

East Arkansas Family Health Center, Inc.

Independent Auditor's Reports and Financial Statements

November 30, 2014

East Arkansas Family Health Center, Inc.
November 30, 2014

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Independent Auditor's Report

Board of Directors
East Arkansas Family Health Center, Inc.
West Memphis, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of East Arkansas Family Health Center, Inc. (the Center), which comprise the balance sheet as of November 30, 2014, and the related statements of operations and changes in net assets and cash flows 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 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 the 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Center'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 Center'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 East Arkansas Family Health Center, Inc. as of November 30, 2014, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information consisting of the schedule of expenditures of state awards and the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated June 8, 2015, on our consideration of the Center'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 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 the Center's internal control over financial reporting and compliance.

BKD, LLP

East Arkansas Family Health Center, Inc.

Balance Sheet

November 30, 2014

Assets

Current Assets

Cash	\$	889,786
Patient accounts receivable, net of allowance of \$192,196		403,215
FQHC cost report receivable		329,107
Grants receivable		170,371
Prepaid expenses and other		63,108
Contributions receivable – current		55,000
Inventories		48,689

Total current assets 1,959,276

Contributions Receivable

115,000

Property and Equipment, at Cost

Land		390,705
Buildings		9,714,675
Equipment		2,964,939
		<u>13,070,319</u>
Less accumulated depreciation		<u>2,491,422</u>

10,578,897

Total assets \$ 12,653,173

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 454,633
Accrued liabilities	514,238
Capital lease	16,562
Notes payable to bank	<u>2,690,179</u>

Total current liabilities 3,675,612

Total liabilities 3,675,612

Net Assets

Unrestricted	8,654,581
Temporarily restricted	<u>322,980</u>

Total net assets 8,977,561

Total liabilities and net assets \$ 12,653,173

East Arkansas Family Health Center, Inc.
Statement of Operations and Changes in Net Assets
Year Ended November 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Patient service revenue (net of contractual discounts and allowances)	\$ 4,632,922	\$ -	\$ 4,632,922
Provision for uncollectible accounts	(333,344)	-	(333,344)
Net patient service revenue less provision for uncollectible accounts	4,299,578	-	4,299,578
Grant funds	3,947,110	-	3,947,110
340B revenue	970,824	-	970,824
Other revenue	20,244	-	20,244
In-kind	87,605	-	87,605
Interest	1,546	-	1,546
Net assets released from restrictions	65,469	(65,469)	-
Total revenues, gains and other support	9,392,376	(65,469)	9,326,907
Expenses			
Personnel	5,330,565	-	5,330,565
Fringe benefits	891,849	-	891,849
Travel	150,570	-	150,570
Professional fees	127,418	-	127,418
Supplies	618,484	-	618,484
Purchased services	82,490	-	82,490
Dues and memberships	58,979	-	58,979
Contracted and supplemental	525,046	-	525,046
Insurance	65,654	-	65,654
Building and equipment rental	115,073	-	115,073
Telephone	132,186	-	132,186
Repairs and maintenance	161,007	-	161,007
Depreciation	294,367	-	294,367
Utilities	123,049	-	123,049
In-kind	87,605	-	87,605
Interest	8,586	-	8,586
Other	155,109	-	155,109
Total expenses	8,928,037	-	8,928,037
Excess (Deficiency) of Revenues Over Expenses	464,339	(65,469)	398,870
Grants for acquisition of property and equipment	4,053,822	-	4,053,822
Contributions for acquisition of property and equipment	291,108	-	291,108
Change in Net Assets	4,809,269	(65,469)	4,743,800
Net Assets, Beginning of Year	3,845,312	388,449	4,233,761
Net Assets, End of Year	\$ 8,654,581	\$ 322,980	\$ 8,977,561

East Arkansas Family Health Center, Inc.
Statement of Cash Flows
Year Ended November 30, 2014

Operating Activities	
Change in net assets	\$ 4,743,800
Items not requiring (providing) operating cash flow	
Depreciation	294,367
Provision for uncollectible accounts	333,344
Contributions for acquisition of property and equipment	(275,000)
Grants for acquisition of property and equipment	(4,053,822)
Changes in	
Receivables	(388,719)
Inventories and other assets	2,043
Accounts payable and accrued expenses	<u>(338,823)</u>
Net cash provided by operating activities	<u>317,190</u>
Investing Activities	
Purchase of property and equipment	<u>(6,110,903)</u>
Net cash used in investing activities	<u>(6,110,903)</u>
Financing Activities	
Proceeds from issuance of debt	2,033,626
Proceeds from grant for acquisition of property and equipment	4,053,822
Principal payments on capital lease	<u>(66,804)</u>
Net cash provided by financing activities	<u>6,020,644</u>
Increase in Cash	226,931
Cash, Beginning of Year	<u>662,855</u>
Cash, End of Year	<u><u>\$ 889,786</u></u>
Supplemental Cash Flows Information	
Interest paid	\$ 8,586

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

East Arkansas Family Health Center, Inc. (the Center) was organized for nonprofit purposes to promote the general health of the community. Through its clinics in West Memphis, Lepanto, Blytheville, Helena and Trumann, Arkansas, the Center provides care for persons suffering from illness or disabilities and carries on health-related educational activities.

The Center's primary sources of funds for operations are grants from the U.S. Department of Health and Human Services and Arkansas Department of Health, the acceptance of which requires compliance with prescribed grant conditions and other special requirements, including the receipt of certain amounts of revenues from other sources including charges to patients for services. Under the terms of the federal grant agreements, the Center is subject to the uniform administrative requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (the Circular). Accordingly, policies and procedures are designed to be in compliance with the provisions of the Circular.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Deposits

At November 30, 2014, the Center's cash accounts exceeded federally insured limits by approximately \$370,000.

Inventories

Inventories are stated at cost, determined using the first-in, first-out method.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2014

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Center analyzes its history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for bad debts in the period of services on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	5–30 years
Equipment	3–10 years

Property acquired with federal grant funds is considered owned by the Center while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased with federal grant funds, as well as any proceeds from its sale, are subject to federal regulation.

The Center capitalized interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was \$52,341 for the year ended November 30, 2014.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2014

Long-Lived Asset Impairment

The Center evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount, the cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended November 30, 2014.

Net Patient Service Revenue

The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

In accordance with grant requirements, the Organization provides care at amounts less than its established rates using sliding fee scale adjustments to patients who meet certain criteria. These adjustments are a component of net patient service revenue.

340B Revenue

The Center participates in the 340B “Drug Discount Pricing Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Center earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Center has an in-house pharmacy and a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Center. Reported 340B revenue consists of the in-house pharmacy sales and reimbursements from the network of participating pharmacies, net of the initial purchase price of the drugs.

Professional Liability Claims

The Center recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 8*.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2014

Compensated Absences

Employees receive 3.33–16 hours of accrued leave per month, depending on the employee's years of service to the Center. Hours accrued are available to be taken as accrued after completion of a six-month probationary period. Unused hours may be paid upon termination or resignation. The amount of accrued leave at November 30, 2014, was \$139,223 and is included as a component of accrued liabilities in the financial statements.

Government Grants

Support funded by grants is recognized as the Center performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Center is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

The Center files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Center is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2014

Excess of Revenues Over Expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets including assets acquired using contributions or grants which by donor or granting agency restrictions are to be used for the purpose of acquiring such assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Center recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Center's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for bad debts is presented on the statement of operations and changes in net assets as a component of net patient service revenue.

The Center is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. These payment arrangements include:

Medicare – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology up to a maximum allowed amount. The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Center and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid – Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Center and audit thereof by the Medicaid fiscal intermediary.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

East Arkansas Family Health Center, Inc.
Notes to Financial Statements
November 30, 2014

The Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance centers and preferred provider centers. The basis for payment to the Center under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the year ended November 30, 2014, was approximately:

Medicare	\$ 705,626
Medicaid	1,780,049
Other third-party payers	1,299,623
Self-pay	<u>847,624</u>
Total	<u><u>\$ 4,632,922</u></u>

The state of Arkansas has enacted a form of Medicaid expansion, commonly referred to as the Arkansas Private Option (APO), which uses Medicaid expansion funding to purchase private insurance policies on the health care exchanges for qualifying beneficiaries beginning January 1, 2014. For the year ended November 30, 2014, net patient service revenue from other third-party payers increased by approximately \$650,000. This increase is primarily due to the APO. The APO has been subject to annual reauthorization. Subsequent to year-end, the Arkansas legislature reauthorized the Medicaid expansion through December 31, 2016, and created a legislative task force to study alternatives for covering these newly insured beneficiaries. The adoption of any alternatives could affect future financial performance.

Note 3: Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of net patient accounts receivables from patients and third-party payers as of November 30, 2014, was:

Medicare	25%
Medicaid	19%
Other third-party payers	43%
Patients	<u>13%</u>
	<u><u>100%</u></u>

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2014

Note 4: Functional Expenses

The Center provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

Clinical services	\$ 5,696,969
Administrative and general	<u>3,231,068</u>
	<u>\$ 8,928,037</u>

Note 5: Note Payable to Bank

Note payable to bank, due on demand; if no demand, paid according to the following schedule: 24 consecutive monthly payments of interest that began on December 15, 2012. This will be followed by 35 consecutive monthly payments of principal and interest in the amount of \$15,315 beginning on December 15, 2014. One final balloon payment shall be due on November 15, 2017. The note has an initial variable interest rate of 3.25% and is secured by furniture and equipment. The interest rate is based on the Prime Rate as published in *The Wall Street Journal*. At November 30, 2014, the interest rate was 3.25%.

Note 6: Line of Credit

The Center has a \$250,000 revolving line of credit that expires in April 2015. At November 30, 2014, no monies were borrowed against this line.

Note 7: In-kind Contributions

The Center received in-kind contributions consisting primarily of donated medication from the Sharing the Care program, sponsored by Pfizer Drug. It is the policy of the Center to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase revenue by a like amount. For the year ended November 30, 2014, \$87,605 was received as in-kind contributions.

Note 8: Professional Liability Claims

The U.S. Department of Health and Human Services has deemed the Center and its participating providers covered under the *Federal Torts Claims Act* (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

East Arkansas Family Health Center, Inc.
Notes to Financial Statements
November 30, 2014

The Center purchases primary and excess liability malpractice insurance under occurrence policies for certain services and other portions of the Center not covered under FTCA. Management does not expect any claims to exceed malpractice insurance coverage.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Center's claims experience, no accrual has been made for the Center's portion of medical malpractice cost for the year ended November 30, 2014. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future medical claim.

Note 9: Pension Plan

The Center has a defined-contribution plan covering substantially all employees. The board of directors annually determines the amount, if any, of the Center's contributions to the plan. For the year ended November 30, 2014, the Center plans to contribute \$126,535 to the plan, and this amount is included in accrued liabilities on the balance sheet.

Note 10: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at November 30, 2014, are available for the following purposes:

For periods after November 30, 2014	\$ 170,000
Helena clinic operations	<u>152,980</u>
	<u>\$ 322,980</u>

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowance for adjustments included in net patient service revenue are described in *Notes 1-3*.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2014

Economic Dependency

The Center is economically dependent upon revenue provided by the U.S. Department of Health and Human Services and Arkansas Department of Health. During the fiscal year ended November 30, 2014, 83% of the Center's total revenue, gains and other support was provided by these sources.

Supplementary Information

East Arkansas Family Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended November 30, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant (Identifying) Number	Amount Expended
Community Health Centers	U.S. Department of Health and Human Services	93.224	6H80CS00123-13	\$ 2,829,801
Telemedicine Based Collaborative Care to Reduce Rural Health Disparities	U.S. Department of Health and Human Services/Community Health Centers of Arkansas	93.242	None	43,784
Affordable Care Act Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	C8BCS23975 C8ACS23687	4,053,822
HIV Emergency Relief Project Grants	U.S. Department of Health and Human Services/United Way of the Mid-South	93.914	None	136,709
Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6H76HA00753-12/ 6H76HA00753-13	<u>252,852</u>
				<u>\$ 7,316,968</u>

Notes to Schedule

1. This schedule includes the federal award activities of East Arkansas Family Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. No awards were provided to subrecipients.

East Arkansas Family Health Center, Inc.
Schedule of Expenditures of State Awards
Year Ended November 30, 2014

Program	State Agency/ Pass-Through Entity	State Revenues	State Expenditures
Arkansas Community Health Centers Grant Program	Arkansas Department of Health	<u>\$ 604,616</u>	<u>\$ 604,616</u>
Medicaid Title XIX ⁽¹⁾	Arkansas Department of Human Services	<u>\$ 475,147</u>	

⁽¹⁾ Revenue recognized from the Medicaid program is included in the total of net patient service revenue in the accompanying statement of operations and changes in net assets. Medicaid revenue noted above represents 27% (the percentage the State of Arkansas contributed) of total Medicaid revenue recognized during fiscal year ended November 30, 2014.

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

Board of Directors
East Arkansas Family Health Center, Inc.
West Memphis, Arkansas

We have audited, 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, the financial statements of East Arkansas Family Health Center, Inc. (the Center), which comprise the balance sheet as of November 30, 2014, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated June 8, 2015.

Internal Control over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matters

We noted certain matters that we reported to the Center's management in a separate letter dated June 8, 2015.

Purpose of this Report

The purpose of this communication 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 compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
June 8, 2015

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance

Independent Auditor's Report

Board of Directors
East Arkansas Family Health Center, Inc.
West Memphis, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of East Arkansas Family Health Center, Inc. (the Center) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended November 30, 2014. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center'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 the major federal program. Our audit does not provide a legal determination on the Center's compliance with those requirements.

Opinion on a Major Federal Program

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended November 30, 2014.

Report on Internal Control over Compliance

Management of the Center 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 the Center's internal control over compliance with the requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center'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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
June 8, 2015

East Arkansas Family Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2014

Summary of Auditor's Results

1. The opinions expressed in the independent auditor's report were:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinions expressed in the independent auditor's report on compliance for major federal awards were:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

East Arkansas Family Health Center, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended November 30, 2014

7. The Center's major program was:

Cluster/Program	CFDA Number
Affordable Care Act Grants for Capital Development in Health Centers	93.526

8. The threshold used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133, was \$300,000.

9. The Center qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? Yes No

East Arkansas Family Health Center, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended November 30, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

East Arkansas Family Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended November 30, 2014

Reference Number	Summary of Finding	Status
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No matters are reportable.