

Northwest Health Services, Inc.

Accountants' Reports and Financial Statements

January 31, 2012 and 2011

Northwest Health Services, Inc.
January 31, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Northwest Health Services, Inc.
St. Joseph, Missouri

We have audited the accompanying balance sheets of Northwest Health Services, Inc. (the "Organization") as of January 31, 2012 and 2011, 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 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 Northwest Health Services, Inc. as of January 31, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2012, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements 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*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

May 22, 2012

Northwest Health Services, Inc.

Balance Sheets

January 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 3,327,712	\$ 2,756,252
Patient accounts receivable, net of allowance; 2012 - \$329,892, 2011 - \$307,984	1,111,609	1,019,905
Grants and other receivables	170,052	162,579
Estimated amounts due from third-party payers	-	75,000
Supplies	311,030	317,120
Prepaid expenses and other	<u>98,100</u>	<u>226,879</u>
Total current assets	<u>5,018,503</u>	<u>4,557,735</u>
Property and Equipment, At Cost		
Land and land improvements	419,433	419,433
Buildings and leasehold improvements	3,514,263	3,512,778
Equipment	<u>2,705,886</u>	<u>2,248,768</u>
	6,639,582	6,180,979
Less accumulated depreciation	<u>3,122,426</u>	<u>2,575,405</u>
	<u>3,517,156</u>	<u>3,605,574</u>
Total assets	<u>\$ 8,535,659</u>	<u>\$ 8,163,309</u>

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 116,584	\$ 116,616
Accounts payable	1,045,920	1,190,874
Accrued expenses	1,133,998	1,202,360
Deferred revenue	24,893	204,592
Estimated amounts due to third-party payers - current	<u>2,289,570</u>	<u>1,931,500</u>
Total current liabilities	<u>4,610,965</u>	<u>4,645,942</u>
Estimated Amounts Due to Third-Party Payers	2,311,570	1,975,000
Less current portion	<u>2,289,570</u>	<u>1,931,500</u>
	<u>22,000</u>	<u>43,500</u>
Long-Term Debt	<u>527,697</u>	<u>649,149</u>
Total liabilities	5,160,662	5,338,591
Net Assets		
Unrestricted	<u>3,374,997</u>	<u>2,824,718</u>
Total liabilities and net assets	<u>\$ 8,535,659</u>	<u>\$ 8,163,309</u>

Northwest Health Services, Inc.
Statements of Operations
Years Ended January 31, 2012 and 2011

	2012	2011
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 13,583,363	\$ 12,488,509
Grant revenue	3,244,867	3,833,354
Contributions and other revenue	395,744	293,623
Total unrestricted revenues, gains and other support	17,223,974	16,615,486
Expenses and Losses		
Salaries and wages	8,633,056	8,586,857
Employee benefits	1,611,193	1,474,340
Supplies and other	5,811,892	6,003,074
Depreciation	550,696	382,212
Interest	50,674	61,054
Provision for uncollectible accounts	459,922	327,428
Loss on disposal of property and equipment	2,600	30,369
Total expenses and losses	17,120,033	16,865,334
Operating Income (Loss)	103,941	(249,848)
Investment Return	1,588	2,650
Excess (Deficiency) of Revenues Over Expenses	105,529	(247,198)
Grants of or for acquisition of property and equipment	444,750	518,198
Increase in Unrestricted Net Assets	\$ 550,279	\$ 271,000

Northwest Health Services, Inc.
Statements of Changes in Net Assets
Years Ended January 31, 2012 and 2011

	2012	2011
Excess (Deficiency) of Revenues Over Expenses	\$ 105,529	\$ (247,198)
Grants of or for acquisition of property and equipment	444,750	518,198
Change in Net Assets	550,279	271,000
Unrestricted Net Assets, Beginning of Year	2,824,718	2,553,718
Unrestricted Net Assets, End of Year	\$ 3,374,997	\$ 2,824,718

Northwest Health Services, Inc.
Statements of Cash Flows
Years Ended January 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Change in net assets	\$ 550,279	\$ 271,000
Items not requiring (providing) cash		
Loss on disposal of property and equipment	2,600	30,369
Depreciation	550,696	382,212
Grants for acquisition of property and equipment	(444,750)	(518,198)
Changes in		
Patient accounts receivable, net	(91,704)	(105,956)
Grants and other receivables	(7,473)	148,887
Estimated amounts due from and to third-party payers	411,570	450,000
Accounts payable and accrued expenses	(202,318)	(539,183)
Deferred revenue	(179,699)	26,902
Other current assets and liabilities	134,869	(49,700)
	<u>724,070</u>	<u>96,333</u>
Net cash provided by operating activities		
Investing Activities		
Proceeds from sale of property and equipment	-	18,755
Purchase of property and equipment	(475,876)	(624,101)
	<u>(475,876)</u>	<u>(605,346)</u>
Net cash used in investing activities		
Financing Activities		
Principal payments on long-term debt	(121,484)	(109,953)
Proceeds from grants for acquisition of property and equipment	444,750	518,198
	<u>323,266</u>	<u>408,245</u>
Net cash provided by financing activities		
Increase (Decrease) in Cash and Cash Equivalents	571,460	(100,768)
Cash and Cash Equivalents, Beginning of Year	<u>2,756,252</u>	<u>2,857,020</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,327,712</u>	<u>\$ 2,756,252</u>
Supplemental Cash Flows Information		
Interest paid	\$ 50,674	\$ 61,054
Accounts payable incurred for property and equipment	\$ -	\$ 10,998

Northwest Health Services, Inc.
Notes to Financial Statements
January 31, 2012 and 2011

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

Nature of Operations

Northwest Health Services, Inc. (the "Organization") primarily earns revenues by providing physician and related health care services through clinics located in northwest 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 during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At January 31, 2012 and 2011, cash equivalents consisted primarily of investment sweep accounts.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At January 31, 2012, the Organization's interest-bearing accounts with financial institutions did not exceed the federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

Investment Return

Investment return is comprised of interest income and is reported in the statement of operations.

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.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and depreciated using the straight-line method 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.

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 estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended January 31, 2012 and 2011.

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 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.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

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.

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 the granting agency and, as a result of such audit, adjustments could be required.

Donated Supplies

The Organization recognizes donated medical supplies at fair value. Donated medical supplies totaling \$146,811 and \$171,655 are recorded as contribution revenue and other expenses for the years ended January 31, 2012 and 2011, respectively.

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.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue and Other Support

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of northwest Missouri. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. During the years ended January 31, 2012 and 2011, the Organization received \$2,697,915 and \$2,534,368 in CHC grant funds, respectively. Funding for the year ending January 31, 2013, has been authorized at \$2,721,292.

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 \$373,847 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 community served; and \$1,250,090 under the Capital Improvement Program (CIP) grant for the period of June 29, 2009, to June 28, 2011, for facility improvements and equipment. Grant revenue is recognized as qualifying expenditures are incurred over the grant periods. During the years ended January 31, 2012 and 2011, the Organization recognized IDS grant revenue of \$0 and \$234,228, respectively, and \$611,649 and \$436,194 in CIP grant revenue, respectively.

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

Note 3: Net Patient Service Revenue

The Organization is approved as a Federally Qualified Health Center (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.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

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 a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicaid fiscal intermediary.

Approximately 44% and 48% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended January 31, 2012 and 2011, 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 and discounts from established charges.

Note 4: Concentrations 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 January 31, 2012 and 2011, was:

	<u>2012</u>	<u>2011</u>
Medicare	24%	23%
Medicaid	33%	40%
Other	43%	37%
	<u>100%</u>	<u>100%</u>

Note 5: Medical Malpractice Liability Coverage and Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing physicians 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.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

During the year ended January 31, 2012, the Organization adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims costs for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no impact of the ASU adoption to the Organization's financial statements.

Based upon the Organization's claim experience, no accrual has been made for medical malpractice costs for the years ended January 31, 2012 and 2011. 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.

Note 6: Long-Term Debt

	<u>2012</u>	<u>2011</u>
Installment note payable (A)	\$ 65,186	\$ 87,915
Installment note payable (B)	3,158	22,719
Note payable (C)	235,989	267,540
Note payable (D)	274,493	312,043
Note payable (E)	65,455	75,548
	<u>644,281</u>	<u>765,765</u>
Less current maturities	<u>116,584</u>	<u>116,616</u>
	<u>\$ 527,697</u>	<u>\$ 649,149</u>

- (A) Due October 1, 2014; payable \$2,118 monthly, including interest at 5%; secured by certain real property.
- (B) Due March 1, 2012; payable \$1,589 monthly, including interest at 5%; secured by equipment.
- (C) Issued October 6, 2007, due October 5, 2012; payable \$4,254 monthly with one final payment of remaining principal at the due date; the monthly payment includes interest at 8.05%. The note is secured by certain real property and is partially guaranteed (50%) by Heartland Regional Medical Center.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

Effective August 25, 2011, the Organization refinanced this obligation through execution of a bank promissory note. The promissory note is due August 15, 2016; payable \$3,945 monthly with one final payment of remaining principal at the due date; the monthly payment includes interest at 4.50%. The note is secured by certain real property and is partially guaranteed (50%) by Heartland Regional Medical Center.

- (D) Issued October 5, 2007, due October 5, 2012; payable \$5,073 monthly with one final payment of remaining principal at the due date; the monthly payment includes interest at 8.05%. The note is secured by certain real property and is fully guaranteed by Heartland Regional Medical Center.

Effective August 25, 2011, the Organization refinanced this obligation through execution of a bank promissory note. The promissory note is due August 15, 2016; payable \$4,589 monthly with one final payment of remaining principal at the due date; the monthly payment includes interest at 4.50%. The note is secured by certain real property and is fully guaranteed by Heartland Regional Medical Center.

- (E) Issued March 1, 2011, due March 1, 2012; payable in eleven monthly installments of \$1,160 with one final payment of remaining principal at the due date; the monthly payment includes interest at 4.99%. The note is secured by a deed of trust.

Effective March 1, 2012, the Organization refinanced this obligation through execution of a bank promissory note. The promissory note is due March 1, 2017; payable in fifty-nine monthly installments of \$1,160 with one final payment of remaining principal at the due date; the monthly payment includes interest at 4.99%. The note is secured by a deed of trust.

Aggregate annual maturities of long-term debt at January 31, 2012, are:

2013	\$	116,584
2014		119,860
2015		119,223
2016		105,307
2017		183,307
		<hr/>
	\$	644,281
		<hr/> <hr/>

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

Note 7: Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Health care services	\$ 11,500,221	\$ 11,234,987
General and administrative	<u>5,619,812</u>	<u>5,630,347</u>
	<u>\$ 17,120,033</u>	<u>\$ 16,865,334</u>

Note 8: Operating Leases

The Organization has noncancelable operating leases for certain medical and dental facilities and equipment. The facility leases contain renewal options for varying periods. A portion of the leased space is sublet under leases which expire over terms concurrent with the Organization's lease agreements.

Future minimum lease payments at January 31, 2012, were:

2013	\$ 706,153
2014	708,672
2015	550,165
2016	424,495
2017	419,453
Thereafter	<u>1,692,857</u>
Future minimum lease payments	<u>\$ 4,501,795</u>

Rental expense for all operating leases consisted of the following for the years ended January 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Minimum rentals	\$ 728,272	\$ 741,719
Less sublease rental income	<u>32,077</u>	<u>33,802</u>
	<u>\$ 696,195</u>	<u>\$ 707,917</u>

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

Note 9: Pension Plan

The Organization has a defined contribution pension plan covering substantially all employees. The Organization matches each employee's contributions to the plan at 25% of the employee's contribution up to 4% of the employee's annual salary. The plan also allows for additional contributions as determined by the Board of Directors. During the years ended January 31, 2012 and 2011, the Board did not grant additional contributions. Pension expense for the years ended January 31, 2012 and 2011, was \$62,114 and \$58,685, respectively.

Note 10: Related Party Transactions

The Organization has contracted with a related party provider of outsourced information technology services, including management of the Organization's information technology functions. The cost of such services totaled \$463,653 and \$672,475 for the years ended January 31, 2012 and 2011, respectively.

Note 11: Significant Estimates and Concentrations

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

Grant Revenue

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

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*.

Notes Payable

Approximately 79% of all of the Organization's notes payable are with one lender as described in *Note 7*.

Malpractice Claims

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

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2012 and 2011

Loss Contingency

During the year ended January 31, 2007, the Organization's management identified a nurse practitioner that was performing services with an expired license. Once management became aware of this situation, appropriate clinical service changes were made and an investigation was performed to identify the length of time that such services had been rendered and billed to third-party payers. The Organization's management has identified \$278,304 of inappropriate payments received by the Organization related to services provided to Medicare and Medicaid beneficiaries and, accordingly, has included a provision of this amount in the financial statements. No provision has been made in the financial statements for any adverse outcome related to other third-party payers as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

During the year ended January 31, 2012, the Organization repaid \$176,125 to the Missouri Medicaid program in settlement of the identified inappropriate payments received from the Missouri Medicaid program. Accordingly, such amount was then removed from the aforementioned provision that is included in the financial statements.

Current Economic Conditions

The current protracted economic decline continues to present community health centers with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions, including the continuing 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, resulting in future adjustments to the allowances for accounts receivable that could negatively impact the Organization.

Supplementary Information

Northwest Health Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended January 31, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 00671-10-04	\$ 2,697,915
ARRA - Capital Improvement Program	U.S. Department of Health and Human Services	93.703	6 C81 CS 14365-01-05	438,381
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76 HA 04130-08-01	137,228
Cooperative Agreements for State- Based Comprehensive Breast and Cervical Cancer Early Detection Programs	U.S. Department of Health and Human Services / Missouri Department of Health and Senior Services	93.919	ERS16112056	3,600
Centers for Disease Control and Prevention Investigations and Technical Assistance	U.S. Department of Health and Human Services / Missouri Department of Health and Senior Services	93.283	ERS16112056	<u>1,437</u>
Total expenditures of federal awards				<u><u>\$ 3,278,561</u></u>

Notes to Schedule

1. This schedule includes the federal awards activity of Northwest Health Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Northwest Health Services, Inc. did not provide a federal award to a subrecipient during the year ended January 31, 2012.

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Northwest Health Services, Inc.
St. Joseph, Missouri

We have audited the financial statements of Northwest Health Services, Inc. (the "Organization") as of and for the year ended January 31, 2012, and have issued our report thereon dated May 22, 2012. 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 Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Board of Directors
Northwest Health Services, Inc.

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

BKD, LLP

May 22, 2012

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

Board of Directors
Northwest Health Services, Inc.
St. Joseph, Missouri

Compliance

We have audited the compliance of Northwest Health Services, Inc. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2012. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the compliance of Northwest Health Services, 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 Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, Northwest Health Services, 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 January 31, 2012.

Internal Control Over Compliance

The management of Northwest Health Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose

Board of Directors
Northwest Health Services, Inc.

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 Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

BKD, LLP

May 22, 2012

Northwest Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended January 31, 2012

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Consolidated Health Centers	93.224
ARRA – Capital Improvement Program	93.703

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes

No

Northwest Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended January 31, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Northwest Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended January 31, 2012

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Northwest Health Services, Inc.
Summary Schedule of Prior Audit Findings
Year Ended January 31, 2012

Reference Number	Summary of Finding	Status
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No matters are reportable.