

# Siouxland Community Health Center

Independent Auditor's Reports and Financial Statements

January 31, 2014 and 2013

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**Siouxland Community Health Center**  
**January 31, 2014 and 2013**

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## Independent Auditor's Report

Board of Directors  
Siouxland Community Health Center  
Sioux City, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Siouxland Community Health Center (the "Organization"), which comprise the balance sheets as of January 31, 2014 and 2013, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Siouxland Community Health Center as of January 31, 2014 and 2013, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Supplementary Information***

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 OMB 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2014, 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* in considering Siouxland Community Health Center's internal control over financial reporting and compliance.

**BKD, LLP**

Springfield, Missouri  
July 11, 2014

# Siouxland Community Health Center

## Balance Sheets

January 31, 2014 and 2013

### Assets

	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,441,136	\$ 3,669,833
Patient accounts receivable, net of allowance; 2014 - \$1,615,168; 2013 - \$1,175,888	1,221,770	1,492,732
Grants receivable	522,183	297,731
Estimated amounts due from third-party payers	80,000	-
Inventories	304,771	424,205
Prepaid expenses and other	63,551	182,699
	<u>4,633,411</u>	<u>6,067,200</u>
<b>Property and Equipment, At Cost</b>		
Land and land improvements	1,197,727	1,197,727
Buildings and leasehold improvements	10,550,128	10,550,128
Equipment	2,393,678	1,981,511
Furniture and fixtures	390,977	385,730
Construction in progress	1,062,390	322,897
	<u>15,594,900</u>	<u>14,437,993</u>
Less accumulated depreciation	<u>3,689,040</u>	<u>2,950,246</u>
	<u>11,905,860</u>	<u>11,487,747</u>
<b>Deferred Financing Costs, Net</b>	<u>69,324</u>	<u>74,392</u>
Total assets	<u>\$ 16,608,595</u>	<u>\$ 17,629,339</u>

## Liabilities and Net Assets

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 441,571	\$ 420,000
Accounts payable	378,667	282,216
Accrued expenses	962,618	891,169
Estimated amounts due to third-party payers	-	90,000
	<u>1,782,856</u>	<u>1,683,385</u>
<b>Interest Rate Swap Agreement</b>	873,492	1,165,977
<b>Long-Term Debt</b>	<u>5,434,929</u>	<u>5,866,100</u>
Total liabilities	<u>8,091,277</u>	<u>8,715,462</u>
<b>Net Assets</b>		
Unrestricted	8,273,680	8,530,432
Temporarily restricted	243,638	383,445
	<u>8,517,318</u>	<u>8,913,877</u>
Total liabilities and net assets	<u>\$ 16,608,595</u>	<u>\$ 17,629,339</u>

**Siouxland Community Health Center**  
**Statements of Operations**  
**Years Ended January 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 13,634,277	\$ 13,250,660
Provision for uncollectible accounts	(1,158,473)	(1,056,773)
Net patient service revenue less provision for uncollectible accounts	12,475,804	12,193,887
Grant revenue	3,350,185	3,334,385
Contribution revenue	150,312	54,757
Other revenue	385,766	496,645
Net assets released from restrictions used for operations	1,387,797	1,648,115
	<b>17,749,864</b>	<b>17,727,789</b>
<b>Expenses and Losses</b>		
Salaries and wages	10,385,451	9,450,409
Employee benefits	2,145,292	1,996,003
Purchased services and professional fees	1,750,431	1,190,246
Supplies and other	3,815,816	3,869,944
Rent	69,513	75,714
Depreciation and amortization	743,862	645,791
Interest	309,403	311,731
	<b>19,219,768</b>	<b>17,539,838</b>
	<b>Operating Income (Loss)</b>	<b>187,951</b>
	<b>(1,469,904)</b>	<b>187,951</b>
<b>Other Income</b>		
Other	12,625	-
Investment return	7,583	5,620
	<b>20,208</b>	<b>5,620</b>
	<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>193,571</b>
	<b>(1,449,696)</b>	<b>193,571</b>
Change in fair value of interest rate swap agreement	292,485	162,032
Grants for acquisition of property and equipment	900,459	69,641
	<b>1,192,944</b>	<b>231,673</b>
	<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>\$ 425,244</b>
	<b>\$ (256,752)</b>	<b>\$ 425,244</b>

**Siouxland Community Health Center**  
**Statements of Changes in Net Assets**  
**Years Ended January 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Unrestricted Net Assets</b>		
Excess (deficiency) of revenues over expenses	\$ (1,449,696)	\$ 193,571
Change in fair value of interest rate swap agreement	292,485	162,032
Grants for acquisition of property and equipment	900,459	69,641
Increase (decrease) in unrestricted net assets	(256,752)	425,244
<b>Temporarily Restricted Net Assets</b>		
Contributions	1,247,990	1,715,473
Net assets released from restriction	(1,387,797)	(1,648,115)
Increase (decrease) in temporarily restricted net assets	(139,807)	67,358
<b>Change in Net Assets</b>	(396,559)	492,602
<b>Net Assets, Beginning of Year</b>	8,913,877	8,421,275
<b>Net Assets, End of Year</b>	\$ 8,517,318	\$ 8,913,877

**Siouxland Community Health Center**  
**Statements of Cash Flows**  
**Years Ended January 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Change in net assets	\$ (396,559)	\$ 492,602
Items not requiring (providing) operating cash flow		
Depreciation and amortization	743,862	645,791
Change in fair value of interest rate swap agreement	(292,485)	(162,032)
Grants for acquisition of property and equipment	(900,459)	(69,641)
Changes in		
Patient accounts receivable, net	270,962	(223,120)
Grants receivable	(224,452)	(128,564)
Estimated amounts due to third-party payers	(170,000)	(110,000)
Inventories	119,434	(83,916)
Other current assets	119,148	25,918
Accounts payable and accrued expenses	169,019	76,823
Net cash provided by (used in) operating activities	(561,530)	463,861
<b>Investing Activities</b>		
Purchase of property and equipment	(1,158,026)	(117,802)
Net cash used in investing activities	(1,158,026)	(117,802)
<b>Financing Activities</b>		
Proceeds from grants for acquisition of property and equipment	900,459	69,641
Principal payments on long-term debt	(409,600)	(283,023)
Net cash provided by (used in) financing activities	490,859	(213,382)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(1,228,697)	132,677
<b>Cash and Cash Equivalents, Beginning of Year</b>	3,669,833	3,537,156
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,441,136	\$ 3,669,833
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 308,991	\$ 310,951
Capital lease obligation incurred for property and equipment	\$ -	\$ 299,011
Accounts payable incurred for property and equipment	\$ 11,952	\$ 10,833

**Siouxland Community Health Center**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

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

***Nature of Operations***

Siouxland Community Health Center (the “Organization”) primarily earns revenues by providing medical, dental and related health care services through a clinic located in Sioux City, Iowa.

***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, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At January 31, 2014 and 2013, cash equivalents consist of a bank repurchase agreement.

At January 31, 2014, the Organization’s cash accounts exceeded federally insured limits by approximately \$413,000. Approximately \$1,828,000 and \$3,115,000 was held in an overnight sweep account at January 31, 2014 and 2013, respectively, that is not covered by FDIC.

***Investment Return***

Investment return is comprised of interest income.

***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

# Siouxland Community Health Center

## Notes to Financial Statements

### January 31, 2014 and 2013

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Organization's allowance for uncollectible accounts for self-pay patients increased from 81% of self-pay accounts receivable at January 31, 2013, to 88% of self-pay accounts receivable at January 31, 2014. In addition, the Organization's write-offs decreased approximately \$612,000 from \$1,330,000 for the year ended January 31, 2013, to approximately \$718,000 for the year ended January 31, 2014.

#### ***Inventories***

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 are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and 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 or a portion thereof may be reclaimed by the federal government 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, 2014 and 2013.

# Siouxland Community Health Center

## Notes to Financial Statements

January 31, 2014 and 2013

### ***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

### ***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.

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.

### ***In-Kind Contributions***

The Organization receives in-kind contributions of pharmacy supplies from various donors. It is the policy of the Organization to record the estimated fair value of these in-kind donations as contribution revenue and supplies and other expense. For the years ended January 31, 2014 and 2013, \$1,247,990 and \$1,706,725, respectively, was received in in-kind contributions.

# Siouxland Community Health Center

## Notes to Financial Statements

January 31, 2014 and 2013

### **Government Grants**

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.

### **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 unrealized gains and losses on investments other than trading securities, the change in fair value of an interest rate swap agreement, permanent transfers to and from affiliates for other than goods and services and 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).

### **Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the health center continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. For the years ended January 31, 2014 and 2013, \$246,500 and \$263,500, respectively, was recorded as revenue, which is included in other revenue in the statements of operations.

# Siouxland Community Health Center

## Notes to Financial Statements

January 31, 2014 and 2013

### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

### ***Subsequent Events***

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

### **Note 2: Grant Revenue**

The Organization is the recipient of a Community Health Center (CHC) grant from the U.S. Department of Health and Human Services (HHS). The general purpose of the grant is to provide expanded health care service delivery services. 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 January 31, 2014 and 2013, the Organization received \$2,245,667 and \$2,173,757 in CHC grant funds, respectively. The Organization has received a notice of grant award for an amount of \$2,251,113 for the year ended January 31, 2015.

As part of the Patient Protection and Affordable Care Act, the federal government passed legislation appropriating grant dollars to community health centers under the Capital Development (CD) grant program. The Organization has been awarded \$1,300,000 for the May 1, 2012, to April 30, 2015, period to fund improvements to the current facility. During the year ended January 31, 2014, the Organization recognized \$850,459 in CD grant revenue.

In addition to the above grants, the Organization received 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 recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

# Siouxland Community Health Center

## Notes to Financial Statements

### January 31, 2014 and 2013

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 tentative rates with final settlement determined after submission of annual cost report by the Organization and audit thereof by the Medicare administrative contractor. Services not covered under the FQHC benefit are paid based on established fee schedules.

*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 administrative contractor.

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.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended January 31, 2014 and 2013, was approximately:

	<b>2014</b>	<b>2013</b>
Medicare	\$ 1,760,476	\$ 1,438,695
Medicaid	6,578,323	5,744,340
Other third-party payers	3,509,377	4,264,045
Self-pay	1,786,101	1,803,580
Total	\$ 13,634,277	\$ 13,250,660

**Siouxland Community Health Center**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

**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 net receivables from patients and third-party payers at January 31, 2014 and 2013, was:

	<b>2014</b>	<b>2013</b>
Medicare	15%	15%
Medicaid	37%	35%
Self-pay	14%	12%
Other third-party payers	34%	38%
	100.0%	100.0%

**Note 5: Medical Malpractice**

The U.S. Department of Health and Human Services has deemed the Organization and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage and 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.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claims experience, no accrual has been made for medical malpractice costs for the years ended January 31, 2014 and 2013. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

**Note 6: Line of Credit**

The Organization has an \$800,000 bank line of credit which expires November 1, 2014. At January 31, 2014 and 2013, there was no outstanding balance on this line of credit. Interest may change with the bank's prime rate, not to fall below 4.25%. The rate was 4.25% at January 31, 2014. The line is collateralized by substantially all of the Organization's assets.

**Siouxland Community Health Center**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

**Note 7: Long-Term Debt**

Long-term debt at January 31, 2014 and 2013, consisted of the following:

	<b>2014</b>	<b>2013</b>
Bonds payable (A)	\$ 5,719,168	\$ 6,001,516
Capital lease obligation (B)	129,105	242,175
Capital lease obligation (C)	28,227	42,409
	5,876,500	6,286,100
Less current maturities	441,571	420,000
	<b>\$ 5,434,929</b>	<b>\$ 5,866,100</b>

(A) In September 2007, the Organization issued \$7,000,000 of Medical Facility Revenue Notes, Series 2007 through Woodbury County, Iowa. The bonds bear interest at the rate per annum equal to the prime rate minus 90 basis points and multiplied by a factor of .66 (1.55% as of January 31, 2014). The bonds are payable in monthly installment payments of \$46,158 through October 2027. The bonds are payable, both as to principal and interest, solely out of the net income and revenues arising from the operation of the facility after providing for the costs of operation and maintenance thereof, and from all other income made available to the Board of Directors including investment income and gifts, bequests, contributions, grants and all other monies, except to the extent otherwise limited by the donor or grantor. The Board of Directors has pledged said net income and revenues and other income for the payment of such principal and interest.

The agreement requires the Organization to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio and a debt-to-equity ratio, certain days cash on hand and restrictions on incurrence of additional debt. Certain covenants were not met for the year ended January 31, 2014. The lender has formally waived noncompliance with this requirement.

The Organization has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the Series 2007 Revenue Bonds. See *Note 8* for additional discussion of the interest rate swap agreement.

- (B) Capital lease obligation for pharmaceutical software entered into in November 2012, payable monthly in the amount of \$1,459, through December 2015.
- (C) Capital lease obligation for financial software entered into in October 2012, payable monthly in the amount of \$11,063, through October 2013.

**Siouxland Community Health Center**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

Software includes the following property under capital lease at January 31, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Software	\$ 299,011	\$ 299,011
Less accumulated depreciation	89,044	1,271
	<b>\$ 209,967</b>	<b>\$ 297,740</b>

Aggregate annual maturities of long-term debt and payments on capital lease obligations at January 31, 2014, are:

	<b>Long-Term Debt (Excluding Capital Lease Obligations)</b>	<b>Capital Lease Obligation</b>
2015	\$ 296,784	\$ 150,270
2016	311,976	13,039
2017	327,936	-
2018	344,712	-
2019	362,352	-
Thereafter	4,075,408	-
	<b>\$ 5,719,168</b>	163,309
Less amount representing interest		5,977
Present value of future minimum lease payments		157,332
Less current maturities		144,787
Noncurrent portion		<b>\$ 12,545</b>

**Note 8: Interest Rate Swap Agreement**

Effective October 1, 2007, the Organization entered into an interest rate swap agreement on the variable rate bonds (see *Note 7*) as a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations. The agreement provides for the Organization to receive interest from the counterparty at 66% of the prime rate and to pay interest to the counterparty at a fixed rate of 4.99% on the notional amount, which is equal to the

**Siouxland Community Health Center**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

outstanding balance of the Series 2007 Revenue Bonds. Under the agreement, the Organization pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap agreement matures on October 1, 2027.

Management has designated the interest rate swap agreement as a cash flow hedging instrument, and has determined the agreement qualifies for hedge accounting under the provisions of ASC 815. As a result, the agreement is recorded at its fair value with subsequent changes in fair value included in changes in unrestricted net assets. The interest rate swap agreement is tested for effectiveness on an annual basis and has been determined to be effective through January 31, 2014. The fair value of the swap agreement is \$873,492 and \$1,165,977 at January 31, 2014 and 2013, respectively.

**Note 9: Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>2014</b>	<b>2013</b>
Health care services		
Pharmacy	\$ 13,674	\$ 9,266
Pharmacy inventory	229,964	367,851
Patient transportation	-	4,400
Purchase of equipment	-	1,928
	<u>\$ 243,638</u>	<u>\$ 383,445</u>

Net assets are released from donor restrictions upon satisfaction of the purpose restriction or when a stipulated time restriction ends.

Purpose restrictions satisfied during the years ended January 31, 2014 and 2013, were as follows:

	<b>2014</b>	<b>2013</b>
HIV Patients	\$ 2,446	\$ 24,732
Pharmacy	6,820	5,372
Equipment	6,318	5,015
Pharmacy inventory	1,372,213	1,612,996
	<u>\$ 1,387,797</u>	<u>\$ 1,648,115</u>

**Siouxland Community Health Center**  
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**Note 10: Functional Expenses**

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

	<b>2014</b>	<b>2013</b>
Health care services	\$ 15,105,006	\$ 14,140,400
General and administrative	4,114,762	3,399,438
	\$ 19,219,768	\$ 17,539,838

**Note 11: Retirement Plan**

The Organization has a defined contribution retirement plan covering substantially all employees who have been employed by the Organization for three months. The Organization matches 100% of the eligible employees' contributions up to 5% of the employees' compensation. The employees are 100% vested when the contributions are made. Pension expense was \$375,184 and \$353,378 for the years ended January 31, 2014 and 2013, respectively.

**Note 12: Related Party Transactions**

The Organization and Siouxland Community Health Foundation are related parties. The Organization authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions. The Foundation was not holding any assets for the Organization as of January 31, 2014 and 2013.

**Note 13: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 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 corroborated by observable market data for substantially the full term of the assets or liabilities

**Siouxland Community Health Center**  
**Notes to Financial Statements**  
**January 31, 2014 and 2013**

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

***Recurring Measurements***

The following table presents the fair value measurements of liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at January 31, 2014 and 2013:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
	<b>January 31, 2014</b>			
Interest rate swap agreement	\$ 873,492	\$ -	\$ 873,492	\$ -
	<b>January 31, 2013</b>			
Interest rate swap agreement	\$ 1,165,977	\$ -	\$ 1,165,977	\$ -

Following is a description of the valuation methodologies and inputs used for liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

***Interest Rate Swap Agreement***

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. The following methods were used to estimate the fair value of all other financial instruments recognized in the Organization's balance sheets at amounts other than fair value.

***Cash and Cash Equivalents***

The carrying amount approximates fair value.

***Estimated Third-Party Payer Settlements***

The carrying amounts are reasonable estimates of fair value.

# Siouxland Community Health Center

## Notes to Financial Statements

January 31, 2014 and 2013

### **Long-Term Debt**

The fair value is estimated based on the borrowing rates currently available to the Organization for debt with similar terms and conditions.

The following table presents estimated fair values of the Organization's financial instruments at January 31, 2014 and 2013.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets (Liabilities)</b>				
Cash and cash equivalents	\$ 2,441,136	\$ 2,441,136	\$ 3,669,833	\$ 3,669,833
Estimated amounts due to third-party payers	(269,379)	(269,379)	(90,000)	(90,000)
Interest rate swap agreement	(873,492)	(873,492)	(1,165,977)	(1,165,977)
Long-term debt	(5,876,500)	(5,876,500)	(6,286,100)	(6,286,100)

### **Note 14: 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:

#### **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*.

#### **Malpractice Claims**

Estimates related to the accrual for professional liability claims are described in *Note 5*.

#### **Litigation**

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts.

# Siouxland Community Health Center

## Notes to Financial Statements

January 31, 2014 and 2013

The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

### ***Long-Term Debt***

The Organization's Series 2007 Revenue Bonds are held by one lender, as described in *Note 7*.

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

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The upcoming implementation of the *Affordable Care Act*, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

### **Note 15: Construction in Progress**

The Organization is remodeling the interior of its main clinic. The remodel is expected to cost approximately \$1,600,000 and includes construction of approximately 6,800 square feet of patient exam rooms, expansion of the patient lobby, storage and storm shelter space. The project is financed by the Capital Development Grant (*Note 2*). The project is expected to be completed by August 2014. Project costs of \$1,062,390 have been incurred through January 31, 2014, and are included in construction in progress on the balance sheet. None of these assets were placed into service at January 31, 2014.

## **Supplementary Information**

**Siouxland Community Health Center**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended January 31, 2014**

<b>Cluster/Program</b>	<b>Federal Agency/ Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Grant or Identifying Number</b>	<b>Amount Expended</b>
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS00535-12-09	\$ 1,273,944
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80CS00535-12-09	<u>971,723</u>
Total Health Centers Cluster				2,245,667
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	6 C8ACS23762-01-03	850,459
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76HA00188-16-01	281,824
Special Projects of National Significance	U.S. Department of Health and Human Services	93.928	5 H97HA22727-02-00	13,335
HIV Care Formula Grants	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.917	5884HC04	175,845
Maternal and Child Health Services Block Grant to the States	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.994	5884MH22	63,244
National Center for Advancing Translational Sciences	U.S. National Institutes of Health/University of Iowa	93.350	2 UL1TR004-42-06	<u>30,468</u>
Total forward				3,660,842

**Siouxland Community Health Center**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended January 31, 2014**

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Total forward				\$ 3,660,842
Housing Opportunities for Persons with AIDS	U.S. Department of Housing and Urban Development/Iowa Finance Authority	14.241	HOPWA #2013 F1-R1	42,330
Immunization Grants	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.268	5884I491	13,799
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	U.S. Department of Health and Human Services	93.243	5884SA04	69,918
HIV Prevention Activities Health Department Based	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.940	5884AP23	12,533
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	U.S. Department of Health and Human Services/AIDS Project of Central Iowa	93.943	5U65PS0024 72-04	<u>55,888</u>
				<u><u>\$ 3,855,310</u></u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of Siouxland Community Health Center 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. Siouxland Community Health Center did not provide any federal awards to a subrecipient during the year ended January 31, 2014.

## **Independent Auditor's 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  
Siouxland Community Health Center  
Sioux City, Iowa

We have audited, 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, the financial statements of Siouxland Community Health Center (the "Organization"), which comprise the balance sheet as of January 31, 2014, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 11, 2014.

### ***Internal Control Over Financial Reporting***

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Board of Directors  
Siouxland Community Health Center

### ***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*.

### ***Purpose of this Report***

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

**BKD, LLP**

Springfield, Missouri  
July 11, 2014

## Independent Auditor's 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  
Siouxland Community Health Center  
Sioux City, Iowa

### Report on Compliance for Each Major Federal Program

We have audited the compliance of Siouxland Community Health 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 its major federal programs for the year ended January 31, 2014. 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.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Siouxland Community Health Center's major federal programs based on our audit of the types of compliance requirements referred to above.

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

Board of Directors  
Siouxland Community Health Center

### ***Opinion on Each Major Federal Program***

In our opinion, Siouxland Community Health Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended January 31, 2014.

### **Report on Internal Control Over Compliance**

Management of Siouxland Community Health Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*BKD, LLP*

Springfield, Missouri  
July 11, 2014



**Siouxland Community Health Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended January 31, 2014**

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

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

**Findings Required to be Reported by OMB Circular A-133**

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

**Siouxland Community Health Center**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended January 31, 2014**

<b>Reference Number</b>	<b>Finding</b>	<b>Status</b>
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No matters are reportable.