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January 30, 2014

Board of Directors  
ECHO Community Health Care, Inc.  
315 Mulberry Street  
Evansville, IN 47713

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the periods ending December 31, 2010 and 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the ECHO Community Health Care, Inc., as of December 31, 2010 and 2009, and the results of its operations for the periods then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**ECHO COMMUNITY HEALTH CARE, INC.**

**FINANCIAL STATEMENTS**

December 31, 2010 and 2009

ECHO COMMUNITY HEALTH CARE, INC.

FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
ECHO Community Health Care, Inc.  
Evansville, IN

We have audited the accompanying balance sheets of ECHO Community Health Care, Inc. ("Center") as of December 31, 2010 and 2009, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of ECHO Community Health Care, Inc. 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 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 audits provide 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 ECHO Community Health Care, Inc. as of December 31, 2010 and 2009, 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 *Governmental Auditing Standards*, we have also issued our report dated April 7, 2011, on our consideration of the Center'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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



Crowe Horwath LLP

Indianapolis, Indiana  
April 7, 2011

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ECHO COMMUNITY HEALTH CARE, INC.  
BALANCE SHEETS  
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 901,948	\$ 620,512
Investments	735,442	848,403
Patient accounts receivable, net of allowance for uncollectible accounts: 2010 - \$56,691; 2009 - \$62,112	235,515	321,410
Estimated amounts due from Medicaid	91,455	122,239
Grants receivable	333,690	102,861
Prepaid expenses and other	<u>41,643</u>	<u>37,178</u>
Total current assets	2,339,693	2,052,603
Investments	317,000	-
Property and equipment, net (Note 3)	<u>3,288,087</u>	<u>2,876,063</u>
Total assets	<u>\$ 5,944,780</u>	<u>\$ 4,928,666</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 170,226	\$ 68,550
Medicaid payable	55,657	-
Deferred revenue	28,775	117,938
Accrued vacation	70,039	80,797
Accrued payroll	78,641	202,966
Accrued expenses	<u>72,944</u>	<u>47,449</u>
Total current liabilities	476,282	517,700
Net assets		
Unrestricted	<u>5,468,498</u>	<u>4,410,966</u>
Total liabilities and net assets	<u>\$ 5,944,780</u>	<u>\$ 4,928,666</u>

See accompanying notes to financial statements.

ECHO COMMUNITY HEALTH CARE, INC.  
 STATEMENTS OF OPERATIONS  
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Unrestricted revenue, gains and other support</b>		
Support		
Federal grants	\$ 2,328,400	\$ 1,928,509
State grants	604,875	1,435,564
Local grants	2,293	46,658
Local grants - Welborn	165,000	180,000
United Way	112,571	112,227
Gifts in kind	<u>392,595</u>	<u>361,780</u>
	3,605,734	4,064,738
Net patient service revenue	2,505,774	2,137,297
Fundraising	11,500	16,260
Interest and dividends	18,064	33,650
Other	<u>113,231</u>	<u>108,902</u>
Total unrestricted revenues, gains and other support	6,254,303	6,360,847
 <b>Expenses</b>		
Salaries and wages	3,278,090	3,313,763
Employee benefits	536,149	498,435
Supplies	139,808	131,942
Equipment repairs, maintenance, leases, small purchases	65,334	52,704
Contractual	600,315	486,318
Training and travel	43,327	24,281
Building	102,451	156,488
Office	67,751	62,169
Pharmacy	13,200	17,614
Depreciation	208,326	224,564
Other	<u>142,020</u>	<u>118,613</u>
Total expenses	<u>5,196,771</u>	<u>5,086,891</u>
 <b>Increase in unrestricted net assets</b>	 <u>\$ 1,057,532</u>	 <u>\$ 1,273,956</u>

See accompanying notes to financial statements.

ECHO COMMUNITY HEALTH CARE, INC.  
STATEMENTS OF CHANGES IN NET ASSETS  
Years ended December 31, 2010 and 2009

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	<u>2010</u>	<u>2009</u>
<b>Net assets, beginning of year</b>	\$ 4,410,966	\$ 3,137,010
Increase in unrestricted net assets	<u>1,057,532</u>	<u>1,273,956</u>
<b>Net assets, end of year</b>	<u>\$ 5,468,498</u>	<u>\$ 4,410,966</u>

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See accompanying notes to financial statements.

ECHO COMMUNITY HEALTH CARE, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 1,057,532	\$ 1,273,956
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	208,326	224,564
Provision for bad debts	70,575	60,764
Changes in		
Patient accounts receivable, net	15,320	(232,495)
Estimated amounts due from Medicaid	30,784	(47,677)
Grants receivable	(230,829)	(899)
Accounts payable and accrued expenses	(31,082)	(312,082)
Prepaid expenses and other current assets	(4,465)	10,483
Deferred revenue	<u>(89,163)</u>	<u>88,625</u>
Net cash provided by operating activities	1,026,998	1,065,239
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(541,523)	(1,129,652)
Redemptions (purchases) of certificates of deposit	<u>(204,039)</u>	<u>166,131</u>
Net cash used in investing activities	(745,562)	(963,521)
<b>Cash flows from financing activities</b>		
Principal payments on long-term debt	<u>-</u>	<u>(281,456)</u>
Net cash from financing activities	<u>-</u>	<u>(281,456)</u>
Change in cash and cash equivalents	281,436	(179,738)
Cash and cash equivalents, beginning of year	<u>620,512</u>	<u>800,250</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 901,948</u>	<u>\$ 620,512</u>
Supplemental disclosure of cash flow information		
Property and equipment included in accounts payable	\$ 78,827	\$ -
Cash paid during the year for interest	-	13,908

See accompanying notes to financial statements.

ECHO COMMUNITY HEALTH CARE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations: ECHO Community Health Care, Inc. ("Center") primarily earns revenues by providing prenatal, pediatric and adult medical services to residents in the Southwest Indiana area. The Center is a Federally Qualified Health Center ("FQHC") and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include allowances for adjustments included in net patient service revenue and receivables, useful lives of fixed assets, and estimated Medicare and Medicaid settlements.

Industry: The Center derives a significant portion of its revenue from third-party payer programs. The receipt of future revenues by the Center is subject to, among other factors, federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

Cash and Cash Equivalents: The Center considers all cash and short term investments with original maturities of three months or less to be cash and cash equivalents. The Center maintains a substantial portion of its cash and cash equivalents in three local financial institutions. The Center's cash accounts with financial institutions, at times, exceeds federally insured limits. Effective through December 31, 2012, all the Center's non-interest bearing deposits are fully insured without limit through the Transaction Account Guarantee program. At December 31, 2010, the Center had total non-interest bearing deposits of \$77,750. The first \$250,000 of the Center's remaining deposits at each financial institution are insured by an agency of the U.S. government.

Patient Accounts Receivable: Patient accounts receivable are stated at net realizable amounts from patients, third-party payers and others for services rendered. The patient population of the Center consists primarily of homeless and low income individuals or families, most of whom qualify for service according to federal income levels for zero payment or a substantially reduced payment. Adjustments to patient accounts are made in amounts required to maintain an estimated allowance to cover contractual allowances and anticipated losses from patients, third-party payers, and others. The patient accounts are charged against the allowance when they are determined to be uncollectible.

Allowance: Adjustments to patient accounts are made in amounts required to maintain an allowance to cover estimated contractual allowances and anticipated losses from patients, third-party payers, and others. The allowance is determined by management based on historical trends and recent payment history with each payer. As payments are received, specific contractual adjustments detailed in the explanation of benefits are charged against the patient account and the allowance. Patient accounts receivable are ordinarily due upon receipt of the invoice. Balances past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient or third-party payer. Interest is not charged on past due accounts.

Investments: Investments consist of certificates of deposit with a maturity date in excess of three months. Certificates of deposit with maturities greater than one year from the balance sheet date have been included in non-current assets. Investments are recorded at fair value at December 31, 2010 and 2009.

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property and Equipment: Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of operations and changes in net assets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of operations and changes in net assets as well.

Deferred Revenue: Deferred revenue consists of local grant funds which have been received in advance of the actual expenditure of funds under the grant agreements. The Center includes these advance funds in deferred revenue, until expenditures under the grant have been made, at which time, the Center recognizes the grant funds in unrestricted revenues, gains and other support.

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. These payment arrangements include:

**Medicare:** Services rendered to Medicare program beneficiaries are reimbursed under a cost reimbursement methodology subject to a maximum cost per visit. The Center is reimbursed at tentative rates for Medicare with final settlement determined after submission of an annual cost report by the Center and an audit thereof by the Medicare fiscal intermediary. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Medicaid:** The Center has been reimbursed for services rendered to state-sponsored Medicaid beneficiaries on a prospective payment basis, and additional settlements will be made on the difference between the interim rates paid and the final prospective payment rate. No additional settlement will be made on the difference between the interim rates paid and actual costs. Adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

ECHO COMMUNITY HEALTH CARE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Approximately 82% and 78% of net patient service revenue (33% and 26% of total revenues for 2010 and 2009) are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009. Laws and regulations governing the Medicare and Medicaid program are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

In 2010, the 2007 Medicaid cost report was settled. During 2009, the 2006 Medicaid cost report was settled as well as the 2007 and 2008 Medicare cost reports. During the years ended December 31, 2010 and 2009, the Center recognized approximately \$(28,490) and \$78,065, respectively, in revenue (expense) relating to final settlements and retroactive adjustments for previously filed Medicare and Medicaid cost report.

Charity Care: The Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Charity care is not reported as revenue. Charges deducted in arriving at net patient service revenue under the Center's charity care policy were \$1,743,066 and \$1,368,958 for 2010 and 2009, respectively.

Contributions: Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Receipts of contributions which are conditional are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor. The Center had no temporarily or permanently restricted net assets on December 31, 2010 and 2009.

Contributed Services: Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contribution revenue recognized from contributed services consisted of:

	<u>2010</u>	<u>2009</u>
Area hospitals providing lab, x-ray and ancillary services	<u>\$ 392,595</u>	<u>\$ 361,780</u>

Income Taxes: The Center is exempt from income taxes under Section 501(c)3 of the Internal Revenue Code and a similar provision of Indiana law. However, the Center is subject to federal income tax on any unrelated business taxable income.

ECHO COMMUNITY HEALTH CARE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Effective January 1, 2009, the Center adopted certain provisions of FASB ASC 740, which clarifies the accounting for uncertainty in income taxes. In accordance with this guidance, a tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption had no effect on the financial statements.

The Center recognizes interest and penalties related to unrecognized tax benefits and includes these in interest and income tax expense. The Center has no amounts accrued for interest and penalties as of December 31, 2010 and 2009. The Center does not expect the total amount of unrecognized tax benefits to significantly change over the next twelve months.

The Center is no longer subject to examination by taxing authorities for years before 2007.

Concentration of Credit Risk: The Center grants credit without collateral to its patients, most of whom are area homeless and low income individuals or families and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2010 and 2009 was:

	<u>2010</u>	<u>2009</u>
Medicare	11 %	59 %
Medicaid	60	27
Commercial	12	7
Sliding fee	17	6
Other	-	1
	<u>100 %</u>	<u>100 %</u>

United States Government Revenue: Approximately 37% of the Center's revenue for the year ended December 31, 2010 (30% in 2009) was from grants from the United States Government received either directly or by pass-through from another entity and renewable annually at the Government's option. Approximately 27% of the Center's revenue was provided by a U.S. Department of Health and Human Services Urban Health Initiative grant for the year ended December 31, 2010 (27% in 2009). As of March 2007, the Federal grant project period had been renewed for five years.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2010. Management has performed their analysis through April 7, 2011, the date the financial statements were available to be issued.

ECHO COMMUNITY HEALTH CARE, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2010 and 2009

**NOTE 2 - FINANCIAL INSTRUMENTS**

The Center determines the fair values of its investments based on the fair value hierarchy established in FASB ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the Center's own assumptions based on market data and on assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The guidance describes three levels within its hierarchy that may be used to measure fair value:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs: Significant other observable inputs other than Level 1 quoted prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborate by observable market data.

Level 3 Inputs: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would rise in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in hierarchy.

The types of investments include certificates of deposit. The fair value estimate for the certificates of deposit use a valuation model involving current interest rates, and comparison to sales of similar assets that support the fair value of the instruments as of the date of measurement. As such, significant fair value inputs can generally be verified and do not involve significant management judgments (Level 2 inputs).

The following tables present the Center's assets measured at fair value on a recurring basis under FASB ASC 820 at December 31, 2010 and 2009:

	<u>Fair Value Measurements at December 31, 2010</u>			
	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	<u>Total</u>
Assets:				
Certificates of deposit	\$ -	\$ 1,052,442	\$ -	\$ 1,052,442
Total assets	<u>\$ -</u>	<u>\$ 1,052,442</u>	<u>\$ -</u>	<u>\$ 1,052,442</u>

ECHO COMMUNITY HEALTH CARE, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2010 and 2009

**NOTE 2 - FINANCIAL INSTRUMENTS (Continued)**

	<u>Fair Value Measurements at December 31, 2009</u>			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	<u>Total</u>
Assets:				
Certificates of deposit	\$ -	\$ 848,403	\$ -	\$ 848,403
Total assets	<u>\$ -</u>	<u>\$ 848,403</u>	<u>\$ -</u>	<u>\$ 848,403</u>

**NOTE 3 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following:

	<u>2010</u>	<u>2009</u>
Construction in progress	\$ 353,056	\$ -
Land	562,286	550,292
Property and equipment, net	110,981	239,331
Buildings	2,037,521	2,035,221
Furniture	58,284	61,885
Vehicles	22,894	22,894
Computers	327,040	308,886
Equipment medical	228,262	246,084
Equipment office	<u>139,149</u>	<u>97,875</u>
	3,839,473	3,562,468
Accumulated depreciation	<u>551,386</u>	<u>686,405</u>
Total	<u>\$ 3,288,087</u>	<u>\$ 2,876,063</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$208,326 and \$224,564, respectively.

Construction in progress includes costs incurred to construct an addition to one of the existing clinics. The buildout is expected to be completed in January 2011 at a total cost of approximately \$375,000.

**NOTE 4 - LONG-TERM DEBT**

During December 2009, the Center paid in full, the remaining outstanding balance of a mortgage payable; therefore, no liability exists at December 31, 2010 and 2009. Interest expense was \$0 and \$13,902 for the years ended December 31, 2010 and 2009, respectively.

ECHO COMMUNITY HEALTH CARE, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2010 and 2009

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**NOTE 5 - FUNCTIONAL EXPENSES**

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

	<u>2010</u>	<u>2009</u>
Health care services	\$ 4,253,007	\$ 4,206,281
General and administrative	943,764	880,048
Fundraising	<u>-</u>	<u>562</u>
	<u>\$ 5,196,771</u>	<u>\$ 5,086,891</u>

**NOTE 6 - OPERATING LEASES**

Noncancelable operating leases for outpatient offices and office equipment expire in 2012. These leases generally contain renewal options for periods ranging from one month to five years and require the Center to pay all executory costs (property taxes, maintenance and insurance). Rental expense for these leases included in the statement of operations was \$15,999 and \$57,609 for the years ended December 31, 2010 and 2009, respectively.

Future minimum lease payments at December 31, 2010 were:

2011	\$ 18,000
2012	<u>9,000</u>
Future minimum lease payments	<u>\$ 27,000</u>

**NOTE 7 - MEDICAL MALPRACTICE CLAIMS**

As an FQHC, the Center is covered for medical malpractice risks under the Federal Tort Claims Act. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of the incidents. Based on the Center's claim experience, no such accrual has been made.

**NOTE 8 - PENSION PLAN**

The Center has a 403(b) defined-contribution pension plan covering substantially all employees. In addition, the Center adopted a Simplified Employee Pension plan (SEP) in 2004. The Board of Directors annually determines the amount, if any, of the Center's contributions to the plans. Pension expense was \$26,494 and \$27,583 for 2010 and 2009, respectively.

**SUPPLEMENTARY INFORMATION**

ECHO COMMUNITY HEALTH CARE, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2010

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<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grant Number</u>	<u>Expenditures</u>
<u>Health Center Cluster</u>			
U.S. Department of Health and Human Services	93.224	H80CS00199	\$ 1,692,713
<u>American Recovery and Reinvestment Act - Capital Improvement Program</u>			
U.S. Department of Health and Human Services	93.703	C81CS14515	421,396
<u>American Recovery and Reinvestment Act - Increase Services to Health Centers</u>			
U.S. Department of Health and Human Services	93.703	H8BCS11662	<u>214,291</u>
Total Federal Expenditures			<u>\$ 2,328,400</u>

ECHO COMMUNITY HEALTH CARE, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year ended December 31, 2010

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center for the year ended December 31, 2010 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

No federal awards were provided to subrecipients.

INDEPENDENT AUDITORS' 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

Board of Directors  
ECHO Community Health Care, Inc.  
Evansville, IN

We have audited the financial statements of ECHO Community Health Care, Inc. ("Center") as of and for the year ended December 31, 2010, and have issued our report thereon dated the same date as this report. 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

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Center in a separate letter dated April 7, 2011.

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This report is intended solely for the information and use of the governing body, management 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.

*Crowe Horwath LLP*

Crowe Horwath LLP

Indianapolis, Indiana  
April 7, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
ECHO Community Health Care, Inc.  
Evansville, IN

Compliance

We have audited the compliance of ECHO Community Health Care, Inc. ("Center") with the types of compliance requirements described in the (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2010. The Center'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 its major federal programs is the responsibility of Center's management. Our responsibility is to express an opinion on the compliance of ECHO Community Health Care, Inc. based on our audit.

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

In our opinion, ECHO Community Health Care, Inc. complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as items 10-1.

### Internal Control Over Compliance

The management of ECHO Community Health Care, 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 ECHO Community Health Care, Inc.'s 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 10-1. A significant deficiency 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.

The Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Center's response and, accordingly, we express no opinion on the response.

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



Crowe Horwath LLP

Indianapolis, Indiana  
April 7, 2011

ECHO COMMUNITY HEALTH CARE, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended December 31, 2010

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**Section I - Summary of Auditors' Results:**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting

Material weakness(es) identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses?  Yes  None reported

Noncompliance material to the financial statements noted?  Yes  No

*Federal Awards*

Internal Control over major programs:

Material Weakness(es) identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses  Yes  None reported

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  No

Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	Health Center Cluster
93.703	ARRA - Capital Improvement Program
93.703	ARRA - Increased Services to Health Centers

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

Auditee qualified as low-risk auditee?  Yes  No

**Section II - Findings Related to the Financial Statements Reported in Accordance with Government Auditing Standards:**

None reported

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ECHO COMMUNITY HEALTH CARE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year ended December 31, 2010

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**Section III - Findings and Questioned Costs Relating to Federal Awards:**

**10-1 Reportable Condition Related to Davis-Bacon Act:**

*Criteria:* For all executed contracts in excess of \$2,000, the Center is required to ensure that all contractors maintain compliance with the Davis-Bacon Act, which requires contractors to pay a wage equal to the prevailing local wage rate for labor, including skilled and unskilled. Additionally, the Center is to receive, at least weekly, the certified payrolls from each of its contractors, which ensures that the contractor is in compliance with the Davis-Bacon Act requirements.

*Condition:* Management did not obtain from its applicable contractors the certified payrolls.

*Context:* We reviewed and identified one contract in excess of \$2,000 and based upon inquiry with management, noted that weekly certified payroll reports had not been obtained or received.

*Cause:* There was not regularly executed accountability on the external contractor, in order to ensure proper Davis-Bacon Act compliance.

*Effect:* As a result of the failure to obtain the, certified payrolls, management is not able to ensure that the contractors were paying their laborers the prevailing local wage for the labor, both skilled and unskilled, performed.

*Recommendation:* We recommend that management, for current and future contracts, ensure that at last weekly certified payroll reports are obtained from each required contractor, in order to ensure compliance with the Davis-Bacon Act requirements.

*Views of responsible officials:* Management recognizes the noted non-compliance and will, going forward, ensure that Davis-Bacon Act requirements are highlighted and enforced with appropriate documentation and follow-up on all required contracts.

*Questioned Costs:* \$0

**Section IV - Prior Audit Findings:**

None reported