

**Community Health Centers of Southern Iowa, Inc.**

Accountants' Report and Financial Statements

November 30, 2010 and 2009

## Independent Accountants' Report

Board of Directors  
Community Health Centers  
of Southern Iowa, Inc.  
Leon, Iowa

We have audited the accompanying balance sheets of Community Health Centers of Southern Iowa, Inc. (the "Organization") as of November 30, 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 Organization's management. 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. 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 Community Health Centers of Southern Iowa, Inc. as of November 30, 2010 and 2009, and the results of its operations, 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.

*BKD, LLP*

May 27, 2011

# Community Health Centers of Southern Iowa, Inc.

## Balance Sheets

November 30, 2010 and 2009

### Assets

	2010	2009
<b>Current Assets</b>		
Cash	\$ 146,290	\$ 73,341
Certificates of deposit	14,705	14,424
Patient accounts receivable, net of allowance; 2010 - \$885,000, 2009 - \$550,000	567,263	456,417
Grants and other receivables	97,391	85,729
Pharmacy inventory	41,417	80,343
Estimated amounts due from third-party payers	475,000	150,000
Prepaid expenses and other	35,382	12,084
Total current assets	1,377,448	872,338
<b>Property and Equipment, At Cost</b>		
Land and land improvements	14,000	14,000
Buildings and leasehold improvements	921,392	536,564
Equipment	864,219	454,718
Construction in progress	274,686	74,500
	2,074,297	1,079,782
Less accumulated depreciation	455,533	366,526
	1,618,764	713,256
Total assets	\$ 2,996,212	\$ 1,585,594

### Liabilities and Net Assets

<b>Current Liabilities</b>		
Line of credit	\$ 36,603	\$ 40,010
Current maturities of long-term debt	142,762	79,842
Accounts payable	415,347	85,364
Accrued expenses	246,704	157,912
Total current liabilities	841,416	363,128
<b>Long-Term Debt</b>		
	470,117	298,399
Total liabilities	1,311,533	661,527
<b>Net Assets</b>		
Unrestricted	1,652,241	875,916
Temporarily restricted	32,438	48,151
Total net assets	1,684,679	924,067
Total liabilities and net assets	\$ 2,996,212	\$ 1,585,594

**Community Health Centers of Southern Iowa, Inc.**  
**Statements of Operations**  
**Years Ended November 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net patient service revenue	\$ 4,710,124	\$ 3,678,752
Grant revenue	932,183	1,220,059
Contributions	127,292	134,352
Other	8,622	20,820
Net assets released from restrictions used for operations	15,713	-
Total unrestricted revenues, gains and other support	5,793,934	5,053,983
<b>Expenses and Losses</b>		
Salaries and wages	2,816,934	2,725,051
Employee benefits	581,905	542,773
Purchased services and professional fees	261,398	173,691
Supplies and other	963,828	1,119,845
Rent	81,416	94,812
Depreciation	114,296	81,497
Interest	24,295	22,517
Provision for uncollectible accounts	766,305	107,557
Total expenses and losses	5,610,377	4,867,743
<b>Operating Income</b>	183,557	186,240
<b>Other Income</b>		
Investment return	314	324
<b>Excess of Revenues Over Expenses</b>	183,871	186,564
Grants for the acquisition of property and equipment	592,454	102,220
<b>Increase in Unrestricted Net Assets</b>	\$ 776,325	\$ 288,784

**Community Health Centers of Southern Iowa, Inc.**  
**Statements of Changes in Net Assets**  
**Years Ended November 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 183,871	\$ 186,564
Grants for the acquisition of property and equipment	592,454	102,220
Increase in unrestricted net assets	776,325	288,784
<b>Temporarily Restricted Net Assets</b>		
Contributions	-	48
Net assets released from restriction	(15,713)	-
Increase (decrease) in temporarily restricted net assets	(15,713)	48
<b>Change in Net Assets</b>	760,612	288,832
<b>Net Assets, Beginning of Year</b>	924,067	635,235
<b>Net Assets, End of Year</b>	\$ 1,684,679	\$ 924,067

**Community Health Centers of Southern Iowa, Inc.**  
**Statements of Cash Flows**  
**Years Ended November 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Change in net assets	\$ 760,612	\$ 288,832
Items not requiring (providing) cash		
Loss on sale of property and equipment	15,219	-
Depreciation	114,296	81,497
Change in contributed inventory	15,713	(48)
Grants for acquisition of property and equipment	(592,454)	(102,220)
Changes in		
Patient accounts receivable, net	(110,846)	127,919
Grants receivable	(11,662)	(40,150)
Estimated amounts due from third-party payers	(325,000)	-
Inventory	23,213	(8,571)
Accounts payable and accrued expenses	160,829	(240,003)
Other current assets and liabilities	<u>(23,298)</u>	<u>(4,153)</u>
Net cash provided by operating activities	<u>26,622</u>	<u>103,103</u>
<b>Investing Activities</b>		
Acquisition of certificates of deposit	(281)	(100)
Purchase of property and equipment	<u>(777,077)</u>	<u>(175,491)</u>
Net cash used in investing activities	<u>(777,358)</u>	<u>(175,591)</u>
<b>Financing Activities</b>		
Proceeds from line of credit	73,018	1,958,501
Principal payments on line of credit	(76,425)	(2,104,672)
Proceeds from grant for acquisition of property and equipment	592,454	102,220
Proceeds from issuance of long-term debt	329,602	200,000
Principal payments on long-term debt	<u>(94,964)</u>	<u>(26,037)</u>
Net cash provided by financing activities	<u>823,685</u>	<u>130,012</u>
<b>Increase in Cash</b>	72,949	57,524
<b>Cash, Beginning of Year</b>	<u>73,341</u>	<u>15,817</u>
<b>Cash, End of Year</b>	<u>\$ 146,290</u>	<u>\$ 73,341</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 24,295	\$ 22,517
Inventory acquired through noncash contributions	\$ 79,292	\$ 86,400
Accounts payable incurred for property and equipment	\$ 257,946	\$ -

# **Community Health Centers of Southern Iowa, Inc.**

## **Notes to Financial Statements**

**November 30, 2010 and 2009**

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

#### ***Nature of Operations***

Community Health Centers of Southern Iowa, Inc. (the "Organization") is a federally qualified health center that works to improve, promote and maintain the physical and emotional health of people in the communities it serves. The Organization primarily earns revenues by providing physician and related health care services through clinics located in Decatur County, Iowa, serving an eight county service area in Iowa and Missouri.

#### ***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, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Investment Return***

Investment return is comprised of interest income.

#### ***Patient Accounts Receivable***

The Organization reports patient accounts receivable for services rendered at estimated net realizable amounts from third-party payers, patients and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

#### ***Pharmacy Inventory***

The Organization states pharmacy inventories at the lower of cost, determined using the first-in, first-out method, or market.

#### ***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.

# **Community Health Centers of Southern Iowa, Inc.**

## **Notes to Financial Statements**

**November 30, 2010 and 2009**

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items may be reclaimed if not used to further the grant's objectives.

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 Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended November 30, 2010 and 2009.

### ***Temporarily Restricted Net Assets***

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

### ***Net Patient Service Revenue***

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

### ***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

# **Community Health Centers of Southern Iowa, Inc.**

## **Notes to Financial Statements**

**November 30, 2010 and 2009**

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified 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. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

### ***Government Grant Revenue***

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

### ***In-Kind Revenue***

The Organization recognizes donated pharmaceutical supplies at fair value. Donated pharmaceutical supplies totaling \$79,300 and \$86,400 are recorded as contribution revenue and supplies and other expense for the years ended November 30, 2010 and 2009, respectively. The Organization also recognized in-kind rent revenue and expense totaling \$48,000 for the years ended November 30, 2010 and 2009.

### ***Income Taxes***

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

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2006.

### ***Excess of Revenues Over Expenses***

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

### ***Subsequent Events***

Subsequent events have been evaluated through May 27, 2011, which is the date the financial statements were available to be issued.

# Community Health Centers of Southern Iowa, Inc.

## Notes to Financial Statements

November 30, 2010 and 2009

### Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the “granting agency”). The general purpose of the grant is to provide expanded health care service delivery for residents of the eight county service area in Iowa and Missouri. Terms of the grant generally provide for funding of the Organization’s operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended November 30, 2010 and 2009, the Organization recognized \$675,951 in CHC grant revenue.

The Health Center program is currently operating under the Continuing Resolution since Congress has not finalized a fiscal year 2011 appropriation for the program. The Organization has received a notice of grant award for an additional amount of \$377,976 for the year ended November 30, 2011. A revised notice of grant award will be issued later in 2011 after a final program appropriation is enacted. The revised notice of grant award should provide additional grant support for the respective program/budget periods that is consistent with Congressional intent for the Health Center Program for fiscal year 2011.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under the American Recovery and Reinvestment Act (ARRA). The Organization has been awarded \$149,990 under the Increased Demand for Services (IDS) grant for the period of March 27, 2009, to March 26, 2011, to assist in meeting the needs of the communities served and \$448,380 under the Capital Improvement Program (CIP) grant for the period of June 29, 2009, to June 28, 2011, for equipment. Grant revenue is recognized as qualifying expenditures are incurred over the grant periods. During the years ended November 30, 2010 and 2009, the Organization recognized \$86,835 and \$15,788 in IDS grant revenue, respectively. The Organization recognized the entire CIP grant of \$448,380 in 2010.

In addition to these grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support required compliance with terms and conditions specified in the grant agreements and must be renewed on an annual basis.

### Note 3: Net Patient Service Revenue

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

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

**Community Health Centers of Southern Iowa, Inc.**  
**Notes to Financial Statements**  
**November 30, 2010 and 2009**

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

Approximately 59% and 52% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended November 30, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Note 4: Concentration of Credit Risk**

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at November 30, 2010 and 2009, is:

	<b>2010</b>	<b>2009</b>
Medicare	29%	16%
Medicaid	25%	27%
Other third-party payers and patients	46%	57%
	100%	100%

**Note 5: Medical Malpractice Claims**

The U.S. Department of Health and Human Services deemed the Organization and its practicing providers covered 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. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claim experience, no such accrual has been made. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

# Community Health Centers of Southern Iowa, Inc.

## Notes to Financial Statements

November 30, 2010 and 2009

### Note 6: Line of Credit

At November 30, 2010, the Organization had a \$200,000 bank line of credit bearing interest at the bank's prime rate plus 1.50% with a minimum rate of 6.5% (currently 6.5%), due on June 5, 2011. At November 30, 2010, the outstanding principal balance on the line of credit was \$36,603.

At November 30, 2009, the Organization had a \$200,000 bank line of credit bearing interest at the bank's prime rate plus 1.50% with a minimum rate of 6.5% (6.5% on November 30, 2009), due April 29, 2010. At November 30, 2009, the outstanding principal balance on the line of credit was \$40,010.

### Note 7: Long-Term Debt

	2010	2009
Note payable, bank (A)	\$ 188,695	\$ -
Note payable, bank (B)	166,667	200,000
Note payable, bank (C)	131,732	178,241
Note payable, bank (D)	125,785	-
	612,879	378,241
Less current maturities	142,762	79,842
	\$ 470,117	\$ 298,399

- (A) Promissory note to Great Western Bank, due July 25, 2015; payable by monthly payments of \$3,968 bearing 7% interest, secured by all property, equipment and inventory.
- (B) Promissory note to Decatur Medical Services, due July 1, 2015; payable in six annual payments of \$33,333 plus accrued interest thereon, the first of which was due July 1, 2010; bearing interest at a rate equal to the United States prime rate as listed in the Eastern print edition of the Wall Street Journal on the first business day following June 30 of each year, less 1% (currently 2.25%); unsecured.
- (C) Promissory note to Great Western Bank, due May 2013; payable by monthly payments of \$4,805 bearing 7% interest, secured by commercial property at 802 East Ackerly.
- (D) Loan from US Bancorp, due June 18, 2015; payable by monthly payments of \$2,698 bearing 7.3% interest, secured by equipment.

**Community Health Centers of Southern Iowa, Inc.**  
**Notes to Financial Statements**  
**November 30, 2010 and 2009**

Aggregate annual maturities of long-term debt at November 30, 2010, are:

2011	\$ 142,762
2012	150,790
2013	130,174
2014	106,981
2015	<u>82,172</u>
	<u>\$ 612,879</u>

**Note 8: Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purpose or periods:

	<u>2010</u>	<u>2009</u>
Pharmacy services	<u>\$ 32,438</u>	<u>\$ 48,151</u>

During 2010 and 2009, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of pharmacy services in the amount of \$15,713 and \$0, respectively.

**Note 9: Functional Expenses**

The Organization provides health care services primarily to residents within its service area. Expenses related to providing these services are as follows:

	<u>2010</u>	<u>2009</u>
Health care services	\$ 3,409,334	\$ 3,310,668
General and administrative	<u>2,201,043</u>	<u>1,557,075</u>
	<u>\$ 5,610,377</u>	<u>\$ 4,867,743</u>

**Note 10: Pension Plan**

The Organization has a defined contribution pension plan covering substantially all employees. The Organization contributes up to 3% of eligible employees' compensation to the plan. Pension expense was \$56,577 and \$67,407 for the years ended November 30, 2010 and 2009, respectively.

# Community Health Centers of Southern Iowa, Inc.

## Notes to Financial Statements

November 30, 2010 and 2009

### **Note 11: Construction in Progress**

The Organization was in the process of adding dental services at November 30, 2010. The addition of dental property and equipment resulted in a total cost of approximately \$360,000 and was completed in January 2011. This project was funded through a loan and operating funds. The Organization had incurred costs of \$255,458 related to this project's planning and implementation of equipment and the Organization had a total of \$274,686 of construction in process at November 30, 2010.

### **Note 12: Significant Estimates and Concentrations**

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

#### ***Allowance for Net Patient Service Revenue Adjustments***

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

#### ***Grant Awards***

A concentration of revenues related to grant awards is described in *Note 2*.

#### ***Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Note 5*.

#### ***Practicing Providers***

The Organization is served by three providers whose patients comprise a substantial portion of the Organization's net patient service revenue.

#### ***Current Economic Conditions***

The current protracted economic decline continues to present health care organizations with difficult circumstances and challenges, which in some cases have resulted in declines in contributions. The financial statements have been prepared using values and information currently available to the Organization.

# **Community Health Centers of Southern Iowa, Inc.**

## **Notes to Financial Statements**

**November 30, 2010 and 2009**

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in future adjustments to the allowances for accounts and contributions receivable that could negatively impact the Organization.