

East Arkansas Family Health Center, Inc.

Independent Accountants' Reports and Financial Statements

November 30, 2012



East Arkansas Family Health Center, Inc.
November 30, 2012

Contents

| | | |
|--|-----------|-----------|
| Independent Accountants' Report on Financial Statements and Supplementary Information | 1 | |
| Financial Statements | | |
| Balance Sheet | 3 | |
| Statement of Operations and Changes in Net Assets..... | 4 | |
| Statement of Cash Flows | 5 | |
| Notes to Financial Statements | 6 | |
| Supplementary Information | | |
| Schedule of Expenditures of Federal Awards | 16 | |
| Schedule of State Awards..... | 17 | |
| Independent Accountants' 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 <i>Government Auditing Standards</i>..... | | 18 |
| Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | | 20 |
| Schedule of Findings and Questioned Costs..... | 22 | |
| Summary Schedule of Prior Audit Findings..... | 25 | |

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying balance sheet of East Arkansas Family Health Center, Inc. (the Center) as of November 30, 2012, and the related statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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. We believe that our audit provides a reasonable basis for our 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, 2012, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated July 10, 2013, 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including 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.

BKD, LLP

July 10, 2013

East Arkansas Family Health Center, Inc.

Balance Sheet

November 30, 2012

Assets

Current Assets

| | | |
|--|----|---------|
| Cash | \$ | 889,746 |
| Patient accounts receivable, net of allowance of \$108,764 | | 149,770 |
| FQHC cost report receivable | | 266,228 |
| Grants receivable | | 140,455 |
| Prepays and other | | 22,302 |
| Inventories | | 70,055 |

Total current assets 1,538,556

Property and Equipment, at Cost

| | | |
|-------------------------------|--|------------------|
| Land | | 390,705 |
| Buildings | | 1,470,141 |
| Equipment | | 1,896,201 |
| | | <u>3,757,047</u> |
| Less accumulated depreciation | | <u>1,950,455</u> |

1,806,592

Total assets \$ 3,345,148

Liabilities and Net Assets

Current Liabilities

| | | |
|----------------------------------|----|---------|
| Accounts payable | \$ | 59,748 |
| Accrued liabilities | | 440,777 |
| Current portion of capital lease | | 62,319 |
| Note payable to bank | | 226,127 |

Total current liabilities 788,971

Long-term Capital Lease

83,365

Net Assets

| | | |
|------------------------|--|-----------|
| Unrestricted | | 2,266,390 |
| Temporarily restricted | | 206,422 |

Total net assets 2,472,812

Total liabilities and net assets \$ 3,345,148

East Arkansas Family Health Center, Inc.
Statement of Operations and Changes in Net Assets
Year Ended November 30, 2012

| | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|---------------------------|---------------------|
| Revenues, Gains and Other Support | | | |
| Patient service revenue (net of contractual discounts and allowances) | \$ 4,232,574 | \$ - | \$ 4,232,574 |
| Provision for uncollectible accounts | (105,496) | - | (105,496) |
| Net patient service revenue less provision for uncollectible accounts | 4,127,078 | - | 4,127,078 |
| Grant funds | 3,085,521 | - | 3,085,521 |
| Contributions | 73,904 | 206,422 | 280,326 |
| In-kind | 389,962 | - | 389,962 |
| EHR revenue | 255,000 | - | 255,000 |
| Interest | 674 | - | 674 |
| | <u>7,932,139</u> | <u>206,422</u> | <u>8,138,561</u> |
| Expenses | | | |
| Personnel | 4,326,391 | - | 4,326,391 |
| Fringe benefits | 785,949 | - | 785,949 |
| Travel | 111,554 | - | 111,554 |
| Professional fees | 99,319 | - | 99,319 |
| Supplies | 604,722 | - | 604,722 |
| Purchased services | 129,333 | - | 129,333 |
| Dues and memberships | 78,939 | - | 78,939 |
| Contracted and supplemental | 211,648 | - | 211,648 |
| Insurance | 42,524 | - | 42,524 |
| Building and equipment rental | 54,937 | - | 54,937 |
| Telephone | 120,548 | - | 120,548 |
| Repairs and maintenance | 122,083 | - | 122,083 |
| Depreciation | 239,844 | - | 239,844 |
| Utilities | 51,692 | - | 51,692 |
| In-kind | 389,962 | - | 389,962 |
| Interest | 32,716 | - | 32,716 |
| Other | 212,461 | - | 212,461 |
| | <u>7,614,622</u> | <u>-</u> | <u>7,614,622</u> |
| Increase in Net Assets | 317,517 | 206,422 | 523,939 |
| Net Assets, Beginning of Year | <u>1,948,873</u> | <u>-</u> | <u>1,948,873</u> |
| Net Assets, End of Year | <u>\$ 2,266,390</u> | <u>\$ 206,422</u> | <u>\$ 2,472,812</u> |

East Arkansas Family Health Center, Inc.
Statement of Cash Flows
Year Ended November 30, 2012

| | |
|---|--------------------------|
| Operating Activities | |
| Increase in net assets | \$ 523,939 |
| Item not requiring cash | |
| Depreciation | 239,844 |
| Changes in | |
| Receivables, net | 92,070 |
| Inventories and other assets | (11,794) |
| Accounts payable and accrued expenses | <u>115,405</u> |
| Net cash provided by operating activities | <u>959,464</u> |
| Investing Activities | |
| Purchase of property and equipment | <u>(270,384)</u> |
| Net cash used in investing activities | <u>(270,384)</u> |
| Financing Activities | |
| Principal payments on bank note and capital lease | <u>(62,824)</u> |
| Net cash used in financing activities | <u>(62,824)</u> |
| Increase in Cash | 626,256 |
| Cash, Beginning of Year | <u>263,490</u> |
| Cash, End of Year | <u><u>\$ 889,746</u></u> |
| Supplemental Cash Flows Information | |
| Interest paid | \$ 32,716 |

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2012

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

Nature of Operations

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, East Arkansas Family Health Center, Inc. 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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash Deposits

At November 30, 2012, the Center's cash accounts did not exceeded federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Inventories

Supply 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, 2012

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Center analyzes its past 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 includes 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 acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Property acquired with federal grants 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 purchased with federal grant funds, as well as any proceeds from its sale.

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 |

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2012

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 of the asset, the asset 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, 2012.

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 as a component of net patient service revenue.

In accordance with grant requirements, the Center 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.

Estimated Malpractice Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs, if any, for both reported claims and claims incurred but not reported

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, 2012, was \$123,281 and is included as a component of accrued liabilities in the financial statements.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2012

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 2009.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare & Medicaid Services. Payment under both programs are contingent on the organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Center recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

During the year ended November 30, 2012, the Center completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$255,000, which is included in the statement of operations.

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.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2012

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.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' 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 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. 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 a set encounter rate for all services under the plan.

East Arkansas Family Health Center, Inc.
Notes to Financial Statements
November 30, 2012

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.

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 bad debts), recognized in the year ended November 30, 2012, was approximately:

| | |
|--------------------------|---------------------|
| Medicare | \$ 668,716 |
| Medicaid | 1,247,797 |
| Other third-party payers | 677,405 |
| Self-pay | <u>1,638,656</u> |
| Total | <u>\$ 4,232,574</u> |

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, 2012, was:

| | |
|--------------------------|-------------|
| Medicare | 23% |
| Medicaid | 23% |
| Other third-party payers | 33% |
| Patients | <u>21%</u> |
| | <u>100%</u> |

Patient accounts receivable from third-party payers and private-pay individuals are recorded at the time services are provided. An allowance for contractual adjustments and doubtful accounts has been recorded to reduce the receivables to the expected collectible amount. Subsequent write-offs of accounts receivable will be charged to the allowance account. Actual bad debts incurred may be materially different than the estimated allowance recorded as of November 30, 2012.

East Arkansas Family Health Center, Inc.
Notes to Financial Statements
November 30, 2012

Note 4: Functional Expenses

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

| | |
|----------------------------|----------------------------|
| Clinical services | \$ 5,014,855 |
| Administrative and general | <u>2,599,767</u> |
| | <u><u>\$ 7,614,622</u></u> |

Note 5: Note Payable

The Center had the following note payable at November 30, 2012:

Note payable bank, due on demand; if no demand, paid according to the following schedule: 24 consecutive payments of interest only beginning on December 15, 2012. This will be followed by 35 consecutive 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, 2012, the interest rate was 3.25%.

\$ 226,127

Note 6: Capital Lease

The Center has a capital lease obligation for land and real estate, payable \$5,800 monthly through February 2015. The payments were discounted at an interest rate of 6.2%. Aggregate payments on capital lease obligations at November 30, 2012, are:

| | <u>Capital Lease Obligations</u> |
|--|----------------------------------|
| 2013 | \$ 69,600 |
| 2014 | 69,600 |
| 2015 | 17,247 |
| 2016 | - |
| 2017 | - |
| | <u>156,447</u> |
| Less amount representing interest | <u>10,763</u> |
| Present value of future minimum lease payments | 145,684 |
| Less current maturities | <u>62,319</u> |
| Noncurrent portion | <u><u>\$ 83,365</u></u> |

East Arkansas Family Health Center, Inc.
Notes to Financial Statements
November 30, 2012

Buildings include the following property under capital leases at November 30:

| | | |
|-------------------------------|----|------------|
| Land | \$ | 11,905 |
| Building | | 288,095 |
| Less accumulated deprecitaion | | 30,730 |
| | | \$ 269,270 |

Note 7: Line of Credit

The Center has a \$150,000 revolving line of credit that expired in April 2013. At November 30, 2012, no monies were borrowed against this line.

Note 8: 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, 2012, \$389,962 was received as in-kind contributions.

Note 9: 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.

In 2012, the Center adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims costs for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no impact of the ASU adoption to the Center's financial statements.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2012

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, 2012. 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 10: 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 ending November 30, 2012, the Center plans to contribute \$107,838 to the plan, and this amount is included in accrued liabilities on the balance sheet.

Note 11: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at November 30, 2012 are available for the following purposes:

| | |
|--------------------------|-------------|
| Equipment | \$ 10,000 |
| Helena clinic operations | 196,422 |
| | <hr/> |
| | \$ 206,422 |
| | <hr/> <hr/> |

Note 12: 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*.

Professional Liability Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1 and 9*.

East Arkansas Family Health Center, Inc.

Notes to Financial Statements

November 30, 2012

Economic Dependency

East Arkansas Family Health Center, Inc. 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, 2012, 37 percent of East Arkansas Family Health Center, Inc.'s revenue was provided by these sources.

Supplementary Information

East Arkansas Family Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended November 30, 2012

| 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 | 6H80CS00123-11-04 | \$ 1,896,112 |
| 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 | 38,360 |
| Outpatient Early Intervention Services with Respect to HIV Disease | U.S. Department of Health and Human Services | 93.918 | 6H76HA00753-10-02/ 6H76HA00753-11-01 | 299,383 |
| HIV Emergency Relief Project Grants | U.S. Department of Health and Human Services/United Way of the Mid-South | 93.914 | None | <u>189,810</u> |
| | | | | <u>\$ 2,423,665</u> |

Notes to Schedule

1. This schedule includes the federal awards 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 State Awards
Year Ended November 30, 2012

| Grantor | State Revenues | State Expenditures |
|---|---------------------------|-------------------------------|
| <i>Arkansas Department of Health</i> | | |
| Arkansas Community Health Centers Grant Program | <u>\$ 661,856</u> | <u>\$ 661,856</u> |
| <i>Arkansas Department of Human Services</i> | | |
| Medicaid ⁽¹⁾ | <u>\$ 336,905</u> | |

⁽¹⁾ Revenue recognized from the Medicaid program is included in the total of net patient service revenue in the accompanying statement of operations. Medicaid revenue noted above represents 27% (the percentage the State of Arkansas contributed) of total Medicaid revenue recognized during fiscal year ended November 30, 2012.

**Independent Accountants' 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 the financial statements of East Arkansas Family Health Center, Inc. (the Center) as of and for the year ended November 30, 2012, and have issued our report thereon dated July 10, 2013. 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.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. 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 over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as item 12-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

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*.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body, management, others within the Center and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

July 10, 2013

**Independent Accountants' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of East Arkansas Family Health Center, Inc. (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the compliance of East Arkansas Family Health Center, Inc. based on our audit.

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. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, East Arkansas Family Health Center, Inc. complied, in all material respects, with the requirements referred to above that that could have a direct and material effect on its major federal program for the year ended November 30, 2012.

Internal Control over Compliance

The management of East Arkansas Family Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management, others within the Center, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

July 10, 2013

East Arkansas Family Health Center, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended November 30, 2012

7. The Center's major program was:

| Cluster/Program | CFDA Number |
|--------------------------|--------------------|
| Community Health Centers | 93.224 |

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, 2012

Findings Required to be Reported by Government Auditing Standards

| Reference Number | Finding |
|------------------|---|
| 12-01 | <p>Criteria or Specific Requirement Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition Accounts payable cutoff needs to be adhered to.</p> <p>Context During our search for unrecorded liabilities, we noted numerous exceptions in which invoices relating to goods received or services performed prior to the year-end date were not recorded as payables in the proper period.</p> <p>Effect Financial statements could potentially be misstated.</p> <p>Cause Proper accounting policies and procedures are not in place related to accounts payable cutoff.</p> <p>Recommendation Management should prepare written instructions to be included as a part of the financial policies manual that indicates basic concepts of proper cutoffs and ensure that individuals responsible for accruing payables at the accounting period end are informed of these concepts.</p> <p>Views of Responsible Officials and Planned Corrective Actions Management concurs with the finding and recommendation. Management will work to ensure proper policies and procedures are established.</p> |

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, 2012

| Reference Number | Finding | Status |
|-----------------------------|----------------|---------------|
|-----------------------------|----------------|---------------|

No matters are reportable.