

West Side Community Health Services, Inc.

Accountants' Report and Financial Statements

September 30, 2009 and 2008

Independent Accountants' Report

Board of Directors
West Side Community Health Services, Inc.
St. Paul, Minnesota

We have audited the accompanying balance sheets of West Side Community Health Services, Inc. (the "Organization") as of September 30, 2009 and 2008, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Side Community Health Services, Inc. as of September 30, 2009 and 2008, 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.

As discussed in *Note 13*, in 2009 the Organization changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157, which was subsequently incorporated into the FASB Accounting Standards Codification (ASC) Topic 820.

March 24, 2010

BKD, LLP

West Side Community Health Services, Inc.

Balance Sheets

September 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 4,331,923	\$ 2,943,627
Assets limited as to use - current	3,236,607	3,107,065
Patient accounts receivable, net of allowance; 2009 - \$5,645,000, 2008 - \$5,032,000	935,165	845,662
Grants and other receivables	422,508	660,662
Contributions receivable	124,604	115,000
Estimated amounts due from third-party payers	70,000	13,900
Pharmacy inventory	89,902	76,460
Prepaid expenses and other	32,603	38,290
	<u>9,243,312</u>	<u>7,800,666</u>
Property and Equipment, At Cost		
Land and land improvements	615,140	615,140
Buildings and leasehold improvements	6,775,251	6,602,434
Furniture, fixtures and equipment	1,209,159	1,119,138
Construction in progress	174,160	9,981
	<u>8,773,710</u>	<u>8,346,693</u>
Less accumulated depreciation	1,947,034	1,631,369
	<u>6,826,676</u>	<u>6,715,324</u>
Total assets	<u>\$ 16,069,988</u>	<u>\$ 14,515,990</u>

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Current maturities of long-term debt	\$ 250,895	\$ 243,613
Accounts payable	723,572	387,010
Accrued expenses	1,662,152	1,355,184
Deferred grant revenue	<u>82,648</u>	<u>878,256</u>
Total current liabilities	2,719,267	2,864,063
Long-Term Debt	<u>4,446,544</u>	<u>4,696,335</u>
Total liabilities	<u>7,165,811</u>	<u>7,560,398</u>
Net Assets		
Unrestricted	8,374,132	6,602,429
Temporarily restricted	<u>530,045</u>	<u>353,163</u>
Total net assets	<u>8,904,177</u>	<u>6,955,592</u>
Total liabilities and net assets	<u>\$ 16,069,988</u>	<u>\$ 14,515,990</u>

West Side Community Health Services, Inc.

Statements of Operations

Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 14,934,766	\$ 12,956,122
Grant revenue	8,005,429	8,032,386
Contribution revenue	787,624	1,054,213
Other revenue	2,926	15,539
Net assets released from restrictions used for operations	772,303	545,709
Total unrestricted revenues, gains and other support	24,503,048	22,603,969
Expenses and Losses		
Salaries and wages	10,858,668	10,355,565
Employee benefits	2,627,604	2,291,333
Purchased services and professional fees	1,470,023	1,131,619
Supplies and other	5,311,915	4,643,772
Rent	720,802	711,442
Depreciation and amortization	400,048	414,724
Interest	193,314	211,187
Provision for uncollectible accounts	1,703,260	1,667,992
Total expenses and losses	23,285,634	21,427,634
Operating Income	1,217,414	1,176,335
Other Income		
Investment return	118,615	120,506
Excess of Revenues Over Expenses	1,336,029	1,296,841
Grants of or for acquisition of property and equipment	148,878	90,927
Contributions of or for acquisition of property and equipment	185,000	343,469
Investment return - change in unrealized gains and losses on other than trading securities	68,160	(68,381)
Net assets released from restriction used for purchase of property and equipment	33,636	-
Increase in Unrestricted Net Assets	\$ 1,771,703	\$ 1,662,856

West Side Community Health Services, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 1,336,029	\$ 1,296,841
Grant of or for acquisition of property and equipment	148,878	90,927
Contributions of or for acquisition of property and equipment	185,000	343,469
Investment return - change in unrealized gains and losses on other than trading securities	68,160	(68,381)
Net assets released from restriction used for purchase of property and equipment	33,636	-
Increase in unrestricted net assets	1,771,703	1,662,856
Temporarily Restricted Net Assets		
Contributions	982,821	898,872
Net assets released from restriction	(805,939)	(545,709)
Increase in temporarily restricted net assets	176,882	353,163
Change in Net Assets	1,948,585	2,016,019
Net Assets, Beginning of Year	6,955,592	4,939,573
Net Assets, End of Year	\$ 8,904,177	\$ 6,955,592

West Side Community Health Services, Inc.

Statements of Cash Flows

Years Ended September 30, 2009 and 2008

	2009	2008
Operating Activities		
Change in net assets	\$ 1,948,585	\$ 2,016,019
Items not requiring (providing) cash		
Depreciation and amortization	400,048	414,724
Net loss on investments	(134,488)	57,014
Contributions of or for acquisition of property and equipment	(193,636)	(343,469)
Grants of or for acquisition of property and equipment	(225,015)	(90,927)
Changes in		
Patient accounts receivable, net	(89,503)	20,029
Grants receivable	238,154	(99,114)
Contributions receivable	(9,604)	(115,000)
Estimated amounts due from and to third-party payers	(56,100)	340,100
Prepaid assets	5,687	(13,469)
Inventory	(13,442)	(76,460)
Accounts payable and accrued expenses	594,919	319,431
Deferred revenue	(795,608)	(28,114)
	1,669,997	2,400,764
Investing Activities		
Purchase of assets limited as to use	(1,286,379)	(3,147,187)
Proceeds from disposition of assets limited as to use	1,291,325	605,902
Purchase of property and equipment	(462,789)	(603,122)
	(457,843)	(3,144,407)
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	193,636	343,469
Proceeds from grant for acquisition of property and equipment	225,015	90,927
Proceeds from issuance of long-term debt	-	209,070
Principal payments on long-term debt	(242,509)	(208,625)
	176,142	434,841
Increase (Decrease) in Cash and Cash Equivalents	1,388,296	(308,802)
Cash and Cash Equivalents, Beginning of Year	2,943,627	3,252,429
Cash and Cash Equivalents, End of Year	\$ 4,331,923	\$ 2,943,627
Supplemental Cash Flows Information		
Interest paid	\$ 193,314	\$ 211,187
Accounts payable incurred for property and equipment	\$ 48,611	\$ -

West Side Community Health Services, Inc.

Notes to Financial Statements

September 30, 2009 and 2008

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

Nature of Operations

West Side Community Health Services, Inc. (the "Organization") is a federally qualified health center which provides health care and education services to patients. The Organization primarily earns revenues by providing physician and related health care services through clinics located in St. Paul, Minnesota.

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 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 September 30, 2009 and 2008, cash equivalents consisted primarily of a bank money market account.

One or more of the financial institutions holding the Organization's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under the program, through June 30, 2010, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account.

For financial institutions opting out of the FDIC's Transaction Account Guarantee Program or interest-bearing cash accounts, the FDIC's insurance limits increased to \$250,000, effective October 3, 2008. The increase in federally insured limits is currently set to expire December 31, 2013.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment returns included in unrestricted net assets.

Assets Limited as to Use

Assets limited as to use include unrestricted assets set aside by the Board of Directors for future capital improvements and operating expenses over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Organization are included in current assets.

West Side Community Health Services, Inc.

Notes to Financial Statements

September 30, 2009 and 2008

Patient Accounts Receivable

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

Pharmacy Inventory

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

Property and Equipment

Property and equipment acquisitions are recorded at cost and are 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.

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.

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 billing 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.

West Side Community Health Services, Inc.
Notes to Financial Statements
September 30, 2009 and 2008

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.

Deferred Grant Revenue

Revenue from grants to provide health care services is deferred and recognized over the periods to which the eligibility requirements are met.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of pharmacy inventory, rent and other services. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as inventory or expense in its financial statements and similarly increase temporarily restricted net assets or contribution revenue by a like amount. In-kind contributions of \$577,437 and \$525,796, respectively, were received for the years ended September 30, 2009 and 2008, and is included in the statements of operations as contribution revenue.

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.

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Notes to Financial Statements

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Uncertain Tax Positions

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) section 740-10-65, the Organization has elected to defer the effective date of certain portions of FASB ASC 740, *Income Taxes*, concerning the accounting for uncertain income tax positions until its fiscal year ended September 30, 2010. The Organization presently recognizes income tax positions based on management's estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB ASC 450, *Contingencies*.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, 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).

Subsequent Events

Subsequent events have been evaluated through March 24, 2010, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers 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 in St. Paul, Minnesota, and surrounding areas. 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. The Organization recognized \$4,260,960 and \$4,205,052 in revenues from this grant for the years ended September 30, 2009 and 2008, respectively.

The Organization's present CHC grant award covers the grant year ending January 31, 2010, and is approved at \$4,301,402. Future funding will be determined by the granting agency based on an application to be submitted by the Organization prior to expiration of the present grant award.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under an increased Demand for Services (IDS) grant and the Capital Improvement Program (CIP). The Organization has been awarded \$571,070 for the March 27, 2009, to March 26, 2011, period under the IDS grant and has been awarded \$1,361,495 for the period June 29, 2009, to June 28, 2011, under the CIP grant, to assist in meeting the needs of their community. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. Qualifying expenditures in the amount of \$157,206 were incurred under the CIP grant during the year ended September 30, 2009.

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In addition to the above 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.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under this plan. Services not covered under the FQHC benefit are paid based on established fee schedules.

Approximately 48% and 56% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2009 and 2008, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2009 and 2008, is:

	2009	2008
Medicare	3%	6%
Medicaid	34%	40%
Other third-party payers	40%	36%
Patient responsibilities	23%	18%
	<u>100%</u>	<u>100%</u>

West Side Community Health Services, Inc.

Notes to Financial Statements

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Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use include:

	2009	2008
Internally designated		
Money market mutual fund	\$ 4,738	\$ 516,417
Bond mutual fund	661,900	557,908
Money market savings	4,945	2,032,740
Repurchase agreements	1,283,930	-
Corporate bonds	1,281,094	-
	\$ 3,236,607	\$ 3,107,065

Total investment return is comprised of the following:

	2009	2008
Interest and dividend income	\$ 52,287	\$ 109,139
Realized and unrealized gains (losses) on other than trading securities	134,488	(57,014)
	\$ 186,775	\$ 52,125

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2009	2008
Unrestricted net assets		
Other nonoperating income	\$ 118,615	\$ 120,506
Change in unrealized gains and (losses) on other than trading securities	68,160	(68,381)
	\$ 186,775	\$ 52,125

The Organization's investment portfolio consists of the following: 1. A money market mutual fund which invests primarily in a portfolio of short-term, high quality, fixed income securities issued by banks, corporations and the U.S. government; 2. A bond mutual fund which invests in a minimum of 80% of assets in investment grade fixed income securities, but may also hold up to

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10% of assets in lower rated fixed income securities and up to 10% of assets in preferred stocks; 3. A bank money market savings account; 4. Overnight repurchase agreements; and 5. Corporate bonds which were rated between “A” and “AA+” by Standard and Poor’s and mature in 2011 and 2012.

The bond mutual fund investment is reported in the financial statements at an amount less than its historical cost. Total fair value of this investment at September 30, 2009 and 2008, was \$661,900 and \$557,908, which is 20% and 18%, respectively, of the Organization’s investment portfolio. The decline in the value of this fund primarily resulted from recent investor activity due to uncertain economic conditions. With the funds’ concentration in the investment grade and high yield bond sectors this impacted the funds net asset value.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in excess of revenues over expenses in the period the other-than-temporary impairment is identified. The current unrealized loss is reflected in increase in unrestricted net assets.

The following table shows the Organization’s investments’ gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2009 and 2008:

Description of Securities	September 30, 2009					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bond mutual fund	\$ -	\$ -	\$ 661,900	\$ 3,730	\$ 661,900	\$ 3,730

Description of Securities	September 30, 2008					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bond mutual fund	\$ 557,909	\$ 68,381	\$ -	\$ -	\$ 557,909	\$ 68,381

Note 6: Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating providers covered under the Federal Torts Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and

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related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of its malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 7: Line of Credit

The Organization has a \$450,000 line of credit available at September 30, 2009 and 2008. The line of credit has an interest rate of 5% and matures on March 18, 2010, and is secured by certain assets of the Organization. The Organization had no borrowings against this line of credit at September 30, 2009 and 2008.

Note 8: Long-Term Debt

	2009	2008
Note payable (A)	\$ 4,269,950	\$ 4,459,400
Note payable (B)	141,373	176,711
Note payable (C)	6,053	14,762
Note payable (D)	280,063	289,075
	<u>4,697,439</u>	<u>4,939,948</u>
Less current maturities	<u>250,895</u>	<u>243,613</u>
	<u>\$ 4,446,544</u>	<u>\$ 4,696,335</u>

- (A) Medical Facilities Revenue Note, Series 2004 (West Side Community Health Services, Inc. Project) issued by the Ramsey County Housing & Redevelopment Authority. This note was sold to BankCherokee. The note payable to BankCherokee in the original amount of \$5,000,000, due July 1, 2025, payable in monthly installments of \$29,924, including variable interest. The current interest rate on the note is 4% and will continue as such until an adjustment date of July 1, 2014. On this date, the interest rate shall adjust to 85% of the New York Prime Rate as published in the Wall Street Journal as of the most recent date prior to the adjustment date, but no lower than 4%. The interest rate will also adjust on July 1, 2019. This note is secured by real estate.
- (B) Note payable to the Nonprofits Assistance Fund in the original amount of \$191,499, due April 16, 2013, payable in monthly installments of \$3,614, including interest at 5.00%. This note is secured by equipment.

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- (C) Note payable to ADP Commercial Leasing, LLC, in the original amount of \$18,500, due May 23, 2010, payable in monthly installments of \$771, including imputed interest at 5.00%. This note is secured by equipment.
- (D) Note payable to the City of St. Paul, Minnesota, in the original amount of \$300,000, due May 1, 2028, payable in monthly installments of \$1,622, with a final balloon payment of \$24,331 due May 1, 2028, including interest at 4.00%. This note is secured by real estate.

Aggregate annual maturities of long-term debt at September 30, 2009, are:

2010	\$	250,895
2011		255,205
2012		266,002
2013		258,276
2014		243,669
Thereafter		<u>3,423,392</u>
	\$	<u>4,697,439</u>

Note 9: Temporarily Restricted Net Assets

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

	<u>2009</u>	<u>2008</u>
Health care services	\$ 310,394	\$ 124,474
Oral health services	53,748	53,750
Mental health services	48,677	130,000
Administrative and other services	<u>117,226</u>	<u>44,939</u>
	<u>\$ 530,045</u>	<u>\$ 353,163</u>

During 2009, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services in the amount of \$772,303 and administrative and other services in the amount of \$33,636. During 2008, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services in the amount of \$545,709.

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Notes to Financial Statements

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Note 10: Functional Expenses

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

	<u>2009</u>	<u>2008</u>
Health care services	\$ 19,256,051	\$ 17,719,546
General and administrative	<u>4,029,583</u>	<u>3,708,088</u>
	<u>\$ 23,285,634</u>	<u>\$ 21,427,634</u>

Note 11: Operating Leases

The Organization has noncancelable operating leases for facilities which expire in various years through 2013. These leases generally require the Organization to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at September 30, 2009, were:

2010	\$ 474,762
2011	450,355
2012	380,598
2013	<u>31,716</u>
Future minimum lease payments	<u>\$ 1,337,431</u>

Note 12: Retirement Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees. For each eligible participant, the Organization may contribute a matching contribution equal to 50% of eligible employee contributions that do not exceed 5% of compensation; however, any employer contributions are discretionary in nature and are subject to reduction or termination. During fiscal years 2009 and 2008, the Organization matched the maximum 50% of eligible employee contributions. Retirement plan expense for the years ended September 30, 2009 and 2008, was \$132,511 and \$123,458, respectively.

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Note 13: Disclosures About Fair Value of Assets and Liabilities

Effective October 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, which was subsequently incorporated into the FASB Accounting Standards Codification (ASC) Topic 820. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Topic 820 has been applied prospectively as of the beginning of the year.

Topic 820 defines fair value as 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. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the inputs and valuation methodologies used for assets and 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.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include a money market mutual fund and bond mutual fund. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no Level 3 securities.

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	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market mutual fund	\$ 4,738	\$ 4,738	\$ -	\$ -
Bond mutual fund	661,900	661,900	-	-
Corporate bonds	1,281,094	-	1,281,094	-

Note 14: 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 Awards

Concentration of revenues related to grant awards and other support are 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 medical malpractice claims are described in *Note 6*.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheet.

Current Economic Conditions

The current protracted economic decline continues to present community health centers with circumstances and challenges, which in some cases have resulted in declines in the fair value of investments and potential future declines in contributions. The financial statements have been prepared using values and information currently available to the Organization.

West Side Community Health Services, Inc.

Notes to Financial Statements

September 30, 2009 and 2008

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

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

Note 15: Construction in Progress

Construction in progress at September 30, 2009, related primarily to costs associated with three projects: clinic replacement, x-ray upgrade and clinic renovation.

The Organization is investigating the possibility of replacing its leased clinic on Arcade Street in St. Paul, including the financing options for such a project. The work is currently in the design stage. If the Company proceeds with this project, the new space is expected to be completed prior to October 2012.

In August 2009, the Company began an upgrade of all of its existing x-ray equipment to digital capabilities. The upgrade is being funded through a Capital Improvement Program grant under the American Recovery and Reinvestment Act. The project is expected to be fully functional by December 31, 2009, with total expenditures of approximately \$218,000.

Additionally, the Company is renovating space at its clinic on Cesar Chavez Street. The space was formerly leased to a third party for retail operations and is being renovated into administrative office space. The Company occupied the finished space in October 2009, and the total cost of the renovation is expected to be approximately \$50,000. The project was financed through operations.