

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

Financial Statements

December 31, 2014 and 2013
(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.

Report on the Financial Statements

We have audited the accompanying financial statements of Eau Claire Cooperative Health Centers, Inc. (the Organization) which comprise the statement of financial position as of December 31, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eau Claire Cooperative Health Centers, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated June 11, 2015 on our consideration of Eau Claire Cooperative Health Centers, Inc.'s internal control over financial reporting and on 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 in considering Eau Claire Cooperative Health Centers, Inc.'s internal control over financial reporting and compliance.

Lebanon, TN
June 11, 2015

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

Eau Claire Cooperative Health Centers, Inc.

Statement of Financial Position

December 31, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 1,063,729	\$ 1,626,766
Accounts Receivable Net (Note 4)	1,354,145	1,242,983
Other Receivables (Note 5)	1,983,655	955,974
Inventory	50,436	80,035
Prepaid Expenses	10,143	10,035
<i>Total Current Assets</i>	4,462,108	3,915,793
 <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)	12,541,513	11,464,296
<i>Total Property and Equipment</i>	12,541,513	11,464,296
 <i>Other Assets</i>		
Variable Annuity (Note 20)	461,791	385,047
Intangibles, Net of Accumulated Amortization (Note 8)	88,049	102,182
Investment In Amicus Health, LLC (Note 10)	100,000	75,000
<i>Total Other Assets</i>	649,840	562,229
 Total Assets	\$ 17,903,461	\$ 16,192,318

LIABILITIES AND NET ASSETS

<i>Current Liabilities</i>		
Accounts Payable	\$ 1,565,350	\$ 741,148
Accrued Compensated Absences	657,277	516,672
Accrued Payroll Liabilities	441,107	950,783
Deferred Revenue-Non Federal Grant	18,364	68,068
Current Portion of Long Term Notes Payable	363,639	426,994
Current Portion of Long Term Capital Leases	28,362	115,924
<i>Total Current Liabilities</i>	3,074,099	2,819,589
 <i>Long-Term Liabilities</i>		
Notes Payable (Note 11)	5,728,701	5,929,361
Capital Leases Payable (Note 12)	66,198	182,122
Annuity Payable (Note 19)	461,791	385,047
Due to Related Party	-	30,806
Less Current Portion of Long Term Notes Payable	(363,639)	(426,994)
Less Current Portion of Long Term Capital Leases	(28,362)	(115,924)
<i>Total Long-Term Liabilities</i>	5,864,689	5,984,418
 Total Liabilities	8,938,788	8,804,007
 <i>Net Assets</i>		
Net Assets - Unrestricted	8,964,673	7,388,311
<i>Total Net Assets</i>	8,964,673	7,388,311
 Total Liabilities and Net Assets	\$ 17,903,461	\$ 16,192,318

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, 2014 and 2013

Support and Revenues:

	<u>2014</u>	<u>2013</u>
Net Patient Revenue (Note 16)	\$ 21,688,182	\$ 18,311,294
Public Support - U.S. Department of Health and Human Services Operational Grants (Note 15)	6,969,858	6,590,461
Other Grants and Contracts	2,281,432	1,775,324
Donations (Note 18)	385,191	560,327
Medical Records and Other Income	94,611	273,323
Total Support and Revenues	31,419,274	27,510,729

Expenses:

Program Services Expenses	19,815,150.23	18,013,004.00
General and Administrative Expenses	10,054,553.77	7,962,495.00
Total Expenses	29,869,704	25,975,499

**Excess (Deficiency) of Support and
Revenues Over Expenses from Operations**

	1,549,570	1,535,229
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Other Income and Expenses:

Public Support- U.S. Department of Health and Human Services Non-Operational Grants (Note 15)	26,312	422,818
Gain (Loss) on Sale of Assets	(1,934)	(2,606)
Interest Income	2,414	4,990
Total Other Income and Expenses	26,792	425,202

**Total Excess (Deficiency) of Support and
Revenues Over Expenses**

	1,576,362	1,960,430
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Net Assets:

Increase (Decrease) in Unrestricted Net Assets	1,576,362	1,962,450
Increase (Decrease) in Temporarily Restricted Net Assets	-	(2,020)
Beginning of Year	7,388,311	5,427,881

Net Assets at End of Year

	\$ 8,964,673	\$ 7,388,311
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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, 2014 and 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>2014 Total</u>	<u>2013 Total</u>
Personnel	\$ 12,843,635	\$ 6,275,208	\$ 19,118,842	\$ 17,408,233
Fringe Benefits	2,230,257	1,098,485	3,328,743	2,884,415
Contractual Services	1,533,639	219,315	1,752,954	1,485,579
Supplies	2,426,155	301,461	2,727,615	1,595,201
Travel and Training	91,976	75,937	167,913	97,580
Insurance	8,146	5,430	13,576	20,752
Communication and Postage	265,585	177,057	442,641	444,971
Utilities	182,093	121,396	303,488	262,614
Depreciation and Amortization	198,734	507,729	706,463	643,341
Building and Equipment Rental	324,650	216,433	541,083	374,704
Maintenance and Repairs	120,957	59,577	180,534	149,405
Dues, Printing, and Other	3,976	215,283	219,259	210,733
Interest Expense	219,955	146,637	366,592	397,972
Total	<u>\$ 20,449,757</u>	<u>\$ 9,419,947</u>	<u>\$ 29,869,704</u>	<u>\$ 25,975,499</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, 2014 and 2013

Cash Flows from Operating Activities:

	<u>2014</u>	<u>2013</u>
Excess of Support and Revenues Over Expenses	\$ 1,549,570	\$ 1,535,229
<i>Adjustments to Reconcile Net Income to Cash Provided From Operations:</i>		
Interest Income	2,414	4,990
Depreciation	706,463	657,474
(Increase) Decrease in Accounts Receivable	(111,162)	(84,789)
(Increase) Decrease in Other Receivable	(1,027,681)	(343,519)
(Increase) Decrease in Inventory	29,599	(5,975)
(Increase) Decrease in Prepaid Items	(108)	(3,011)
(Increase) Decrease in Other Assets	(87,611)	(87,565)
Increase (Decrease) in Accounts Payable	824,204	40,375
Increase (Decrease) in Accrued Annual Leave	140,605	57,636
Increase (Decrease) in Accrued Payroll Liabilities	(509,676)	221,656
Increase (Decrease) in Accrued Liabilities	45,938	(48,000)
Increase (Decrease) in Deferred Revenue	(49,704)	(6,165)
Net Cash Provided by Operating Activities:	1,512,851	1,938,336

Cash Flows Used in Investing Activities:

Purchases of Property, Plant and Equipment	(1,696,058)	(1,610,744)
Capital Expenditure Grant Funds	26,312	422,818
Gain (Loss) on Disposal of Assets	(1,934)	(2,606)
Cash Used in Investing Activities	(1,671,679)	(1,190,532)

Cash Flows Provided by Financing Activities:

Increase (Decrease) in Notes Payable	(316,584)	14,544
Cash Provided in Financing Activities	(316,584)	14,544
Net Increase (Decrease) in Cash	(475,413)	762,348
Cash at Beginning of The Year	1,626,766	864,418
Cash at End of The Year	\$ 1,151,353	\$ 1,626,766

Supplemental Data:

Interest Paid in Financing Activities	\$ 366,592	\$ 397,972
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The accompanying notes are an integral part of this financial statement.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013

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, 2014 is \$14,133.

(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, 2014 and 2013

(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, 2014 the Cooperative had cash balances with its depositories exceeding the FDIC limit. As of December 31, 2014 the Cooperative was not covered by the FDIC by \$543,360. 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 patients, 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 \$1,354,145 and \$1,242,983 for the years ended December 31, 2014 and 2013 respectively.

(5) Other Receivables

The Cooperative has other receivable balances as of December 31, 2014 and 2013 that are summarized below:

	<u>2014</u>	<u>2013</u>
Ryan White Grant Receivable	\$ 4,693	\$51,995
Innovation Grant Receivable	641	28,191
Health Steps Grant Receivable	30,645	-
Pharmacy 340B Contracts Walgreens Receivable	30,246	-
Medicaid Wraparound and Settlement Payments	1,884,242	862,644
Other Receivables	<u>33,189</u>	<u>13,144</u>
Total Other Receivables	<u>\$1,983,655</u>	<u>\$955,974</u>

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$1,288,024	\$1,288,024
Buildings, improvements and fixed equipment	11,416,396	10,053,472
Furniture and fixtures	224,722	224,722
Equipment	3,471,491	3,309,377
Vehicles	47,295	47,295
Leasehold improvements	94,644	54,811
Construction in process	<u>990,483</u>	<u>793,228</u>
	17,533,055	15,770,929
Less accumulated depreciation	<u>4,991,542</u>	<u>4,306,633</u>
Property and equipment, net	<u>\$12,541,513</u>	<u>\$11,464,296</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, 2014 and 2013 was \$692,330 and \$657,474.

(8) Intangibles

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

	<u>2014</u>	<u>2013</u>
Loan acquisition costs	\$197,668	\$197,668
Goodwill from acquisition of practice	9,549	9,549
Less accumulated amortization	<u>(119,169)</u>	<u>(105,036)</u>
Net Intangibles	<u>\$ 88,048</u>	<u>\$102,181</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, 2014, this reserve account was fully funded in the amount of \$250,000.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

(10) Investment

The investment is comprised of \$100,000 invested in Amicus Health, LLC. This investment represents a 25% ownership in the Limited Liability Company. This entity is a privately held company therefore the current market value is undeterminable. This investment is recorded at cost.

(11) Notes Payable

The Cooperative has a note payable with National Bank of South Carolina for clinic property with an original amount of \$5,940,465, which matures on January 2, 2015. The bank has re-financed this debt over 73 months based on a 103 month amortization the new note accrues interest at 5.8% and require monthly payment of \$53,974. As of December 31, 2014, the balance on this obligation was \$4,441,941.

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, 2014, the balance on this obligation was \$69,526.

The Cooperative has a note payable with National Bank of South Carolina for the Behavioral Health Building with an original amount of \$850,000, which matures on November 2, 2016. This note accrues interest at 4.25% and requires monthly payments of \$4,671. As of December 31, 2014, the balance on this obligation was \$656,658.

The Cooperative has a note payable with First Citizens Bank of South Carolina for the Newberry Building with an original amount of \$350,000, which matures on August 21, 2018. This note accrues interest at 4.0% and requires monthly payments of \$2,132, with a balloon payment of the unpaid balance upon maturity. As of December 31, 2014, the balance on this obligation was \$334,440.

The Cooperative has a construction loan with the County of Lexington for the Pelion Construction with an original amount of \$100,000, which matures on June 15, 2022. This note accrues interest at 0% and requires monthly payments of \$1,190. As of December 31, 2014 only \$42,536 had been drawn.

The Cooperative has a construction loan with the NBSC Bank for the location located at 404 Fair Street with an original amount of \$250,000, which matures on July 24, 2019. This note accrues interest at 4.5% and requires monthly payments of \$1,921. As of December 31, 2014 only \$183,600 had been drawn.

Scheduled principal payments on notes payable are as follows:

<u>Year Ending December 31</u>	<u>Notes Payable</u>
2015	\$ 363,639
2016	531,968
2017	525,907
2018	1,330,820
2019	640,483
Thereafter	<u>2,335,884</u>
	<u>\$5,728,701</u>

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

(12) Capital Leases

The Cooperative has various capital leases with Cisco for telephone equipment requiring monthly payments totaling \$19,632. These leases mature on January 1, 2015, May 1, 2015, and January 5, 2018, respectively and have a combined balance of \$66,198 as of December 31, 2014.

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, 2014:

Lease payments due for the years ending	
December 31, 2015	\$ 28,362
December 31, 2016	17,550
December 31, 2017	18,678
Lease payments due thereafter	<u>1,608</u>
Total capital lease obligations	<u>\$66,198</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, 2014 is \$541,083. Future minimum lease payments are as follows:

Year Ending December 31

2015	\$301,147
2016	257,940
2017	244,392
2018	257,940
2019	208,428
Thereafter	<u>21,456</u>
	<u>\$1,291,303</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, 2014 and 2013

(15) Federal Grant Support

The Cooperative received grants from the U.S. Department of Health and Human Services in the amount of \$6,996,170 (\$6,969,858 operational and \$26,312 non-operational) and \$7,013,279 (\$6,590,461 operational and \$422,818 non-operational) for the years ended December 31, 2014 and 2013 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Gross charges	\$34,531,062	\$30,006,196
Sliding fee and other adjustments	<u>(12,842,880)</u>	<u>(11,694,902)</u>
Net patient revenue	<u>\$21,688,182</u>	<u>\$ 18,311,294</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, 2014 and 2013 was \$58,730 and \$36,252 respectively.

(18) Donations

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, 2014 is \$5,084. The Cooperative also received cash donations of \$380,107 from individuals and other organizations.

(19) Deferred Compensation Agreement/Variable Annuity

The Cooperative purchased a variable annuity for the benefit of the previous Chief Executive Officer, Dr. Stewart Hamilton on March 16, 2007. The annuity is owned by the Cooperative and Dr. Hamilton is the annuitant. The annuity is recorded as an asset of the Cooperative with a fair market value of \$461,791 and there is also a corresponding liability for \$461,791 recorded on the financial statements.

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

(20) Related Party Transaction

Nature of Relationship –Eau Claire Cooperative Health Centers, Inc. owns 25% of Amicus Health, LLC, which was established to provide contracted laboratory services to Federally Qualified Health Centers in South Carolina. Related party transactions consist of the following:

Investment in ownership of LLC	\$100,000
Loan to Amicus during the current audit period	<u>30,000</u>
Total	<u>\$130,000</u>

(21) 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.

(22) 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, 2014

<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>		
Direct Grants		
Health Center Cluster Consolidated Health Centers Program <i>Grant No. H80CS00730</i>	93.224	\$2,275,882
Affordable Care Act-Grants for Expanded Service Under Health Center Program <i>Grant No. H80CS00730</i>	93.527	<u>3,187,582</u>
Total Health Center Cluster		<u>\$5,463,464</u>
Affordable Care Act-Grants for School Based Health Centers Capital Program <i>Grant No. C12CS25520</i>	93.501	26,312
Healthy Columbia (Innovations) <i>Grant No. C1CMS331045</i>	93.610	722,535
Ryan White Part C Outpatient EIS Program <i>Grant No. H76HA24740</i>	93.918	783,859
Total Federal Grants		<u>\$6,996,170</u>
Pass Through Grants		
Pass Through Children's Trust Fund of South Carolina Maternal, Infant, and Early Childhood Home Visiting Program	93.505	<u>\$115,261</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, 2014

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? _____yes___ X no
 Significant deficiencies reported
 as Material Weaknesses? _____yes___ X no

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

Any audit findings disclosed that are required
to be reported in accordance with Section
510(a) of OMB Circular A-133? _____yes___ X no

Identification of major programs:

CFDA Number

93.224

93.527

93.918

93.610

Name of Federal Program

Health Center Cluster
Consolidated Health Center Program
Health Center Cluster
Affordable Care Act-Grants for
Expanded Service Under Health
Center Program
Ryan White Part C EIS Program
Healthy Columbia (Innovations)

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, 2014

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.

None Reported



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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

Independent Auditor's Report

The Governing Board
Eau Claire Cooperative Health Centers, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Eau Claire Cooperative Health Centers, Inc. which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Eau Claire Cooperative Health Centers, Inc. internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Eau Claire Cooperative Health Centers, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eau Claire Cooperative Health Centers, Inc.'s financial statements are free from 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*.**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is positioned above a light gray rectangular box.

Lebanon, TN
June 11, 2015



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Report on Compliance For Each Major Federal Program; Report on Internal Control
Over Compliance Required by OMB Circular A-133

Independent Auditor's Report

The Governing Board
Eau Claire Cooperative Health Centers, Inc.

Report on Compliance for Each Major Federal Program

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, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Eau Claire Cooperative Health Centers, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Eau Claire Cooperative Health Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Eau Claire Cooperative Health Centers, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Lebanon, TN
June 11, 2015

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Summary Schedule of Prior Year Audit Findings

December 31, 2014

Prior Year Finding: 2013-C1

Procedures have not been established 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.

Status of Finding – Resolved.

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

Report to the Board of Directors
December 31, 2014

EAU CLAIRE COOPERATIVE HEALTH CENTERS, INC.

Report to the Board of Directors

December 31, 2014

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TERRY L. HORNE, CPA

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June 11, 2015

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, 2014. The financial statements together with our auditor's report and supplementary information are contained in a separate report dated June 11, 2015. 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,

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.

- ◇ *The only significant adjustments were related to recording Medicaid cost settlements, unrecorded liabilities, and allowance for collectables.*

❖ **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.



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, 2014, 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 11, 2015, on the financial statements of Eau Claire Cooperative Health Centers, Inc.

I. Accounts Receivable Controls

1. Revenue and related accounts receivable for pharmacy contract services are not being reconciled to the contractor's activity reports on a monthly basis. Without such reconciliation, error in account balances could occur without detection. We recommend that these account balances be reconciled to the contractor's reports monthly.

Management's Response:

Management concurs. Efforts will be made to ensure that contract pharmacy revenue and receivables are reconciled as recommended above.

II. Management Controls

1. A loan of \$30,000 was granted to Amicus Health, LLC without a supporting loan document. It is recommended that such transactions be supported by written documents to include a detail of the terms of the loan.

Management's Response:

Management concurs. Procedures will be established to ensure loan transactions are supported by the proper documentation as recommended above.

2. The Cooperative owns 25% of Amicus Health, LLC (Amicus) for a \$100,000 investment. Amicus began in 2011, however it has not filed tax returns in accordance with Internal Revenue Service (IRS) regulations. Absence of these filings means that management is not being provided with authoritative records of Amicus' profitability or the current value of the Cooperative's investment. This information is vital to any decision management needs to make about this investment or its longevity.

Management's Response:

It is recommended that management be aware of required IRS filings and work with Amicus to ensure that returns are filed timely and that the necessary reporting forms are provided to all partners.

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.

A handwritten signature in black ink that reads "Jerry Home CPA". The signature is written in a cursive style and is positioned above a light gray rectangular background.

June 11, 2015