

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
HEALTH SERVICES CENTER, INC.
HOBSON CITY, ALABAMA
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Health Services Center, Inc.

Report on Financial Statements

I have audited the accompanying financial statements of Health Services Center, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets-modified cash basis as of December 31, 2019, and the related statements of support, revenue, and expenses-modified cash basis and functional expenses-modified cash basis for the year 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 the modified cash basis of accounting as described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Health Services Center, Inc. as of December 31, 2019, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

I draw attention to Note A of the financial statements which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 1, 2020, on my consideration of Health Services Center, Inc.'s internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Health Services Center, Inc.'s internal control over financial reporting and compliance.

Curvin Accounting, LLC

Curvin Accounting, LLC
Jacksonville, Alabama
December 1, 2020

HEALTH SERVICES CENTER, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH BASIS
DECEMBER 31, 2019

ASSETS	<u>2019</u>
Current Assets	
Cash and cash equivalents	\$ 214,043
	<u>214,043</u>
Property and Equipment	
Land	33,570
Buildings and improvements	568,314
Equipment, furniture and fixtures, vehicles	243,767
Total Property and Equipment	<u>845,651</u>
Less: Accumulated depreciation	<u>393,693</u>
Net Property and Equipment	<u>451,958</u>
 Total Assets	 <u><u>\$ 666,001</u></u>

See independent auditor's report and notes to financial statements.

LIABILITIES AND NET ASSETS	<u>2019</u>
Current Liabilities	
Payroll liabilities	<u>\$ 34,085</u>
Total Current Liabilities	<u>34,085</u>
 Net Assets	
Without Restrictions	
Operating	84,826
Fixed assets	<u>56,812</u>
Total Without Restrictions	141,638
With Restrictions	
Operating	95,132
Fixed assets	<u>395,146</u>
Total With Restrictions	<u>490,278</u>
Total Net Assets	<u>631,916</u>
 Total Liabilities and Net Assets	 <u><u>\$ 666,001</u></u>

HEALTH SERVICES CENTER, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Restrictions</u>	<u>With Restrictions</u>	<u>Total</u>
Public Support and Revenues			
Public Support:			
Contributions	\$ -	\$ -	\$ -
Donated drugs, supplies and services	-	2,340,460	2,340,460
Total Public Support	<u>-</u>	<u>2,340,460</u>	<u>2,340,460</u>
Fees and Grants from Government Agencies:			
Federal grants and contracts	-	3,857,112	3,857,112
State grants and contracts	-	126,459	126,459
Total Fees and Grants	<u>-</u>	<u>3,983,571</u>	<u>3,983,571</u>
Revenues:			
Fees-patients	368	207,032	207,400
Interest	28	-	28
Miscellaneous	68,928	-	68,928
Rental-program	-	29,174	29,174
Total Revenues	<u>69,324</u>	<u>236,206</u>	<u>305,530</u>
Net assets released from restrictions	<u>48,543</u>	<u>(48,543)</u>	<u>-</u>
TOTAL SUPPORT, GRANTS AND REVENUES	117,867	6,511,694	6,629,561
Expenses			
Program services	-	6,747,993	6,747,993
Depreciation	-	73,779	73,779
Total Expenses	<u>-</u>	<u>6,821,772</u>	<u>6,821,772</u>
Change in Net Assets	117,867	(310,078)	(192,211)
Net Assets, beginning of year	22,589	664,424	687,013
Restatement of Net Assets-See Note O	<u>1,182</u>	<u>135,932</u>	<u>137,114</u>
Net Assets, beginning of year-Restated	<u>23,771</u>	<u>800,356</u>	<u>824,127</u>
Net Assets, end of year	<u>\$ 141,638</u>	<u>\$ 490,278</u>	<u>\$ 631,916</u>

See independent auditor's report and notes to financial statements.

**HEALTH SERVICES CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019
Employee benefits	235,180
Equipment rental and maintenance	10,359
Insurance	60,633
Miscellaneous	14,561
Occupancy	324,476
Office related expenses	118,207
Payroll taxes	168,812
Professional fees	50,115
Retirement Contributions	60,434
Salaries and wages	2,219,750
Specific assistance	1,014,663
Specific assistance-donated	2,340,460
Taxes and licenses	25,884
Telephone	6,456
Travel, conferences, and meetings	75,602
Vehicle maintenance	22,401
Total Expenses Before Depreciation	6,747,993
Depreciation	73,779
TOTAL EXPENSES	\$ 6,821,772

See independent auditor's report and notes to financial statements.

HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Health Services Center, Inc. (the Center) is a nonprofit community-based organization primarily formed to educate and medically assist people who are stricken with Acquired Immune Deficiency Syndrome (AIDS) or Human Immunodeficiency Virus (HIV). The Center, formed in 1990, is located in Hobson City, Alabama and serves clients in a fourteen-county area of East Alabama. The Center is supported primarily through federal and state grants and donor contributions.

Contributed Supplies and Services

The Center's contributions received are recorded as with restrictions or without restrictions support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of the restrictions.

The Center receives in kind contributions of medical and laboratory supplies, services from various pharmaceutical and laboratory agencies, and discounted physician and hospital bills. The estimated value of these supplies and services at December 31, 2019 was \$2,340,460.

Method of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Generally accepted accounting principles require that financial statements be prepared on the accrual basis of accounting. The primary difference relates to when revenues and expenses are recorded. Cash basis accounting is the method in which revenue is recognized when cash is received, and expense is recognized when cash is disbursed. Accrual basis accounting is the method in which revenue is recognized when earned, and expense is recorded when incurred.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Center considers all unrestricted highly liquid financial instruments with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost when purchased and fair market when donated. Depreciation is provided using the straight-line method over the estimated useful life.

Income Taxes

The Center is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for Federal income taxes in the accompanying financial statements. In addition, the Center has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

The Center’s Forms 990, *Return of Organization Exempt from Income Tax*, for the years 2017, 2018, and 2019 are subject to examination by the IRS, generally for three years after they were filed.

NOTE B – LONG TERM DEBT

The Center had a \$50,000 line-of-credit with Wells Fargo Bank, N.A., Birmingham, Alabama. The line is unsecured. The outstanding balance at December 31, 2019 is \$0.

NOTE C – FUNCTIONAL CLASSIFICATIONS OF EXPENSES

Approximately 90% of the Center’s expenses relate to program services, while approximately 10% relate to management and general expenses.

HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE D – EMPLOYEE BENEFIT PLAN

Full time employees who wish to forfeit their individual health insurance benefit are eligible for a comparable credit toward a personal tax-sheltered annuity retirement account. Additionally, employees of the Center may volunteer to participate in the retirement account by pre-tax payroll deduction, whether or not the Center pays any portion into the account. Expenses related to the retirement account at December 31, 2019 totaled \$60,434.

NOTE E – NET ASSETS WITH RESTRICTIONS

Net assets with restrictions amounted to \$490,278 for the year ended December 31, 2019.

NOTE F – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor/grant restrictions by incurring expenses satisfying the restricted purposes or the occurrence of other events specified by donors/grantor. Net assets released from restrictions for the year ended December 31, 2019 were \$48,543.

NOTE G-RISK MANAGEMENT

The Center is exposed to various risks of loss to torts, theft, errors and omissions, job-related illnesses and injuries and natural disasters. Risk management is the process of managing the Center's activities to minimize the adverse effects of certain types of losses and to obtain finances to provide for or restore the economic damages of those losses. The Center maintains insurance coverage with Dorman and Reynolds Insurance Company, and the Center believes the coverage is adequate to preclude any significant risk exposure.

HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE H – PROPERTY AND EQUIPMENT

The summary of changes in property and equipment are as follows:

	Beginning Balance 12-31-18	Additions	Deletions	Ending Balance 12-31-19
Non-depreciable Assets				
Land	\$ 33,570	\$ -	\$ -	\$ 33,570
Depreciable Assets				
Building & Improvements	627,831	-	(59,517)	568,314
Equipment, furniture and fixtures, vehicles	654,365	-	(410,598)	243,767
Total Depreciable Assets	<u>1,282,196</u>	<u>-</u>	<u>(470,115)</u>	<u>812,081</u>
Total Fixed Assets	1,315,766	-	(470,115)	845,651
Less Accum Depreciation	<u>(790,029)</u>	<u>(73,779)</u>	<u>470,115</u>	<u>(393,693)</u>
Property & Equipment, Net	<u>\$ 525,737</u>	<u>\$ (73,779)</u>	<u>\$ -</u>	<u>\$ 451,958</u>

Depreciation expense for the year ended December 31, 2019 was \$73,779.

NOTE I – OPERATING LEASES

The Center is a party to several operating leases. It leases office and medical space for its staff as well as housing for its clients. The following is a summary of the various lease agreements:

The Center leases space located in Valley, Alabama from David Ennis. Monthly lease payments are due in the amount of \$1,300. The lease commenced in July 1, 2019 and ends June 30, 2021. The lease amount from January 1, 2019 through June 30, 2019 was \$1,150. Payments related to this lease, for the year ended December 31, 2019 totaled \$14,700.

The Center leases space located in Alexander City, Alabama from Chapman Rentals, LLC. Monthly lease payments are due in the amount of \$900. The lease commenced June 1, 2019 and ends in June 2021. The lease amount from January 1, 2019 through May 31, 2019 was \$1,100. Payments related to this lease, for the years ended December 31, 2019 totaled \$11,800.

HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE I – OPERATING LEASES (Continued)

The Center leases space located in Hobson City, Alabama from Hobson City. Monthly lease payments are due in the amount of \$900. The lease commenced in January 2003 and ends in December 2022. Payments related to this lease, for the year ended December 31, 2019 totaled \$10,800.

The Center leased space located in Gadsden, Alabama from Clokey Realty, Inc. Monthly lease payments are due in the amount of \$2,250. The lease commenced in August 2016 and ends in July 2021. Payments related to this lease, for the year ended December 31, 2019 totaled \$27,000.

The Center leased space located in Anniston, Alabama from Service Realty & Insurance Company, Inc. Monthly lease payments were due in the amount of \$850. The lease commenced December 2015 and ended November 2018. The lease was month to month from December 2018 through October 2019. Payments related to this lease, for the year ended December 31, 2019 totaled \$8,500.

The Center leases space in Anniston, Alabama from Stewart Building, LLC. Monthly lease payments are due in the amount of \$2,000. The lease commenced December 2016 and ended November 2019. Payments related to this lease totaled \$22,000 for the year ended December 31, 2019.

The Center entered into a lease on December 5th, 2018 for space in Gadsden, Alabama beginning January 1, 2019. The lease is for five years with annual rent of \$50,000 or \$4,166.67 per month. The lease is with Ironwood District, LLC. The Center vacated the property before the end of the year in 2019. There is an ongoing lawsuit regarding the validity of the lease. Payments related to this lease totaled \$39,589 for the year ended December 31, 2019.

The Center entered into a lease on January 1, 2020 for space in Gadsden, Alabama beginning January 1, 2020. The lease is for four years. The first year is \$2,426.25 per month. The second year is \$2,499.04 per month. The third year is \$2,574.01 per month. The final year is \$2,651.23 per month. The lease is with Dawson Construction, Inc.

**HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE I – OPERATING LEASES (Continued)

The Center’s lease obligations for the next five years will be as follows:

Year	Valley	Hobson City	Gadsden	Gadsden	Alexander City	Gadsden	Total
2020	\$15,600	\$10,800	\$27,000	\$29,115	\$10,800	\$50,000	\$143,315
2021	\$ 7,800	\$10,800	\$15,750	\$29,988	\$ 4,500	\$50,000	\$118,838
2022		\$10,800		\$30,888		\$50,000	\$ 91,688
2023				\$31,815		\$50,000	\$ 81,815
2024							
Thereafter							
Total	\$23,400	\$32,400	\$42,750	\$121,806	\$15,300	\$200,000	\$435,656

NOTE J – NET ASSETS AND CHANGES IN NET ASSETS

The following is an approximation of the percentages of net assets without restrictions and net assets with restrictions to total net assets at December 31, 2019:

	<u>Without Restrictions</u>	<u>With Restrictions</u>
Net assets, beginning of year	3.29%	96.71%
Change in net assets	<u>19.12%</u>	<u>(19.12)%</u>
Net assets, end of year	<u><u>22.41%</u></u>	<u><u>77.59%</u></u>

HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE K - LOSS CONTINGENCIES

The Center was involved in three EEOC lawsuits. Each lawsuit was filed by employees at year end December 31, 2018. The Center was informed that these cases were resolved by the EEOC investigator in July 2019. In each case, the investigator found that there was insufficient evidence to support the claims made by each claimant. The parties had the right to sue within 90 days of the EEOC decision. There was no further action taken.

The Center is involved in an ongoing lawsuit claiming the Center is in breach of contract regarding property leased in 2018 by a former employee. In management's opinion, the potential loss could be significant and will be argued vigorously. The original lease obligation amounts are included in Note I-Operating Leases.

NOTE L – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Center's financial assets at December 31, 2019 were \$214,043. The amounts not available for general use because of grant restrictions within one year of the balance sheet date were \$129,216.

NOTE M – EVALUATION OF SUBSEQUENT EVENTS

In preparing the financial statements, management evaluated subsequent events through December 1, 2020, the date the financial statements were available to be issued.

NOTE N – SUBSEQUENT EVENTS

The Center had an onsite review for the Ryan White Part B Program during 2019. It was discovered that some reimbursement claims had been requested incorrectly. The Center returned \$18,852.29 in January of 2020.

During grant renewal request and reporting, it was discovered that the Permanent Housing Plus Program had been overdrawn some time during the three prior years of that grant award. The Center returned \$60,340.00 of overdrawn grant funds in August of 2020.

HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE O – RESTATEMENT OF BEGINNING NET ASSETS

As discussed in not A to the basic financial statements, the financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. As a result of the change in accounting principles, the following is the details of changes in net assets:

Beginning Net Assets January 1, 2019-Accrual Basis	\$687,013
Conversion of Beginning Net Assets from Generally Accepted Accounting Principles (GAAP) to the Modified Cash Basis Of Accounting:	
Prepaid Insurance	\$(48,706)
Accounts Payable	8,530
Accrued Compensated Absences	125,101
Accrued Salaries and Wages	<u>52,189</u>
Total Change in Beginning Net Assets	<u>137,114</u>
Beginning Net Assets January 1, 2019-Modified Cash Basis	<u><u>\$824,127</u></u>

SUPPLEMENTAL INFORMATION

**HEALTH SERVICES CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Expenditures
<u>U.S. Department of Health and Human Services</u>			
Ryan White Title IV	93.153	N/A	\$ 528,783
ROAR Recovery, Outreach, Awareness, and Resilience	93.243	N/A	419,967
HOME Helping Others Move Through Empowerment	93.243	N/A	480,017
Project Impact	93.243	N/A	267,391
4 Her (Health, Empowerment, and Recovery) Program for Women of Color	93.243	N/A	347,683
Ryan White Part C Outpatient EIS Program	93.918	N/A	756,991
Ryan White Title III HIV Capacity Development and Planning	93.918	N/A	69,983
HIV Prevention Activities Health Department Based	93.940	N/A	125,331
Pass-through programs from:			
United Way of Central Alabama, Inc.			
Ryan White Part B Program	93.917	RWHSC1920	399,464
<u>U.S. Department of Housing & Urban Development</u>			
RHOP	14.241	N/A	330,496
Permanent Housing Plus	14.241	N/A	<u>268,883</u>
Total Federal Awards			<u><u>\$ 3,994,989</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**HEALTH SERVICES CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Health Services Center, Inc. under programs of the federal government for the year ended December 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, *Uniformed Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Health Services Center, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Health Services Center, Inc.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available.

NOTE C-INDIRECT COST RATE

Health Services Center, Inc. did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D-PROGAM INCOME

Health Services Center, Inc. earns program income while administering federal programs. The receipt of program income is recognized using the Deductive Method; which requires Health Services, Inc. to use the income as an offset against expenditures before requesting grant funding. For presentation of program income on the Schedule, total grant expenditures are net of program income.

The following is program income earned while administering federal programs:

<u>Federal Awards</u>	<u>Type of Program Income</u>	<u>Amount</u>
Ryan White Part C Outpatient EIS Program	Insurance and Copays	\$206,168
Rural Housing Options for Persons with AIDS	Rental Income	\$ 1,996
Rural Housing Options for Persons with AIDS	Miscellaneous Income	\$ 315
Permanent Housing Plus	Rental Income	\$ 26,862

**HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting: Material weaknesses identified?	___yes <u>X</u> no
Significant deficiencies identified not considered to be material weaknesses?	___yes <u>X</u> no
Noncompliance material to financial statements noted?	___yes <u>X</u> no

Federal Awards

Internal Control over major programs: Material weaknesses identified?	___yes <u>X</u> no
Significant deficiencies identified not considered to be material weaknesses?	<u>X</u> yes ___no
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 Uniform Guidance?	___yes <u>X</u> no
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	___yes <u>X</u> no

Identification of major programs:

CFDA Number	Name of Federal Program
93.917	Ryan White Part B Program
14.241	Permanent Housing Plus

SECTION II-FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

2019-001 Billing of ineligible services in the Ryan White Part B Program

Condition: It was discovered that several clients listed on service reports for Non-Medical Case Management did not actually receive those services. Accordingly, charges with respect to those clients and services were ineligible to be paid with Ryan White Part B funds. This caused the grant to be overspent by \$18,852.29.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements, including the Schedule of Expenditures for Federal Awards, as required by *Uniform Administrative Requirements, Cost Principles, and Audit Requirements*.

Effect: The Center did not have a training from the oversight entity to ensure proper billing practices. This caused a misunderstanding of required UWCA documentation.

Recommendation: To ensure that the Schedule of Expenditures for Federal Awards is presented fairly, in all material respects, there should be proper training in the required documentation for display in the charts for the Ryan White Part B Program.

Management's Response: Ryan White Part B will only be billed for the Eligibility Specialist and the non-medical case management she performs. The Center now understands the documentation needed for the UWCA to verify services and will be displaying this in the charts.

2019-002 Overdrawing of Permanent Housing Plus Grant

Condition: The previous individual responsible for approving and requesting fund drawdowns was not reconciling, recording, and allocating expenses in the financial software in a timely manner. The grant had funds that were available on the payment system. The program director had been notified that those funds were no longer available. The former CEO did not understand the payment system and did not ensure proper reconciliation was done by the CFO. This caused the money to be drawn down in error in the amount of \$60,340.00.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements, including

the Schedule of Expenditures for Federal Awards, as required by *Uniform Administrative Requirements, Cost Principles, and Audit Requirements*.

Effect: The Center did not have a system of internal controls that enabled management to prevent, deter, and detect misstatement in the allocation of expenses to individual grants on the Schedule of Expenditure of Federal Awards.

Recommendation: To ensure that the Schedule of Expenditures for Federal Awards is presented fairly, in all material respects, the individual responsible for requesting drawdowns for grantor agencies, should reconcile the cash used for requesting drawdowns to the actual expenses allocated to the grant in the general ledger. They should also be aware of the payment system requirements.

Management's Response: Changes have been implemented which rectified this issue. Management has established more effective internal controls to include monitoring for fair representation of the financial statements.

**HEALTH SERVICES CENTER, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019**

SECTION I-FINANCIAL STATEMENT FINDINGS AND RESPONSES

SIGNIFICANT DEFICIENCY

2018-001 Information provided to the Governing Board

Condition: A key aspect of monitoring any entity is the governing board. During the course of the audit, it was discovered that the governing board was not receiving a complete financial package at the board meetings. The reports were often incomplete. As a result, the board does not have enough information to have an accurate understanding of the financial status of the Center.

Criteria: Management is responsible for providing the governing board with complete and accurate financial information, in order to utilize the board as an efficient tool in monitoring the entity.

Effect: The Center's governing board is not being utilized as a method to monitor financial information in order to prevent, deter, and detect misstatements in the financial statements.

Recommendation: It is recommended that the Center provide the governing board with a financial packet before board meetings, that contains budget to actual comparisons for the grants and financial reporting information for the Center as a whole.

Current Status: Health Services Center, Inc. is still working with the Board to establish better monitoring of financial reporting. The Center's processes are much improved.

SECTION II-FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

2018-002 Overspending of CORE Grant

Condition: The individual responsible for calculating and requesting fund drawdowns was not reconciling, recording, and allocating expenses in the financial software in a timely manner. The grant had funds from a prior year that appeared available on the payment system. The program director had been notified that those funds were no longer available. The former CEO did not understand the payment system and assumed those monies were still available. This caused the grant to be overspent by \$69,190.00.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements, including the Schedule of Expenditures for Federal Awards, as required by *Uniform Administrative Requirements, Cost Principles, and Audit Requirements*.

Effect: The Center did not have a system of internal controls that would enable management to prevent, deter, and detect misstatement in the allocation of expenses to individual grants on the Schedule of Expenditure of Federal Awards.

Recommendation: To ensure that the Schedule of Expenditures for Federal Awards is presented fairly, in all material respects, the individual responsible for requesting drawdowns for grantor agencies, should reconcile the cash used for requesting drawdowns to the actual expenses allocated to the grant in the general ledger. They should also be aware of the payment system requirements.

Current Status: Health Services Center, Inc implemented changes which should rectify this issue. Management has established more effective internal controls to include monitoring for fair representation of the financial statements.

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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*

To the Board of Directors
Health Services Center, Inc.

I 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 Health Services Center, Inc. as of and for the year December 31, 2019, which comprise the statements of assets, liabilities, and net asstes-modified cash basis as of December 31, 2019, and the related statement of support, revenue, and expenses-modified cash basis, and statement of functional expenses-modified cash basis, and for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated December 1, 2020.

Internal Control over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Health Services Center, Inc.'s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as items 2019-001 and 2019-002.

Health Services Center, Inc.'s Response to Findings

Health Services Center, Inc.'s response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Health Services Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Curvin Accounting, LLC

Curvin Accounting, LLC
Jacksonville, Alabama
December 1, 2020

Curvin

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Health Services Center, Inc.

Report on Compliance for Each Major Federal Program

I have audited Health Services Center, 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 Health Services Center, Inc.'s major federal programs for the year ended December 31, 2019. Health Services Center, 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

My responsibility is to express an opinion on compliance for each of Health Services Center, Inc.'s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 the audit 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). Those standards and the Uniform Guidance require that I 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 Health Services Center, Inc.'s compliance with

those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for the major federal programs. However, my audit does not provide a legal determination of Health Services Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In my opinion, Health Services Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other Matters

The results of my auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. My opinion on each major federal program is not modified with respect to these matters.

Health Services Center Inc.'s response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Health Services Center Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

Report on Internal Control over Compliance

Management of Health Services Center, 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 my audit of compliance, I considered Health Services Center, Inc.'s internal control over compliance with the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Health Services Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance 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, 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my 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.

Curvin Accounting, LLC

Curvin Accounting, LLC
Jacksonville, Alabama
December 1, 2020



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CORRECTIVE ACTION PLAN

December 1, 2020

Department of Health and Human Services
Department of Housing and Urban Development

Health Services Center, Inc. respectfully submits the following corrective action plan for the year ended December 31, 2019.

Name and address of independent public accounting firm:

Curvin Accounting, LLC,
706 Mountain Street, N.W.
Jacksonville, AL 36265

Audit period: January 1, 2019-December 31, 2019.

The findings from the December 31, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS-FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF HEALTH AND HUMAN SERVICES

2019-001-Ryan White Part B Program CFDA No. 93.917 Grant No.RWHSC1920

SIGNIFICANT DEFICIENCY: See Finding 2019-001

Recommendation: To ensure that the Schedule of Expenditures for Federal Awards is presented fairly, in all material respects, there should be proper training in the required documentation for display in the charts for the Ryan White Part B Program.

Action Taken: We concur with the recommendation. We are in the process of implementing changes which should rectify this issue. We are in the process of establishing more effective internal controls to include monitoring for fair representation of the financial statements.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2019-002-Permanent Housing Plus CFDA No. 14.241 Grant No.ALH140025

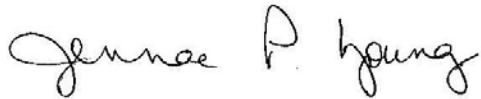
SIGNIFICANT DEFICIENCY: See Finding 2019-002

Recommendation: To ensure that the Schedule of Expenditures for Federal Awards is presented fairly, in all material respects, the individual responsible for requesting drawdowns for grantor agencies, should reconcile the cash used for requesting drawdowns to the actual expenses allocated to the grant in the general ledger. They should also be aware of the payment system requirements.

Action Taken: We concur with the recommendation. We are in the process of implementing changes which should rectify this issue. We are in the process of establishing more effective internal controls to include monitoring for fair representation of the financial statements.

If the Department of Health and Human Services or the Department of Housing and Urban Development has any questions regarding this plan, please call Jennae Young at (256)832-0100.

Sincerely yours,

A handwritten signature in cursive script that reads "Jennae P. Young". The signature is written in black ink and is positioned above a horizontal line.

Jennae Young, Chief Financial Officer
Health Services, Inc.