

**EAU CLAIRE COOPERATIVE HEALTH
CENTERS, INC.**

Financial Statements

December 31, 2012 and 2011
(With Independent Auditor's Report Thereon)

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

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Independent Auditor's Report

The Governing Board
Eau Claire Cooperative Health Centers, Inc.

We have audited the accompanying statement of financial position of Eau Claire Cooperative Health Centers, Inc. (the Cooperative) as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Eau Claire Cooperative Health Centers, Inc.'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 Eau Claire Cooperative Health Centers, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2013 on our consideration of Eau Claire Cooperative Health Centers, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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 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 our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

June 15, 2013

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Statement of Financial Position

December 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 864,418	\$ 1,123,746
Accounts Receivable Net (Note 4)	1,158,194	835,557
Other Receivables (Note 5)	612,455	703,232
Inventory	74,061	68,137
Prepaid Expenses	5,024	9,840
<i>Total Current Assets</i>	2,714,152	2,740,512
<i>Assets Limited as to Use:</i>		
Loan Reserve - Cash (Note 9)	250,000	250,000
<i>Total Assets Limited as to Use</i>	250,000	250,000
<i>Property, and Equipment</i>		
Property and Equipment, at Cost, Net of Accumulated Depreciation (Note 7)	10,507,638	9,271,107
<i>Total Property, and Equipment</i>	10,507,638	9,271,107
<i>Other Assets</i>		
Variable Annuity	308,349	236,984
Loan Acquisition Cost, Net of Accum. Amortization (Note 8)	110,585	123,763
Investment In Amicus Health, LLC	50,000	-
Goodwill, Net of Accum. Amortization (Note 8)	5,729	6,684
Security Deposits	2,000	2,000
<i>Total Other Assets</i>	476,663	369,431
Total Assets	\$ 13,948,453	\$ 12,631,050
LIABILITIES AND NET ASSETS		
<i>Current Liabilities</i>		
Accounts Payable	\$ 700,772	\$ 524,376
Accrued Wages and Compensated Absences	1,183,172	863,541
Accrued Payroll Liabilities	78,301	45,318
Deferred Revenue (Note 10)	74,233	369,420
Current Portion of Long Term Debt	466,924	437,701
<i>Total Current Liabilities</i>	2,503,402	2,240,356
<i>Long-Term Liabilities</i>		
Notes Payable (Note 11)	5,888,462	5,586,121
Capital Leases Payable (Note 12)	208,477	308,809
Annuity Payable	308,349	236,984
Due to Related Party (Note 19)	78,806	126,806
Less Current Portion of Long Term Debt	(466,924)	(437,701)
<i>Total Long-Term Liabilities</i>	6,017,170	5,821,019
Total Liabilities	8,520,572	8,061,375
Net Assets		
Net Assets - Unrestricted (Note 20)	5,425,861	4,560,591
Net Assets - Temporarily Unrestricted	2,020	9,084
<i>Total Net Assets</i>	5,427,881	4,569,675
Total Liabilities and Net Assets	\$ 13,948,453	\$ 12,631,050

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

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Statement of Activities

For The Years Ended December 31, 2012 and 2011

Support and Revenues:	<u>2012</u>	<u>2011</u>
Net Patient Revenue (Note 16)	\$ 16,254,034	\$ 12,420,216
Public Support - U.S. Department of Health and Human Services Operational Grants (Note 15)	5,030,295	2,043,703
Other Grants and Contracts	958,964	1,530,745
Contributions	759,742	1,136,425
Medical Records and Other Income	49,514	81,606
<i>Total Support and Revenues</i>	<u>23,052,549</u>	<u>17,212,695</u>
Expenses:		
Program Services Expenses	15,283,500	11,336,229
General and Administrative Expenses	7,062,840	4,881,993
<i>Total Expenses</i>	<u>22,346,340</u>	<u>16,218,222</u>
Excess (Deficiency) of Support and Revenues Over Expenses from Operations	<u>706,209</u>	<u>994,473</u>
Other Income and Expenses:		
Public Support - U.S. Department of Health and Human Services Non-Operational Grants (Note 15)	158,651	-
Gain (Loss) on Sale of Assets	(1,581)	5,601
Interest Income	1,991	9,067
<i>Total Other Income and Expenses</i>	<u>159,061</u>	<u>14,668</u>
Total Excess (Deficiency) of Support and Revenues Over Expenses	<u>865,270</u>	<u>1,009,141</u>
Net Assets:		
Increase (Decrease) in Unrestricted Net Assets	865,270	1,009,141
Increase (Decrease) in Temporarily Restricted Net Assets	(7,064)	(5,822)
Beginning of Year	4,569,675	3,566,356
Net Assets at End of Year	<u>\$ 5,427,881</u>	<u>\$ 4,569,675</u>

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

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.Statement of Functional Expenses
For The Years Ended December 31, 2012 and 2011

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2012 Total</u>	<u>2011 Total</u>
Personnel	\$ 10,061,573	\$ 4,589,393	\$ 14,650,966	\$ 10,575,646
Fringe Benefits	1,421,594	647,684	2,069,278	1,513,573
Contractual Services	761,527	723,552	1,485,079	1,010,581
Supplies	1,628,800	151,948	1,780,748	1,300,410
Travel and Training	17,476	65,740	83,216	55,433
Insurance	14,774	18,057	32,830	22,882
Communications, Telephone and Postage	235,807	157,204	393,011	252,030
Utilities	132,247	88,164	220,411	151,515
Depreciation	389,367	215,543	604,910	502,376
Building and Equipment Rental	204,667	136,444	341,111	173,155
Maintenance and Repairs	53,948	35,965	89,913	69,000
Dues, Printing and Other	105,478	62,316	167,794	174,067
Interest Expense	256,244	170,829	427,073	417,554
Total	<u>\$ 15,283,500</u>	<u>\$ 7,062,840</u>	<u>\$ 22,346,340</u>	<u>\$ 16,218,222</u>

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

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Statement of Cash Flows

For The Years Ended December 31, 2012 and 2011

Cash Flows from Operating Activities:	<u>2012</u>	<u>2011</u>
Excess (Deficiency) of Support and Revenues Over Expenses	\$ 865,270	\$ 1,009,141
Adjustments to Reconcile Net Income to Cash Provided From Operations:		
Depreciation	604,910	502,376
(Increase) Decrease in Accounts Receivable	(322,637)	(15,070)
(Increase) Decrease in Other Receivables	90,777	(240,854)
(Increase) Decrease in Inventory	(5,924)	(6,787)
(Increase) Decrease in Prepaid Items	4,816	(437)
(Increase) Decrease in Other Assets	(107,232)	(38,468)
Increase (Decrease) in Accounts Payable	176,396	123,726
Increase (Decrease) in Accrued Annual Leave	79,186	138,563
Increase (Decrease) in Accrued Payroll Liabilities	273,428	8,699
Increase (Decrease) in Accrued Liabilities - Related Party	23,365	4,984
Increase (Decrease) in Deferred Revenue	(295,187)	369,420
Net Cash Provided by Operating Activities:	1,387,168	1,855,293
Cash Flows Used in Investing Activities:		
(Increase) Decrease in Assets Limited as to Use	-	243,307
Purchases of Property, Plant and Equipment	(1,848,505)	(1,755,003)
Cash Used in Investing Activities	(1,848,505)	(1,511,696)
Cash Flows Provided by Financing Activities:		
Increase (Decrease) in Notes Payable	202,009	(220,217)
Cash Provided by Financing Activities	202,009	(220,217)
Net Increase (Decrease) in Cash	(259,328)	123,380
Cash at Beginning of The Year	1,123,746	1,000,366
Cash at End of The Year	\$ 864,418	\$ 1,123,746
Supplemental Data:		
Interest Paid in Financing Activities	\$ 427,073	\$ 417,554

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

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

The financial statements of Eau Claire Cooperative Health Centers, Inc. have been prepared on accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of The Business

Eau Claire Cooperative Health Centers, Inc. (the Cooperative) was organized as a private not-for-profit corporation organized under the laws of the State of South Carolina on December 14, 1992. On March 31, 1993, it was granted exempt status as provided by Section 501 (c) (3) of the Internal Revenue Code. The Cooperative provides comprehensive health care services for the large urban indigent population in the service area of Columbia, South Carolina and the surrounding areas.

(b) Financial Statement Presentation

The Cooperative presents its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* as promulgated by the Financial Accounting Standards Board. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, as required by SFAS No. 117, the Cooperative reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with maturities of 90 days or less.

(d) Accounts Receivable

Included in patient receivables are amounts due from Medicare and Medicaid. These payments are generally less than established billing rates, the difference being charged against revenue as revenue adjustments at the time the fee for service is recorded. Amounts from these agencies are determined under cost reimbursement formulas and re-determination by the agencies. Accounts receivables from patient fees, other than the above, may be reduced using a sliding fee scale due to a patient's inability to pay. These adjustments are based on income level and number of family members applied to the Federal poverty guidelines.

(e) Property and Equipment

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

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Property and equipment are depreciated on the straight-line method over estimated useful lives of the assets.

(f) Income Taxes

The Cooperative is a non-profit corporation as described in Section 501c (3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 (1) of the Code. As of the date of this report the current and two most recent prior years are available for IRS audit.

(g) Contributions

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. Contributed property and equipment is recorded at fair value at the date of donation.

(h) Estimated Amounts

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that effect the amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Concentration of Credit and Market Risk

Financial instruments that potentially expose the Cooperative to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution.

(j) Loan Acquisition Costs

Loan acquisition costs are capitalized and amortized over the life of the related loan on a straight line basis. Amortization expense for the year ended December 31, 2012 is \$13,178.

(k) Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of salaries, square footage, etc. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Cooperative.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

(1) Recognition of Grant Income

Grant income is recognized over the grant period in relation to the expenditures incurred and services provided, as outlined in the grant documents. Cash received in excess of grant expenditures to date is recorded as deferred revenue, and a receivable is recorded when allowable expenditures exceed cash received.

(2) Fair Value of Financial Instruments

- A. Cash – The carrying amount reported is the reconciled bank account balances, which are considered to be fair values.
- B. Accounts Receivable – The carrying amount reported is the estimated net collectible amount, which is considered the fair value.
- C. Accounts Payable and Other Liabilities – The carrying amounts reported are the amounts equaled to the required payments. The reported amounts are considered the fair values.

(3) Cash

The Cooperative is required to have collateral for all funds in excess of the FDIC maximum insured limit of \$250,000 per insured cash account. During the year ended December 31, 2012 the Cooperative occasionally had cash balances with its depositories exceeding the FDIC limit. As of December 31, 2012 the Cooperative was not covered by the FDIC by more than \$419,000. The Cooperative believes that funds in excess of the FDIC limit are properly safeguarded by the assets of the institution. Management is of the belief that, should the bank default, any funds lost in excess of the FDIC limit would be applied toward the large loan balance held with that institution.

(4) Accounts Receivable

Included in patient receivables are amounts due from Medicare, Medicaid, and private insurance companies. These payments are generally less than established billing rates, the difference being recorded as revenue adjustments at the time the payment for service is received. The balance of these receivables net of an allowance for doubtful accounts was \$1,158,194 and \$835,557 for the years ended December 31, 2012 and 2011 respectively.

(5) Other Receivables

The Cooperative has other receivable balances as of December 31, 2012 and 2011 that are summarized below:

	<u>2012</u>	<u>2011</u>
Lexington Hospital Grant	\$ -	\$200,000
Ryan White Grant Receivable	42,800	-
Innovation Grant Receivable	80,002	-
Medicaid Wraparound payments	487,913	495,637
Other Receivables	<u>1,740</u>	<u>7,595</u>
Other Receivables, Net	<u>\$612,455</u>	<u>\$703,232</u>

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

(6) Inventories and Prepaid Supplies

The Cooperative records supplies as expenses as acquired. On an annual basis, the Cooperative and all clinical sites conduct a physical inventory. Upon the completion of the physical inventory, the final values are adjusted to the actual inventory per the physical count, which is recorded at cost. The value of the inventory is determined on the First In, First Out Basis (FIFO).

(7) Property and Equipment

A summary of property and equipment at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Land	\$1,267,221	\$1,012,409
Land improvements	401,247	401,247
Buildings, improvements and fixed equipment	8,874,072	7,641,973
Furniture and fixtures	214,455	183,449
Equipment	3,117,110	2,870,167
Vehicles	47,295	37,275
Leasehold improvements	51,311	37,578
Construction in process	<u>195,187</u>	<u>178,107</u>
	14,167,898	12,362,205
Less accumulated depreciation	<u>3,660,260</u>	<u>3,091,098</u>
Property and equipment, net	<u>\$10,507,638</u>	<u>\$9,271,107</u>

Property and equipment is depreciable on a straight line basis over the estimated useful life. The depreciation for the fiscal year ended December 31, 2012 and 2011 was \$604,910 and \$502,376.

(8) Intangibles

The intangible assets and related accumulated amortization of the Cooperative consist of the following:

	<u>2012</u>	<u>2011</u>
Loan acquisition costs	\$197,668	\$197,668
Goodwill from acquisition of practice	9,549	9,549
Less accumulated amortization	<u>(90,903)</u>	<u>(76,770)</u>
Net Intangibles	<u>\$116,314</u>	<u>\$130,447</u>

The intangible assets are amortized on a straight line basis for ten to fifteen years.

(9) Assets Whose Use is Limited

Pursuant to a loan agreement between the Cooperative and the South Carolina Jobs-Economic Development Authority (the Authority), the Authority issued industrial revenue bonds and loaned the proceeds from there to the Cooperative under the terms which essentially mirror the terms of the Authority's bond agreement. The Cooperative is required to maintain a reserve account to service the debt. At December 31, 2012, this reserve account was fully funded in the amount of \$250,000.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

(10) Deferred Revenue

The Cooperative received advance payments from Medicaid HMOs for estimated services to be rendered in the first quarter of 2013. These payments totaled \$68,847 and are recorded as a deferred revenue liability on the current year financial statement. The Cooperative also received advance payment on a grant for which all of the funds were not obligated before the end of the year leaving a balance of \$5,386. This amount is also reported as deferred revenue on the financial statements.

(11) Notes Payable

The Cooperative has a note payable with National Bank of South Carolina for the clinic property on Monticello Road with an original amount of \$5,940,465, which matures on January 2, 2015. This note accrues interest at 3% and requires monthly payments of principal and interest, with a balloon payment of \$4,441,936. As of December 31, 2012, the balance on this obligation was \$5,112,650.

The Cooperative has a note payable with National Bank of South Carolina for the Hopkins Clinic Building with an original amount of \$170,000, which matures on November 2, 2016. This note accrues interest at 4.25% and requires monthly payments of \$3,154. As of December 31, 2012, the balance on this obligation was \$136,196.

The Cooperative has a note payable with National Bank of South Carolina for the Behavioral Health Building with an original amount of \$620,936, which matures on November 2, 2016. This note accrues interest at 4.25% and requires monthly payments of \$4,671. As of December 31, 2012, the balance on this obligation was \$639,616.

Scheduled principal payments on notes payable are as follows:

<u>Year Ending December 31</u>	<u>Notes Payable</u>
2013	\$ 370,749
2014	415,041
2015	4,514,340
2016	71,865
2017	39,642
Thereafter	<u>476,825</u>
	<u>\$5,888,462</u>

(12) Capital Leases

The Cooperative has two 60-month capital leases with Cisco for telephone equipment requiring monthly payments of \$7,779 and \$838 respectively. These leases mature on January 1, 2015 and May 1, 2015 respectively and have a combined balance of \$208,477 as of December 31, 2012.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

The following is a schedule of the future minimum lease payments under these capital leases, together with the present value of the future minimum lease payments as of December 31, 2012:

Lease payments due for the years ending	
December 31, 2013	\$ 103,408
December 31, 2014	103,408
December 31, 2015	11,969
Lease payments due thereafter	<u>-</u>
Total minimum lease payments	218,785
Less amount representing interest	<u>(10,308)</u>
Total capital lease obligations	<u>\$208,477</u>

(13) Leases

The Cooperative leases clinic space, office space, and equipment under various operating leases. Rent expense under operating leases for the year ended December 31, 2012 is \$266,870. Future minimum lease payments are as follows:

Year Ending December 31

2013	\$249,106
2014	183,004
2015	92,363
2016	42,156
2017	28,608
Thereafter	<u>21,455</u>
	<u>\$ 616,692</u>

(14) Medical Malpractice Coverage

The Bureau of Primary Health Care, in accordance with Section 224 of the Public Health Service Act, provides liability protection to the Cooperative under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. The FTCA coverage is comparable to an "occurrence" policy without a monetary cap.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

(15) Federal Grant Support

The Cooperative received grants from the U.S. Department of Health and Human Services in the amount of \$5,188,946 (\$5,030,295 operational and \$158,651 non-operational) and \$2,043,703 (operational) for the years ended December 31, 2012 and 2011 respectively. Under the terms of these grants the Cooperative is required to comply with certain federal and state guidelines and the grantor retains a residual interest in assets acquired with grant funds.

(16) Net Patient Revenue

A summary of net patient revenue at December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Gross charges	\$24,287,528	\$17,312,732
Sliding fee and contractual adjustments	<u>8,033,494</u>	<u>4,892,516</u>
Net patient revenue	<u>\$16,254,034</u>	<u>\$ 12,420,216</u>

(17) Retirement Plan

The Cooperative maintains a 403 (b) retirement plan which covers employees who have completed three months of service. Each year the Cooperative's Board of Directors determines the amount of matching contribution up to \$2,000 per employee. The Cooperative's contribution amount for the years ended December 31, 2012 and 2011 was \$33,500 and \$0 respectively.

(18) Donations

The Cooperative received donated building and equipment from Lexington County. The fair market value of these donations is recorded at the actual amounts recently paid by the donor. The value of these donations for the year ended December 31, 2012 are \$200,000 and \$549,848.

The Cooperative received the donated services of two employees through a Participant Contract Fellowship with AmeriCorps and two Medicaid eligibility workers from the South Carolina Medicaid program. The fair market value of these donations is based on the actual amount paid by the donor for these services. The value of these donations is \$129,154.

The Cooperative also received cash donations of \$133,155 from individuals and other organizations.

The Cooperative received donated medical supplies from Direct Relief International. The fair market value of these donations is the actual amounts reported by the donor. The value of these donations for the year ended December 31, 2012 is \$129,882.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2012 and 2011

A pharmaceutical company donated drugs to the Cooperative for distribution to patients who meet certain qualifications. The estimated fair market value of the drugs contributed, based on the donor's established pricing value for the year ended December 31, 2012, is \$167,551. The donated pharmaceuticals are included in inventory at fair market value and expensed as dispensed to patients.

The Cooperative leases the land on which two of its buildings are located from two churches for \$1 per year each. The estimated fair rental value of the land leased from one church, as determined by the lessor, is \$3,120 per year. The fair rental value of which the other building is located has not been determined.

(19) Related Party Transactions

The Cooperative owes a payable of unpaid accrued salary to the Chief Executive Officer (CEO) in the amount of \$78,806. During 2012, the Cooperative repaid \$48,000 in loans payable to the CEO with payment to a variable annuity for his benefit. The CEO is the paid consultant of a Medicaid HMO. The Cooperative has a contract with the HMO to provide health care services to its Medicaid patients.

(20) Temporarily Restricted Net Assets

The Cooperative maintains temporarily restricted net assets (TRNA) for various organizational purposes. As of December 31, 2012, the balance of the TRNA was \$2,020. These funds are temporarily restricted for the purpose of providing donated pharmaceuticals to indigent patients.

(21) Deferred Compensation Agreement/Variable Annuity

The Cooperative purchased a variable annuity for the benefit of the Chief Executive Officer on March 16, 2007. The annuity is owned by the Cooperative and the CEO is the annuitant. During 2008, the two parties entered into a Deferred Compensation Agreement whereby the annuity payments will be paid to the CEO beginning on March 16, 2017.

The Cooperative pays \$4,000 per month for the cost of this annuity. The Cooperative has paid a total of \$280,000 towards the cost of this annuity. The annuity is recorded as an asset of the Cooperative with a fair market value of \$308,349 and there is also a corresponding liability for \$308,349 recorded on the financial statements. The CEO has agreed that the annuity payments will reduce the amount of accrued wages due him.

(22) Significant Source of Revenue

Approximately 22% of the Cooperative's revenue was provided by grants from the U.S. Department of Health and Human Services. The Cooperative is dependent on this continued funding and the absence of these grants could possibly have a negative effect on operations.

(23) Subsequent Events

Management has evaluated the events and transactions subsequent to the statement of financial position through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.

SUPPLEMENTAL SCHEDULES

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2012

<u>Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
Health Center Cluster <i>Grant No. H80CS00730</i>	93.224	\$4,448,895
Capital Development <i>Grant No. C8BCS23889</i>	93.526	158,651
Healthy Columbia (Innovations) <i>Grant No. C1CMS331045</i>	93.610	272,546
Ryan White Part C Outpatient EIS Program <i>Grant No. H76HA24740</i>	93.918	308,854
Total Federal Grants		<u>\$5,188,946</u>

Summary:

Operational Grants	\$5,030,295
Non-Operational Grants	<u>158,651</u>
Total Federal Grants	<u>\$5,188,946</u>

Note to Schedule of Expenditures of Federal Awards

Note A- Basis of Presentation

The accompanying schedule of federal awards includes the federal grant activity of Eau Claire Cooperative Health Centers, Inc. and is presented in 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.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2012

Section A-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified
Internal control over financial reporting:
Significant Deficiency disclosed? _____yes X no
Significant Deficiencies reported
as Material Weaknesses? _____yes X no
Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal Control over major programs:
Significant Deficiency identified? X yes _____no
Significant deficiencies reported
as Material Weaknesses? X yes _____no

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

Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of OMB Circular A-133? X yes _____no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<u>93.224</u>	<u>Health Center Cluster</u>
<u>93.918</u>	<u>Ryan White Part C EIS Program</u>

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____yes X no

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Schedule of Findings and Questioned Cost

For the Year Ended December 31, 2012

Section B- Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of Government Auditing Standards.

None Reported

Section C-Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a), significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs.

Finding: 2012-C1- Patient Income-Ryan White Program

Federal Program Identification: U.S. Department of Health and Human Services
Ryan White Title III, CFDA 93.918
Grant No. H76 HA00665

Condition: Documentation is not being maintained in the Ryan White program to ensure that a patient's medical charges (patient's responsibility to pay) are no more than the applicable percentage (0%, 5%, 7%, 10%) of that patient's income in any calendar year.

Criteria: OMB Circular A-133 Compliance Supplement, Ryan White compliance requirements

Context: During an examination of patients receiving Ryan White services, it was noted that patients were charged for services without documentation to ensure the patient had not exceeded the medical expenditure limit based on Ryan White compliance requirements.

Cause: Procedures are not developed to ensure that a patient's medical charges do not exceed Ryan White compliance amounts in a calendar year.

Effect: The weakness in this control could result in patients being charged more than the applicable percentage allowed by Ryan White compliance requirements.

Recommendation: We recommend the following changes to the Ryan White Program to improve program compliance:

- a. Eligibility should be updated on a calendar year basis; in January of each year the patient's annual eligibility should be documented.
- b. The Ryan White certification letter should document the following:
 - Annual income
 - Expected payment due on each visit
 - The maximum annual amount of medical expense the patient is required to pay
 - Patient and case workers signature and date
 - Notification of certification expiration date December 31

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Schedule of Findings and Questioned Cost

For the Year Ended December 31, 2012

Auditee's Response and Corrective Action Plan: Management concurs with the above audit finding. Procedures have been established and implemented on February 1, 2013 to document needed expenditures limit based on Ryan White compliance requirements.

Contact Person: Sonja McCausland

Anticipated Date of Completion: June 30, 2013

Finding: 2012-C2- Patient Eligibility - Non Patient Prescriptions - 340B Program

Federal Program Identification: U.S. Department of Health and Human Services
Health Center Cluster, CFDA 93.224
Grant No. *H80CS00730*

Condition: During the fiscal year the Cooperative's pharmacy filled prescriptions using 340b drugs for individuals who were not patients of the Cooperative.

Criteria: OMB Circular A-133 Compliance Supplement, Other requirements

Context: Of the 48 prescriptions selected 12 of them were not Cooperative patients and therefore not eligible to be covered by the 340b program.

Cause: Procedures have not been established to ensure that only prescriptions written by Cooperative providers for their patients are filled using 340b pharmaceuticals.

Effect: The lack of these controls resulted in the pharmacy filling prescriptions for patients who are not users of the Cooperative using 340b drugs, which is in violation of the Cooperative's 340b contract.

Recommendation: We recommend that the pharmacy only fill prescriptions issued by Cooperative providers using 340b drugs.

Auditee's Response and Corrective Action Plan: Management concurs with the above audit finding. Procedures have been established and implemented on March 20, 2013 to ensure that the only prescriptions accepted are those written by Cooperative providers.

Contact Person: Sonja McCausland

Anticipated Date of Completion: June 30, 2013

Questioned Costs: None Reported



TERRY L. HORNE, CPA

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Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards

The Governing Board
Eau Claire Cooperative Health Centers, Inc.

We have audited the financial statements of Eau Claire Cooperative Health Centers, Inc. as of and for the year ended December 31, 2012, and have issued our report thereon dated June 15, 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 of Eau Claire Cooperative Health Centers, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Eau Claire Cooperative Health Centers, Inc.'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 Eau Claire Cooperative Health Centers, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eau Claire Cooperative Health Centers, Inc.'s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management of 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not designed to 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.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eau Claire Cooperative Health Centers, Inc.'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*.**

We noted certain matters that were reported to management of Eau Claire Cooperative Health Centers, Inc.'s in a separate letter dated June 15, 2013.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style with a large initial "J".

June 15, 2013



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Report on Compliance With Requirements Applicable to Each Major Program
Program And on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Governing Board
Eau Claire Cooperative Health Centers, Inc.

Compliance

We have audited Eau Claire Cooperative Health Centers, Inc.'s compliance with the types of compliance requirements described in the (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Eau Claire Cooperative Health Centers, Inc.'s major federal programs for the year ended December 31, 2012. Eau Claire Cooperative Health Centers, Inc.'s major federal programs are 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 each of its major federal programs is the responsibility of Eau Claire Cooperative Health Centers, Inc.'s management. Our responsibility is to express an opinion on Eau Claire Cooperative Health Centers, Inc.'s compliance 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 Eau Claire Cooperative Health Centers, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Eau Claire Cooperative Health Centers, Inc.'s compliance with those requirements.

As described in item 2012-C1 and 2012-C2 in the accompanying schedule of findings and questioned costs, Eau Claire Cooperative Health Centers, Inc. did not comply with requirements regarding income and other requirements that are applicable to its 340B and Ryan White Program respectively. Compliance with such requirements is necessary, in our opinion, for Eau Claire Cooperative Health Centers, Inc. to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Eau Claire Cooperative Health Centers, Inc. complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of Eau Claire Cooperative Health Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Eau Claire Cooperative Health Centers, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purposes 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 Eau Claire Cooperative Health Centers, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. **We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-C1 and 2012-C2 to be material weaknesses.**

Eau Claire Cooperative Health Centers, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Eau Claire Cooperative Health Centers, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.



June 15, 2013

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Summary Schedule of Prior Year Audit Findings

December 31, 2012

There were no findings in the prior year audit. However, there were certain matters involving internal controls that were reported to the management of Eau Claire Cooperative Health Centers, Inc., in a separate letter. These matters were reviewed and it was determined that the necessary corrective action has been taken to improve the related controls.

**EAU CLAIRE COOPERATIVE
HEALTH CENTERS, INC.**

**Report to the Board of Directors
December 31, 2012**

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Report to the Board of Directors

December 31, 2012

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TERRY L. HORNE, CPA

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June 15, 2013

To the Board of Directors
Eau Claire Cooperative Health Centers, Inc.

We have completed our audit of the financial statements of Eau Claire Cooperative Health Centers, Inc. for the year ended December 31, 2012. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated June 15, 2013. We are presenting an oral presentation of the financial statements and the results of the compliance audit in accordance with Government Auditing Standards and OMB Circular A-133 to the Governing Board.

We appreciate the courtesies extended to us during the audit and the assistance provided by the staff of Eau Claire Cooperative Health Centers, Inc.

Sincerely,

A handwritten signature in black ink that reads "Terry Horne CPA". The signature is written in a cursive style.

Terry Horne, CPA

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Summary of Professional Services

- ❖ Annual audit of financial statements
- ❖ Annual compliance audit in accordance with Government Auditing Standards and OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations”
- ❖ Annual federal tax information return
- ❖ Annual Data Collection Form SF-SAC
- ❖ Annual Financial Status Report
- ❖ Annual report to management on observations and recommendations for improvements
- ❖ Attendance at board meetings as requested

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Required Auditor Communications

Items to be Communicated and Auditor's Response

❖ **The auditor's responsibility under generally accepted auditing standards.**

The auditors should communicate the level of responsibility assumed for internal control, illegal acts, and other matters under generally accepted auditing standards.

- ◇ *Our responsibility, as described by professional standards, is to plan and perform our audit to obtain **reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.** Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.*

In planning and performing our audit, we considered Eau Claire Cooperative Health Centers, Inc.'s (Cooperative) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests in compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133 we examined, on a test basis, evidence about the Cooperative's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the Cooperative's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the Cooperative's compliance with those requirements.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Required Auditor Communications

❖ **Significant accounting policies and unusual transactions.**

The auditors should determine that the Board is informed about the initial selection of and changes in significant accounting policies as well as the methods used to account for significant unusual transactions.

◇ *There were none.*

❖ **Management judgments and accounting estimates.**

The Board should be informed about the process used by management in forming particularly sensitive accounting estimates and about the basis for the auditors' conclusions regarding the reasonableness of these estimates.

Allowance for Doubtful Accounts

◇ *The estimate of uncollectible patient accounts receivable is based on historical collection experience and analysis of the types of accounts comprising the balance. Based on computations within industry standards applied to test the reserve for uncollectible patient accounts, the estimates appear reasonable.*

❖ **Disagreements with management.**

Disagreements with management, whether satisfactorily resolved, about matters that could be significant to the entity's financial statements or the auditors' report should be communicated to the Board.

◇ *There were no disagreements with management.*

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Required Auditor Communications

❖ **Significant audit adjustments.**

All significant adjustments arising from the audit should be communicated to the Board.

◇ *There were none.*

❖ **Major issues discussed with management prior to retention.**

Any major issues that were discussed with management in connection with our initial or recurring retention should be communicated to the Board.

◇ *There were none.*

❖ **Difficulties encountered in performing the audit.**

Serious difficulties encountered in dealing with management that relate to the performance of the audit are required to be brought to the attention of the Board.

◇ *There were none.*

❖ **Uncorrected financial statement misstatements.**

Any uncorrected financial statement misstatements should be disclosed to the Board.

◇ *There were none.*

This report is intended solely for the use of the Board of Directors.



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MANAGEMENT LETTER

Board of Directors
Eau Claire Cooperative Health Centers, Inc.

In planning and performing our audit of the financial statements of Eau Claire Cooperative Health Centers, Inc. for the year ended December 31, 2012, we considered the Cooperative's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated June 15, 2013, on the financial statements of Eau Claire Cooperative Health Centers, Inc.

I. Grant Controls

1. Procedures have not been established to ensure that receivable amounts due for federal grants are recorded on a monthly basis. It is recommended that grant revenue earned be evaluated each month and compared to the related grant draws for that month to determine if any grant receivables or deferrals have occurred. This proper recording of grant receivables or deferrals will ensure that grant revenue is correctly recorded in the period it is earned.

Management's Response:

Management concurs. Procedures will be established to record federal grant receivables on a monthly basis.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Cooperative personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

June 15, 2013