES**

Nature of Activities

Rural Health of America, Inc. (the "Organization") was organized on September 24, 1993 to provide comprehensive quality health care services to residents of the rural south.

Basis of Accounting

The financial statements of Rural Health of America, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

RURAL HEALTH OF AMERICA, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)

Donated Services

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, and are provided by entities or persons possessing those skills, and that would be purchased if not donated.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method.

Income Taxes

The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

Restricted and Unrestricted Revenue and Support

Donations received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

State grant awards are classified as refundable advances until expended for the purpose of the grants or until refunded to the grantor agency since they are conditional promises to give.

**RURAL HEALTH OF AMERICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE B - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land	\$ 7,042
Land improvements	13,233
Building	280,381
Equipment	6,603
Furniture	<u>16,297</u>
	323,556
Accumulated depreciation	<u>( - )</u>
	<u>\$ 323,556</u>

There was no depreciation expense for the two years ended December 31, 1995 because the assets were not placed in service until March, 1996.

**NOTE C - REFUNDABLE ADVANCES**

The Organization records a restricted grant award as a refundable advance until it is expended for the purpose of the grant, at which time it becomes unconditional and is recognized as revenue. The activity in the refundable advance account is reported as follows:

Refundable advances	
January 1, 1994	\$ -
Grant awards received	346,960
Grant expenditures	<u>( 341,331 )</u>
Refundable advances	
December 31, 1995	<u>\$ 5,629</u>

**NOTE D - NOTE PAYABLE**

The Organization has a 10.5% note payable to a company in 60 monthly installments of \$430.32 that is secured by the land and building and has principal outstanding of \$19,767 at the end of 1995.

**RURAL HEALTH OF AMERICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE D - NOTE PAYABLE (CONTINUED)**

The future scheduled maturity of the note is as follows:

Year ending December 31:	
1996	\$ 3,542
1997	3,632
1998	4,032
1999	4,476
2000	<u>4,085</u>
	<u>\$ 19,767</u>

**NOTE E - STATEMENT OF CASH FLOWS**

The Organization had the following noncash transactions, which are included in support and a corresponding amount in property and equipment, during the two years ended December 31, 1995:

Received donation of land	\$ 4,000
Received donation of clay dirt	<u>2,100</u>
	<u>\$ 6,100</u>

Interest paid during the two years ended December 31, 1995 follows:

Interest expense in the statement of functional expenses	\$ 548
Interest accrued at December 31, 1995	( <u>131</u> )
Interest paid	<u>\$ 417</u>

**NOTE F - SUPPORT CONCENTRATION**

Two grants from the State of Louisiana, Department of Health and Hospitals provided approximately 94% of the Organization's support during the two years ended December 31, 1995.

**NOTE G - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES**

Health Education

This program consists of a comprehensive outreach program including health fairs and forums. The health fairs offers free blood pressure checks and other screening tests with referral to appropriate resources when immediate treatment is needed.



**RURAL HEALTH OF AMERICA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE G - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES (CONTINUED)**

School based forums offers health and motivational speakers along with health care material highlighting proper nutrition, prenatal care, safety education and disease prevention and management.

General and Administrative

This supporting service includes the functions necessary to operate the Organization in an efficient and responsible manner.

**NOTE H - DONATED SERVICES**

Donated accounting services of \$4,154 are included in support and a corresponding amount in general and administrative expenses for the two years ended December 31, 1995.

In addition, several volunteers with specialized skills donated significant amounts of time to the Organization's program and supporting services. However, the estimated value of these services were not recognized in the financial statements because they did not met the criteria for recognition under SFAS No. 116.

**NOTE I - GRANT EXPENDITURES**

The Organization received a \$300,000 primary care clinic grant and a \$46,960 health demonstration grant from the State of Louisiana, Department of Health and Hospitals. The grant proposals included budgeted expenditures, which were incorporated as part of the grant agreements. While all of the grant disbursements appear to be within the general guidelines of the grant agreements, they do not always follow the approved budget categories as to classification and amount.

**NOTE J - SUBSEQUENT EVENTS**

Due to the unavailability of funds with which to operate the facility, the Organization began leasing its primary care clinic to a for profit health care provider on March 1, 1996. The initial lease term is for five years and gives options to renew for three additional five year periods. The lease calls for monthly payments to increase annually with payments of \$400 per month during the final year of the initial five year lease term.

In March, 1996, the Organization sold furniture with a book value of \$15,352 to the lessor of the clinic for \$26,732.

Also, in March, 1996, the Organization paid off the balance of its long-term debt.

**SUPPLEMENTARY INFORMATION**

**RURAL HEALTH OF AMERICA, INC.**  
**SCHEDULE OF ALLOWABLE COSTS**  
Two Years Ended December 31, 1995

Primary Care Clinic Grant

	<u>Unaudited Budget Amounts</u>	<u>Actual Expenditures</u>	<u>Allowable Costs</u>
Clinic construction	\$ 300,000	\$ 293,614	\$ 293,614
Equipment	-	6,386	-
	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 293,614</u>

Health Demonstration Grant

	<u>Unaudited Budget Amounts</u>	<u>Actual Expenditures</u>	<u>Allowable Costs</u>
Advertising	\$ -	\$ 5,854	\$ -
Consultants and lecturers	20,000	19,220	19,220
Educational materials	5,000	5,419	5,000
Postage	760	65	65
Rent	-	6,240	-
Salaries	19,200	-	-
Supplies - food	-	2,388	-
Supplies - health screening	-	1,499	-
Supplies - miscellaneous	-	646	-
Telephone	2,000	-	-
	<u>\$ 46,960</u>	<u>\$ 41,331</u>	<u>\$ 24,285</u>

Allowable costs are those expenditures for an original or amended budget category up to the original or amended budget amount.





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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Rural Health of America, Inc.

I have audited the financial statements of Rural Health of America, Inc. (a nonprofit organization) as of and for the two years ended December 31, 1995 and have issued my report thereon dated June 21, 1996.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Rural Health of America, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the financial statements of Rural Health of America, Inc. for the two years ended December 31, 1995, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I

assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

I noted a certain matter involving the internal control structure and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the Organization's ability to record, process, summarize, and report financial data in a manner that is consistent with assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I noted the following matter involving the internal control structure and its operation that I consider to be a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in my audit of the financial statements of Rural Health of America, Inc. for the two years ended December 31, 1995.

The size of the Organization's operations and its limited staff preclude an adequate segregation of duties and other features of an adequate system of internal control. However, it would not be cost beneficial for Rural Health of America, Inc. to change its present system.

This report is intended for the information of the board of directors, management, Louisiana Department of Health and Hospitals and the Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

*Jerry L Heck*

June 21, 1996



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Rural Health of America, Inc.

I have audited the financial statements of Rural Health of America, Inc. (a nonprofit organization) as of and for the two years ended December 31, 1995, and have issued my report thereon dated June 21, 1996.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Rural Health of America, Inc. is the responsibility of the Organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Rural Health of America, Inc.'s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed the following instances of noncompliance that are required to be reported herein under Government Auditing Standards for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in Rural Health of America, Inc.'s 1995 financial statements.

1. Some grant disbursements were not made in accordance with the budget categories in the original and/or amended budgets. Expenditures of grant funds must comply with both the budget categories and budget amounts found in the grant agreements. Failure to comply with grant provisions may cause some of the grant costs to be disallowed.



2. Records were not available to document the value of in-kind contributions. In the Health Demonstration Grant Agreement, the Organization agreed to provide an in-kind match in the form of supervisory and support personnel salaries, outreach worker support, and furnish office space and utilities.

I considered these instances of noncompliance in forming my opinion on whether Rural Health of America, Inc.'s 1995 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect my report dated June 21, 1996, on those financial statements.

This report is intended for the information of the board of directors, management, Louisiana Department of Health and Hospitals and the Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

*Jerry L Heck*

June 21, 1996