

# **West Side Community Health Services, Inc.**

Accountants' Report and Financial Statements

September 30, 2011 and 2010

## 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, 2011 and 2010, 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.

As discussed in *Note 1*, in 2011 the Organization changed its method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for doubtful accounts in accordance with Accounting Standards Update 2011-07.

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, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

March 6, 2012

# West Side Community Health Services, Inc.

## Balance Sheets

September 30, 2011 and 2010

### Assets

	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,495,338	\$ 5,178,755
Short-term investments	3,427,203	3,388,862
Patient accounts receivable, net of allowance; 2011 - \$4,227,000, 2010 - \$4,326,000	889,026	1,005,700
Grants and other receivables	560,269	695,249
Contributions receivable - current	429,894	464,392
Estimated amounts due from third-party payers	333,000	340,000
Pharmacy inventory	100,652	75,768
Prepaid expenses and other	26,820	34,934
	<u>11,262,202</u>	<u>11,183,660</u>
Total current assets		
	<u>233,060</u>	<u>-</u>
<b>Contributions Receivable</b>		
<b>Property and Equipment, At Cost</b>		
Land and land improvements	615,140	615,140
Buildings and leasehold improvements	6,850,964	6,821,507
Furniture, fixtures and equipment	1,407,996	1,358,625
	<u>8,874,100</u>	<u>8,795,272</u>
Less accumulated depreciation	2,659,386	2,295,432
	<u>6,214,714</u>	<u>6,499,840</u>
Total assets	<u>\$ 17,709,976</u>	<u>\$ 17,683,500</u>

## Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 266,002	\$ 255,205
Accounts payable	489,346	702,744
Accrued expenses	1,249,383	1,056,881
Deferred grant revenue	<u>98,096</u>	<u>533,649</u>
Total current liabilities	2,102,827	2,548,479
<b>Long-Term Debt</b>	<u>3,938,707</u>	<u>4,197,894</u>
Total liabilities	<u>6,041,534</u>	<u>6,746,373</u>
<b>Net Assets</b>		
Unrestricted	10,833,149	10,252,943
Temporarily restricted	<u>835,293</u>	<u>684,184</u>
Total net assets	<u>11,668,442</u>	<u>10,937,127</u>
Total liabilities and net assets	<u>\$ 17,709,976</u>	<u>\$ 17,683,500</u>

**West Side Community Health Services, Inc.**  
**Statements of Operations**  
**Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010 (Adjusted - Note 1)</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 14,008,974	\$ 15,730,009
Provision for uncollectible accounts	(681,665)	(1,557,053)
Net patient service revenue less provision for uncollectible accounts	13,327,309	14,172,956
Grant revenue	8,309,883	8,904,358
Contribution revenue	638,938	740,197
Other revenue	924	268
Net assets released from restrictions used for operations	1,022,161	736,385
Total unrestricted revenues, gains and other support	23,299,215	24,554,164
<b>Expenses and Losses</b>		
Salaries and wages	11,788,117	11,477,078
Employee benefits	2,912,728	2,907,605
Purchased services and professional fees	1,116,070	1,386,745
Supplies and other	5,804,284	5,860,197
Rent	693,712	749,637
Depreciation and amortization	363,954	386,249
Interest	172,732	183,105
Loss on disposal of property and equipment	-	30,881
Total expenses and losses	22,851,597	22,981,497
<b>Operating Income</b>	447,618	1,572,667
<b>Other Income</b>		
Investment return	122,522	115,268
<b>Excess of Revenues Over Expenses</b>	570,140	1,687,935
Grants for acquisition of property and equipment	53,875	89,527
Investment return - change in unrealized gains and losses on other than trading securities	(46,809)	77,160
Net assets released from restriction used for purchase of property and equipment	3,000	24,189
<b>Increase in Unrestricted Net Assets</b>	\$ 580,206	\$ 1,878,811

**West Side Community Health Services, Inc.**  
**Statements of Changes in Net Assets**  
**Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 570,140	\$ 1,687,935
Grants for acquisition of property and equipment	53,875	89,527
Investment return - change in unrealized gains and losses on other than trading securities	(46,809)	77,160
Net assets released from restriction used for purchase of property and equipment	3,000	24,189
Increase in unrestricted net assets	580,206	1,878,811
<b>Temporarily Restricted Net Assets</b>		
Contributions	1,176,270	914,713
Net assets released from restriction	(1,025,161)	(760,574)
Increase in temporarily restricted net assets	151,109	154,139
<b>Change in Net Assets</b>	731,315	2,032,950
<b>Net Assets, Beginning of Year</b>	10,937,127	8,904,177
<b>Net Assets, End of Year</b>	\$ 11,668,442	\$ 10,937,127

**West Side Community Health Services, Inc.**  
**Statements of Cash Flows**  
**Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Change in net assets	\$ 731,315	\$ 2,032,950
Items not requiring (providing) cash		
Loss on disposal of property and equipment	-	30,881
Depreciation and amortization	363,954	386,249
Net gain on investments	(38,341)	(160,006)
Grants for acquisition of property and equipment	(53,875)	(89,527)
Changes in		
Patient accounts receivable, net	116,674	(70,535)
Grants receivable	134,980	(272,741)
Contributions receivable	(198,562)	(339,788)
Estimated amounts due from and to third-party payers	7,000	(270,000)
Prepaid assets	8,114	(2,331)
Inventory	(24,884)	14,134
Accounts payable and accrued expenses	(20,896)	(577,488)
Deferred revenue	(435,553)	451,001
	<u>589,926</u>	<u>1,132,799</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Acquisition of short-term investments	(500,000)	(205,555)
Proceeds from disposition of short-term investments	500,000	213,306
Purchase of property and equipment	(78,828)	(138,905)
	<u>(78,828)</u>	<u>(131,154)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Proceeds from grants for acquisition of property and equipment	53,875	89,527
Principal payments on long-term debt	(248,390)	(244,340)
	<u>(194,515)</u>	<u>(154,813)</u>
Net cash used in financing activities		
<b>Increase in Cash and Cash Equivalents</b>	316,583	846,832
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>5,178,755</u>	<u>4,331,923</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 5,495,338</u>	<u>\$ 5,178,755</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 172,732	\$ 183,105

**West Side Community Health Services, Inc.**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**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, 2011 and 2010, cash equivalents consisted primarily of repurchase agreements.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At September 30, 2011, the Organization's interest-bearing cash accounts and certificates of deposit exceeded federally insured limits by approximately \$1,260,000.

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

The Organization also utilizes sweep products as part of their cash management policy, which are not FDIC insured. However, the Organization has a secured interest in securities backing these deposits. At September 30, 2011 and 2010, the Organization held \$3,825,967 and \$5,176,038 in sweep products, respectively.

***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 return is included in unrestricted net assets.

**West Side Community Health Services, Inc.**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

***Change in Accounting Principle***

In 2011, the Organization changed its method of presentation and disclosure of patient service revenue, provision for bad debts and the allowance for doubtful accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are to reclassify the provision for uncollectible accounts related to patient service revenue to a deduction from patient service revenue and to provide enhanced disclosures around the Organization's policies related to uncollectible accounts. The change had no effect on prior year change in net assets.

	<b>As Adjusted</b>	<b>As Previously Reported</b>	<b>Effect of Change</b>
Provision for uncollectible accounts	\$ (1,557,053)	\$ -	\$ (1,557,053)
Net patient service revenue less provision for uncollectible accounts	\$ 14,172,956	\$ 15,730,009	\$ (1,557,053)
Total expenses and losses	\$ 22,981,497	\$ 24,538,550	\$ (1,557,053)

***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility 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 doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful 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 doubtful accounts and a provision for bad debts, 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).

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 bad debts in the period of services 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 the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

**West Side Community Health Services, Inc.**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

The Organization's allowance for doubtful accounts for self-pay patients was 94% and 91% of self-pay accounts receivable at September 30, 2011 and 2010, respectively. In addition, the Organization's write-offs decreased approximately \$2,823,000 from approximately \$3,430,000 for the year ended September 30, 2010, to approximately \$607,000 for the year ended September 30, 2011. The decrease in the write offs was the result of significant clean-up efforts in fiscal year 2010 and improved cash collections in fiscal year 2011.

***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.

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

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 September 30, 2011 and 2010.

***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.

**West Side Community Health Services, Inc.**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

***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.

***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.

***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.

***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***

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 \$460,847 and \$506,691, respectively, were received for the years ended September 30, 2011 and 2010, and is included in the statements of operations as contribution revenue.

# **West Side Community Health Services, Inc.**

## **Notes to Financial Statements**

**September 30, 2011 and 2010**

### ***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 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 and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

### ***Subsequent Events***

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

### ***Reclassifications***

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

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

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the "granting agency"). The general purpose of the grant is to provide expanded health care service delivery 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. The Organization's present CHC grant award covers the grant year ending January 31, 2012, and is approved at \$4,574,347. Future funding for the grant year ending January 31, 2013, is also approved at \$4,586,937. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. The Organization recognized \$4,396,567 and \$4,311,291 in revenues from this grant for the years ended September 30, 2011 and 2010, respectively.

# **West Side Community Health Services, Inc.**

## **Notes to Financial Statements**

### **September 30, 2011 and 2010**

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under the American Recovery and Reinvestment Act (ARRA). The Organization has been awarded \$571,070 under the Increased Demand for Services (IDS) grant for the period March 27, 2009, through March 26, 2011, to assist in meeting the needs of the community served; and \$1,361,495 under the Capital Improvement Program (CIP) grant for the period of June 29, 2009, through June 28, 2011, for facility improvements and equipment. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the year ended September 30, 2011, the Organization recognized \$223,085 and \$454,889 in IDS and CIP grant funds, respectively. During the year ended September 30, 2010, the Organization recognized \$347,985 and \$749,400 in IDS and CIP grant funds, respectively.

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 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 bad debts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for bad debts is presented on the statement of operations as a component of 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 on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under the plan. Services not covered under the FQHC benefit are paid based on established fee schedules.

**West Side Community Health Services, Inc.**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

Approximately 58% and 56% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010, 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 2010 net patient service revenue increased by approximately \$1,284,000 due to retroactive settlements for Medicaid services for dates of service prior to October 1, 2009.

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.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the years ended September 30, 2011 and 2010, was approximately:

	<b>2011</b>			
	<b>Gross Charges</b>	<b>Contractual Adjustments</b>	<b>Sliding Fee Adjustments</b>	<b>Net Revenue</b>
Medicaid	\$ 11,902,141	\$ 4,441,910	\$ -	\$ 7,460,231
Medicare	1,167,132	534,920	-	632,212
Other third-party payers	5,660,985	2,253,487	-	3,407,498
Self-pay	<u>11,624,554</u>	<u>-</u>	<u>9,115,521</u>	<u>2,509,033</u>
Total	<u>\$ 30,354,812</u>	<u>\$ 7,230,317</u>	<u>\$ 9,115,521</u>	<u>\$ 14,008,974</u>
	<b>2010</b>			
	<b>Gross Charges</b>	<b>Contractual Adjustments</b>	<b>Sliding Fee Adjustments</b>	<b>Net Revenue</b>
Medicaid	\$ 10,337,860	\$ 3,522,262	\$ -	\$ 6,815,598
Medicare	1,311,701	613,472	-	698,229
Other third-party payers	6,175,364	2,358,402	-	3,816,962
Self-pay	<u>10,187,833</u>	<u>-</u>	<u>7,072,650</u>	<u>3,115,183</u>
Total	<u>\$ 28,012,758</u>	<u>\$ 6,494,136</u>	<u>\$ 7,072,650</u>	14,445,972
Retroactive Medicaid settlements				<u>1,284,037</u>
				<u>\$ 15,730,009</u>

**West Side Community Health Services, Inc.**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**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, 2011 and 2010, was:

	<b>2011</b>	<b>2010</b>
Medicare	13%	9%
Medicaid	39%	49%
Other third-party payers	30%	25%
Patient responsibilities	18%	17%
	<u>100%</u>	<u>100%</u>

**Note 5: Investments and Investment Return**

Short-term investments include:

	<b>2011</b>	<b>2010</b>
Internally designated		
Money market mutual fund	\$ 2,550	\$ 3,508
Bond mutual fund	779,238	750,660
Repurchase agreements	1,922,438	1,357,945
Corporate bonds	722,977	1,276,749
	<u>\$ 3,427,203</u>	<u>\$ 3,388,862</u>

Total investment return is comprised of the following:

	<b>2011</b>	<b>2010</b>
Interest and dividend income	\$ 27,766	\$ 32,422
Realized and unrealized gains on other than trading securities	47,947	160,006
	<u>\$ 75,713</u>	<u>\$ 192,428</u>

# West Side Community Health Services, Inc.

## Notes to Financial Statements

September 30, 2011 and 2010

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

	<b>2011</b>	<b>2010</b>
Unrestricted net assets		
Other nonoperating income	\$ 122,522	\$ 115,268
Change in unrealized gains and losses on other than trading securities	<u>(46,809)</u>	<u>77,160</u>
	<u>\$ 75,713</u>	<u>\$ 192,428</u>

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 10% of assets in lower rated fixed income securities and up to 10% of assets in preferred stocks; 3. Overnight repurchase agreements; and 4. Corporate bonds which were rated between "A" and "AA+" by Standard and Poor's and mature in 2012.

### **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 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 had a \$250,000 line of credit available at September 30, 2011 and 2010, as well as a \$450,000 line of credit available at September 30, 2010. The current line of credit has an interest rate of 5% and matures on March 18, 2012, and is secured by certain assets of the Organization. The Organization had no borrowings against these lines of credit at September 30, 2011 and 2010, respectively.

# West Side Community Health Services, Inc.

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 8: Long-Term Debt

	2011	2010
Note payable (A)	\$ 3,878,600	\$ 4,078,185
Note payable (B)	65,182	104,228
Note payable (C)	260,927	270,686
	4,204,709	4,453,099
Less current maturities	266,002	255,205
	\$ 3,938,707	\$ 4,197,894

- (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.
- (C) 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, 2011, are:

2012	\$ 266,002
2013	258,276
2014	243,669
2015	253,559
2016	263,929
Thereafter	2,919,274
	\$ 4,204,709

# West Side Community Health Services, Inc.

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2011 and 2010, are available for the following purpose or periods:

	<u>2011</u>	<u>2010</u>
Health care services	\$ 718,412	\$ 529,639
Oral health services	47,058	47,058
Mental health services	-	75,337
Administrative and other services	<u>69,823</u>	<u>32,150</u>
	<u>\$ 835,293</u>	<u>\$ 684,184</u>

During 2011, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services in the amount of \$1,022,161 and administrative and other services in the amount of \$3,000. During 2010, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services in the amount of \$736,385 and administrative and other services in the amount of \$24,189.

### 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>2011</u>	<u>2010</u>
Health care services	\$ 18,712,738	\$ 18,544,472
General and administrative	<u>4,138,859</u>	<u>4,437,025</u>
	<u>\$ 22,851,597</u>	<u>\$ 22,981,497</u>

**West Side Community Health Services, Inc.**  
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**Note 11: Operating Leases**

The Organization has noncancelable operating leases for facilities which expire in various years through 2014. These leases generally require the Organization to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at September 30, 2011, were:

2012	\$ 479,328
2013	132,422
2014	<u>81,927</u>
Future minimum lease payments	<u><u>\$ 693,677</u></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 2011 and 2010, the Organization matched the maximum 50% of eligible employee contributions. Retirement plan expense for the years ended September 30, 2011 and 2010, was \$144,741 and \$118,562, respectively.

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

ASC Topic 820, *Fair Value Measurements*, 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 specifies 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.

# West Side Community Health Services, Inc.

## Notes to Financial Statements

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, 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. Pricing models are based on quoted prices for securities with similar coupons, ratings and maturities. 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.

	<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>2011</b>			
Assets				
Money market mutual fund	\$ 2,550	\$ 2,550	\$ -	\$ -
Bond mutual fund	779,238	779,238	-	-
Corporate bonds	722,977	-	722,977	-
	<b>2010</b>			
Assets				
Money market mutual fund	\$ 3,508	\$ 3,508	\$ -	\$ -
Bond mutual fund	750,660	750,660	-	-
Corporate bonds	1,276,749	-	1,276,749	-

### **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:

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**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 health centers with difficult circumstances and challenges, which in some cases have resulted in declines in the fair value of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions, including the 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 current economic conditions, the values of assets and liabilities recorded in the financial statements could change and negatively impact the Organization.

# **West Side Community Health Services, Inc.**

## **Notes to Financial Statements**

**September 30, 2011 and 2010**

### **Note 15: Subsequent Events**

Subsequent to year end, the Organization entered into a purchase agreement with the St. Paul Port Authority to purchase land. Management's plan is to construct an East Side clinic on this land. The Port Authority has approved the proposed sale for \$1, but they must approve the architectural designs and financing before the deal is finalized. Closing on the property is anticipated for May 2012, with construction to immediately follow. The total costs of construction and equipping the new facility are estimated at \$10 million. Funding is expected to come from new market tax credits, grant funds, other financing and internal funds as needed. The new clinic would encompass approximately 34,000 square feet, hosting medical, dental and behavioral health services and is expected to be completed in the first half of the fiscal year ending September 30, 2013.