

Eastern Iowa Health Center

Independent Auditor's Reports and Financial Statements

June 30, 2017 and 2016

Eastern Iowa Health Center
June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Eastern Iowa Health Center
Cedar Rapids, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Iowa Health Center (the "Organization"), which comprise the balance sheets as of June 30, 2017 and 2016, 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 Eastern Iowa Health Center as of June 30, 2017 and 2016, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 March 21, 2018, 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 Eastern Iowa Health Center's internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
March 21, 2018

Eastern Iowa Health Center

Balance Sheets

June 30, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash	\$ 367,788	\$ 902,594
Patient accounts receivable, net of allowance: 2017 - \$224,791, 2016 - \$86,477	997,097	626,041
Grant and other receivables	247,336	406,540
Contributions receivable	147,958	139,120
Estimated amounts due from third-party payers	830,000	991,483
Prepaid expenses and other assets	83,323	54,260
Total current assets	2,673,502	3,120,038
 Investment in Equity Investee	22,462	7,580
 Property and Equipment, At Cost		
Land	231,100	183,000
Buildings and improvements	2,910,538	792,291
Equipment	1,082,039	934,980
Furniture and fixtures	416,265	283,097
Construction in progress	-	625,066
	4,639,942	2,818,434
Less accumulated depreciation	816,955	1,020,928
	3,822,987	1,797,506
 Total assets	\$ 6,518,951	\$ 4,925,124

Liabilities and Net Assets

Current Liabilities		
Line of credit	\$ 1,300,000	\$ 495,000
Current maturities of long-term debt	79,718	66,436
Accounts payable	234,094	436,838
Accrued expenses	533,413	624,917
Total current liabilities	2,147,225	1,623,191
 Long-Term Debt	1,724,408	1,462,825
Total liabilities	3,871,633	3,086,016
 Net Assets		
Unrestricted	2,497,360	1,699,988
Temporarily restricted	149,958	139,120
Total net assets	2,647,318	1,839,108
 Total liabilities and net assets	\$ 6,518,951	\$ 4,925,124

Eastern Iowa Health Center
Statements of Operations
Years Ended June 30, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 8,382,453	\$ 6,601,371
Provision for uncollectible accounts	193,417	188,934
Net patient service revenue less provision for uncollectible accounts	8,189,036	6,412,437
Grant revenue	1,746,832	1,284,461
Other	318,010	98,350
Net assets released from restrictions for operations	139,120	71,165
Total unrestricted revenues, gains and other support	10,392,998	7,866,413
Expenses and Losses		
Salaries and wages	5,698,866	4,295,870
Employee benefits	1,163,799	889,794
Purchased services and professional fees	1,878,225	1,619,607
Supplies and other	1,399,754	640,439
Rent	247,187	91,457
Interest	93,616	39,406
Depreciation	278,542	195,913
Loss on disposal of property and equipment	6,047	93,368
Total expenses and losses	10,766,036	7,865,854
Operating Income (Loss)	(373,038)	559
Other Income (Expense)		
Investment return	742	977
Gain (loss) on investment in equity investee	14,882	(6,753)
Total other income (expense)	15,624	(5,776)
Deficiency of Revenues Over Expenses	(357,414)	(5,217)
Contributions for acquisition of property and equipment	631,083	-
Grants for acquisition of property and equipment	523,703	601,223
Increase in Unrestricted Net Assets	\$ 797,372	\$ 596,006

Eastern Iowa Health Center
Statements of Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (357,414)	\$ (5,217)
Contributions for acquisition of property and equipment	631,083	-
Grants for acquisition of property and equipment	523,703	601,223
Increase in unrestricted net assets	797,372	596,006
Temporarily Restricted Net Assets		
Contributions received	149,958	139,120
Net assets released from restrictions	(139,120)	(71,165)
Increase in temporarily restricted net assets	10,838	67,955
Change in Net Assets	808,210	663,961
Net Assets, Beginning of Year	1,839,108	1,175,147
Net Assets, End of Year	\$ 2,647,318	\$ 1,839,108

Eastern Iowa Health Center
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 808,210	\$ 663,961
Items not requiring (providing) operating cash flow		
Loss on disposal of property and equipment	6,047	93,368
(Gain) loss on investment in equity investee	(14,882)	6,753
Depreciation	278,542	195,913
Contributions for acquisition of property and equipment	(631,083)	-
Grants for acquisition of property and equipment	(523,703)	(601,223)
Changes in		
Patient accounts receivable, net	(371,056)	(85,844)
Grants receivable and other receivables	159,204	(166,041)
Contributions receivable	(8,838)	(67,955)
Estimated amounts due from and due to third-party payers	161,483	(833,718)
Prepaid and other assets	(29,063)	109,442
Accounts payable and accrued expenses	<u>(301,565)</u>	<u>347,365</u>
Net cash used in operating activities	<u>(466,704)</u>	<u>(337,979)</u>
Investing Activities		
Advances to and investment in equity investee	-	(14,333)
Purchase of property and equipment	<u>(2,302,753)</u>	<u>(658,030)</u>
Net cash used in investing activities	<u>(2,302,753)</u>	<u>(672,363)</u>
Financing Activities		
Proceeds from issuance of long-term debt	341,301	732,000
Principal payments on long-term debt	(66,436)	(39,815)
Proceeds from contribution for acquisition of property and equipment	631,083	-
Proceeds from grant for acquisition of property and equipment	523,703	601,223
Borrowings under line-of-credit agreement	1,405,000	1,020,000
Payments on line-of-credit agreement	<u>(600,000)</u>	<u>(525,000)</u>
Net cash provided by financing activities	<u>2,234,651</u>	<u>1,788,408</u>
Increase (Decrease) in Cash	(534,806)	778,066
Cash, Beginning of Year	<u>902,594</u>	<u>124,528</u>
Cash, End of Year	<u>\$ 367,788</u>	<u>\$ 902,594</u>
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 93,616	\$ 39,406

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2017 and 2016

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

Nature of Operations

Eastern Iowa Health Center (the “Organization”) is a federally qualified health center with a mission to provide high quality health care access to those in need in Linn County, Iowa. The Organization primarily earns revenues by providing physician, dental and related health care services through clinics located in Cedar Rapids, 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, expenses, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

At June 30, 2017, the Organization’s cash accounts exceeded federally insured limits by approximately \$21,000.

Investment in Equity Investee and Investment Return

The investment in equity investee is reported on the equity method of accounting. Investment return includes interest income and is reflected in the statement of operations as a component of unrestricted net assets.

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).

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2017 and 2016

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 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 uncollectible accounts.

The Organization's allowance for uncollectible accounts for self-pay patients increased from 63% of self-pay accounts receivable at June 30, 2016, to 82% of self-pay accounts receivable at June 30, 2017. The Organization's write-offs increased approximately \$46,000 from approximately \$155,000 for the year ended June 30, 2016, to approximately \$201,000 for the year ended June 30, 2017.

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.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	5 - 40 years
Equipment	3 - 20 years
Furniture and fixtures	5 - 20 years

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.

The Organization capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2017	2016
Interest costs capitalized	\$ 25,336	\$ 6,114
Interest costs charged to expense	92,727	38,026
Total interest incurred	<u>\$ 118,063</u>	<u>\$ 44,140</u>

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2017 and 2016

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 June 30, 2017 and 2016.

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.

Government Grant Revenue

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

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2017 and 2016

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 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).

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the “granting agency”). The general purpose of the grant is to provide expanded health care service delivery for residents of Linn County and the surrounding area. 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 June 30, 2017 and 2016, the Organization received \$1,677,970 and \$1,164,197 in CHC grant funds, respectively.

The Organization’s present CHC grant award covers the grant period ending April 30, 2018, and is approved at \$1,639,943. 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.

On September 8, 2015, the Organization was awarded a Health Infrastructure Investment Program (HIIP) grant from the U.S. Department of Health and Human Services (the “granting agency”) in the amount of \$1,000,000 for the September 30, 2015, to September 29, 2018, period to fund facility renovation expansion. 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 June 30, 2017 and 2016, the Organization received \$398,777 and \$601,223, respectively, in HIIP grant funds.

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

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2017 and 2016

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.

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 in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of the Organization's actual charge or the applicable PPS rate. 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 at prospective rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2017 and 2016, was approximately:

	2017	2016
Medicaid	\$ 6,442,089	\$ 5,293,122
Other third-party payers	1,426,988	755,337
Medicare	440,527	329,130
Self-pay	72,849	223,782
Total	<u>\$ 8,382,453</u>	<u>\$ 6,601,371</u>

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2017 and 2016

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 June 30, 2017 and 2016, is:

	2017	2016
Medicaid	81%	70%
Other third-party payers	13%	16%
Medicare	3%	6%
Self-pay	3%	8%
	100%	100%

Note 5: Investment in Equity Investee

In 2016, the Organization entered into a joint venture with other Iowa FQHCs to purchase membership interests in Iowa Health Centers for Accountability – West, LLC, d/b/a Iowa Health+, an Iowa limited liability company (IowaHealth+). The Organization made an initial purchase of interests in IowaHealth+ totaling \$14,333, which represents an approximate 10% ownership.

Financial position and results of operations of the investee are summarized below:

	2017	2016
Current assets	\$ 403,144	\$ 300,303
Total assets	403,144	300,303
Current liabilities	120,808	168,870
Total liabilities	120,808	168,870
Equity	\$ 282,336	\$ 131,433
Revenues	\$ 742,565	\$ 332,661
Net surplus (loss)	\$ 150,919	\$ (69,803)

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2017 and 2016

Note 6: Medical Malpractice Claims

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 June 30, 2017 and 2016.

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 7: Line of Credit

The Organization has a \$1,900,000 bank line of credit, secured by accounts receivable maturing on April 21, 2018. At June 30, 2017 and 2016, the Organization had \$1,300,000 and \$495,000 of borrowings against the bank line of credit, respectively. Interest varies with the bank's prime rate and has a minimum rate of 4.50%. The interest rate was 5.25% and 4.50% at June 30, 2017 and June 30, 2016, respectively. Subsequent to June 30, 2017, this line of credit was paid in full using cash collections from third-party payers received during 2018.

Note 8: Long-Term Debt

Long-term debt at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Note payable, bank (A)	\$ 772,098	\$ 805,288
Note payable, bank (B)	606,443	627,042
Note payable, bank (C)	84,284	96,931
Note payable, bank (D)	341,301	-
	<u>1,804,126</u>	<u>1,529,261</u>
Less current maturities	<u>79,718</u>	<u>66,436</u>
	<u>\$ 1,724,408</u>	<u>\$ 1,462,825</u>

- (A) Due August 1, 2023; payable in installments of \$5,430 monthly including interest at 3.99% with a final payment of all outstanding principal and interest upon maturity. Note is collateralized by the clinic and administrative building.

In connection with the note, the Organization is required to comply with certain restrictive covenants including maintaining a current ratio in excess of 1 and a minimum debt service coverage ratio in excess of 1.25 to 1.

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Notes to Financial Statements
June 30, 2017 and 2016

- (B) Due March 4, 2021; payable in installments of \$3,935 monthly including interest at 4.25% with a final payment of all outstanding principal and interest upon maturity. Note is collateralized by the clinic and administrative building.

In connection with the note, the Organization is required to comply with certain restrictive covenants including maintaining a current ratio in excess of 1 and a minimum debt service coverage ratio in excess of 1.25 to 1.

- (C) Due March 4, 2021; payable in installments of \$1,381 monthly including interest at 4.25% with a final payment of all outstanding principal and interest upon maturity. Note is collateralized by the clinic and administrative building.

In connection with the note, the Organization is required to comply with certain restrictive covenants including maintaining a current ratio in excess of 1 and a minimum debt service coverage ratio in excess of 1.25 to 1.

- (D) Due September 21, 2022; payable in installments of \$2,436 monthly including interest at 4.00% with a final payment of all outstanding principal and interest upon maturity. Note is collateralized by the dental clinic.

In connection with the note, the Organization is required to comply with certain restrictive covenants including maintaining a current ratio in excess of 1 and a minimum debt service coverage ratio in excess of 1.25 to 1.

Aggregate annual maturities of long-term debt at June 30, 2017, are:

2018	\$	79,718
2019		86,409
2020		89,939
2021		636,386
2022		56,574
Thereafter		855,100
		\$ 1,804,126

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2017 and 2016

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016, of \$149,958 and \$139,120, respectively, are available for health care services. During 2017 and 2016, \$139,120 and \$71,165, respectively, was released from donor restrictions by incurring expenses satisfying the restricted purposes of health care services.

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:

	2017	2016
Health care services	\$ 8,171,456	\$ 5,823,999
General and administrative	2,594,580	2,041,855
	\$ 10,766,036	\$ 7,865,854

Note 11: Pension Plan

The Organization has a defined contribution pension plan covering substantially all employees meeting certain eligibility requirements. The amount contributed by the Organization is equal to 100% of the employee's first 3% of contributions, plus 50% of their next 2% of contributions. Pension expense was \$167,098 and \$121,977 for the years ended June 30, 2017 and 2016, respectively.

Note 12: Related Party Transactions

The Organization entered into a Clinical Service agreement with Cedar Rapids Medical Education Foundation (CRMEF). The Chief Executive Officer (CEO) of the Organization is on the board of directors of CRMEF. CRMEF has an employee who is a voting member of the Organization's Clinics Operations and Quality Committee. CRMEF provides the Organization with preventative and primary health care services at various clinics. The Organization paid CRMEF a total of \$537,240 and \$473,600 for the years ended June 30, 2017 and 2016, respectively. There were no amounts owed to CRMEF at June 30, 2017 and 2016.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2017 and 2016

Note 13: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Grant Revenue

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

Malpractice Claims

Estimates related to the accrual for professional liability claims are described in *Note 6*.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. 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.

Self-Insurance

The Organization is self-insured for employee group dental and vision care. Liabilities include an accrual for dental and vision claims that have been incurred and an estimate of claims incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors.

Physicians

The Organization is served by residents under a contracted arrangement and a nurse practitioner whose patients comprise a substantial portion of the Organization's net patient service revenue.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2017 and 2016

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 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 14: Subsequent Events

Subsequent to year end, the Organization completed additional renovations in its dental facility. The total cost of the project was approximately \$66,000. The project was completed in November 2017. The renovation was funded with additional construction financing (see *Note 8*).

Subsequent events have been evaluated through March 21, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

Eastern Iowa Health Center
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/Health Center Program (Community Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)/ Health Center Program Cluster	93.224	N/A	\$ -	\$ 363,584
U.S. Department of Health and Human Services/Grants for New and Expanded Services under the Health Center Program/Health Center Program Cluster	93.527	N/A	-	1,314,386
Total Health Center Program Cluster			-	1,677,970
U.S. Department of Health and Human Services/Grants for Capital Development in Health Centers	93.526	N/A	-	398,777
U.S. Department of Health and Human Services/American Cancer Society, Inc./ Organized Approaches to Increase Colorectal Cancer Screening	93.800	NU58DP006106- 02-00	-	40,000
U.S. Department of Health and Human Services/ Iowa Department of Public Health/ NON-ACA/PPHF- Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations	93.424	NU380T0002- 23	-	50,000
U.S. Department of Health and Human Services/ Iowa Department of Public Health/ Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5886HC31	-	9,514
U.S. Department of Health and Human Services/ Iowa Department of Public Health/ Family Planning Services	93.217	5887FP10	-	67,576
			<u>\$ -</u>	<u>\$ 2,243,837</u>

Eastern Iowa Health Center
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Notes to Schedule

1. The accompanying schedule of expenditures of federal (the “Schedule”) includes the federal award activity of Eastern Iowa Health Center under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Eastern Iowa Health Center, it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of Eastern Iowa Health Center.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Eastern Iowa Health Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. Eastern Iowa Health Center did not have any federal loan programs during the year ended June 30, 2017.

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
Eastern Iowa Health Center
Cedar Rapids, 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 Eastern Iowa Health Center (the "Organization"), which comprise the balance sheet as of June 30, 2017, 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 March 21, 2018.

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 of the financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 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. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

Board of Directors
Eastern Iowa 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*.

Eastern Iowa Health Center's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Eastern Iowa Health Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to the Organization's management in a separate letter dated March 21, 2018.

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
March 21, 2018

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Eastern Iowa Health Center
Cedar Rapids, Iowa

Report on Compliance for the Major Federal Program

We have audited Eastern Iowa Health Center's (the "Organization") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Eastern Iowa Health Center's major federal program for the year ended June 30, 2017. The Organization's major federal program is 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 federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Eastern Iowa Health Center's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Board of Directors
Eastern Iowa Health Center

Opinion on the Major Federal Program

In our opinion, Eastern Iowa 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 its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Eastern Iowa 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 types of requirements that could have a direct and material effect on the 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 Uniform Guidance, 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 or significant deficiencies. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
March 21, 2018

Eastern Iowa Health Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None Reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)? Yes None Reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes No

Eastern Iowa Health Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

7. The Organization's major program was:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Health Center Program Cluster	93.224 and 93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

Eastern Iowa Health Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Reference Number	Finding
2017-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s financial statements required adjusting journal entries for financial statement presentation. Areas in which adjustments were proposed, including those which management recorded, include:</p> <ul style="list-style-type: none"> • Other receivable and related revenue • Allowances for contractual adjustments and uncollectible accounts <p>Context – Timely and accurate analysis of month end estimates, revenue cutoff procedures and review of general ledger details are critical to identify necessary adjustments.</p> <p>Effect – Adjusting journal entries were proposed as certain accounts on the unadjusted financial statements were not accurately reflected.</p> <p>Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) or identify the needed adjustments in a timely manner.</p> <p>The Organization implemented a new practice management system towards the end of fiscal year 2016, which did not provide good reporting to management to analyze proper estimates of collectible patient account receivable. Furthermore, the State of Iowa implemented managed care during late fiscal 2016 which created significant delays in payment and created other challenges in proper patient management reporting. This led to Iowa Medicaid MCOs not paying in a timely fashion.</p> <p>Recommendation – Management should modify monthly and year-end closing procedures including their method for estimating patient account receivable to ensure controls in place are sufficient to assure accounts and financial statements are prepared in accordance with GAAP.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Organization understands the importance of properly prepared financial statements. The Finance personnel will evaluate the areas noted and adjust the month-end close process accordingly. The Organization underwent staffing changes and the issues take time to resolve, therefore, issues from prior years carried over into the current year. The causes are being addressed appropriately.</p>

Eastern Iowa Health Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Findings Required to be Reported by Uniform Guidance

**Reference
Number**

Finding

No matters are reportable.

**Eastern Iowa Health Center
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

Reference Number	Summary of Finding	Status
2016-001	<p>Criteria or Specific Requirement – The objectives of internal controls are to provide reasonable rather than absolute assurance that assets are safeguarded and financial statements are reliable. Segregation of incompatible duties is often an effective way of strengthening internal control.</p> <p>Condition – Certain individuals have the ability to perform duties in the cash receipts/accounts receivable, cash disbursements/accounts payable, payroll and IT cycles that are incompatible from a control perspective.</p> <p>Context – Generally, access, monitoring and recording responsibilities within an accounting cycle should be assigned to different individuals. In instances where these duties are not segregated, potential internal control weaknesses exist.</p> <p>Effect – Potentially significant misstatements in the financial statements or misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties are not adequately segregated and monitoring or other compensating controls are insufficient.</p>	Resolved

**Eastern Iowa Health Center
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

Reference Number	Summary of Finding	Status
2016-002	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s financial statements required adjusting journal entries for financial statement presentation. Areas in which adjustments were proposed, including those which management recorded, include:</p> <ul style="list-style-type: none"> • Grants receivable and revenue • Construction in progress • Prepaid expenses • Allowances for contractual adjustments and uncollectible accounts • Accounts payable • Accrued payables • Expenses • Loss on investment <p>Context – Timely and accurate account reconciliations and review of general ledger details are critical to identify necessary adjustments.</p> <p>Effect – Adjusting journal entries were proposed as certain accounts on the unadjusted financial statements were misstated.</p> <p>Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) or identify the needed adjustments in a timely manner.</p> <p>Reason for Recurrence – The Organization underwent staffing changes and a few of the issues from prior year lingered into the current year. We are addressing the causes appropriately as seen in management response for Finding 2017-001.</p>	Partially Resolved See Finding 2017-001.

November 13, 2017

FY 2017 Financial Audit
Corrective Action Plan

Finding: The Organization's financial statements required adjusting journal entries for financial statement presentation. Areas in which adjustments were proposed, included those which management recorded, include:


- Other receivable and related revenue
- Allowance for contractual adjustments and uncollectible accounts

Corrective Action Plan:

The Organization understands the importance of properly prepared financial statements. The Finance personnel will evaluate the areas noted and adjust the month-end close process accordingly. The Organization underwent staffing changes and the issues take time to resolve, therefore, issues from prior years carried over into the current year. The causes are being addressed appropriately.



Joe Lock
CEO



Daniel T. Washburn
CFO