

Eastern Iowa Health Center

Independent Auditor's Reports and Financial Statements

June 30, 2020 and 2019

Eastern Iowa Health Center
June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and the results of its operations, changes in its net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 21* to the financial statements, in 2020, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2016-15, *Statement of Cash Flows (Topic 230) Classifications of Certain Cash Receipts and Cash Payments*. Our opinion is not modified with respect to these matters.

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 as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 11, 2021, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Organization's 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

Eastern Iowa Health Center

Balance Sheets

June 30, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash	\$ 1,625,404	\$ 668,641
Short-term investments	1,443,641	1,068,991
Patient accounts receivable	446,552	515,327
Grant and other receivables	201,093	470,929
Contributions receivable	129,900	148,307
Estimated amounts due from third-party payors	610,000	580,199
Inventory	55,799	60,703
Prepaid expenses and other	198,356	178,362
	<u>4,710,745</u>	<u>3,691,459</u>
Total current assets		
	<u>4,710,745</u>	<u>3,691,459</u>
Investment in Equity Investees	<u>243,580</u>	<u>181,664</u>
	<u>243,580</u>	<u>181,664</u>
Property and Equipment, At Cost		
Land	231,100	231,100
Buildings and improvements	2,905,714	2,910,538
Equipment	775,167	888,386
Furniture and fixtures	231,436	235,245
	<u>4,143,417</u>	<u>4,265,269</u>
Less accumulated depreciation	<u>1,156,161</u>	<u>994,494</u>
	<u>2,987,256</u>	<u>3,270,775</u>
	<u>2,987,256</u>	<u>3,270,775</u>
Other Assets		
Long-term note receivable	3,333	43,333
Interest in assets held by Greater Cedar Rapids Community Foundation	<u>26,145</u>	<u>-</u>
	<u>29,478</u>	<u>43,333</u>
	<u>29,478</u>	<u>43,333</u>
Total assets	<u>\$ 7,971,059</u>	<u>\$ 7,187,231</u>
	<u>\$ 7,971,059</u>	<u>\$ 7,187,231</u>

Eastern Iowa Health Center
Statements of Operations
Years Ended June 30, 2020 and 2019

	2020	2019 (Adjusted - Note 21)
	<hr/>	<hr/>
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue	\$ 10,843,517	\$ 11,120,151
Grant revenue	2,892,150	1,864,718
Contribution and other revenue	203,449	277,798
Net assets released from restrictions for operations	207,675	161,537
	<hr/>	<hr/>
Total revenues, gains, and other support without donor restrictions	14,146,791	13,424,204
	<hr/>	<hr/>
Expenses and Losses		
Salaries and wages	7,148,332	7,401,476
Employee benefits	1,642,091	1,570,250
Purchased services and professional fees	2,057,256	2,092,643
Supplies and other	1,798,848	1,573,246
Rent	203,441	192,565
Interest	76,115	81,320
Depreciation	318,973	347,335
Loss on disposal of property and equipment	13,790	22,281
	<hr/>	<hr/>
Total expenses and losses	13,258,846	13,281,116
	<hr/>	<hr/>
Operating Income	887,945	143,088
	<hr/>	<hr/>
Other Income		
Investment return, net	30,968	27,735
Gain on investment in equity investee	81,180	99,515
	<hr/>	<hr/>
Total other income	112,148	127,250
	<hr/>	<hr/>
Excess of Revenues Over Expenses	1,000,093	270,338
Contributions of property and equipment	36,622	-
Grants for acquisition of property and equipment	12,619	46,049
	<hr/>	<hr/>
Increase in Net Assets Without Donor Restrictions	<u>\$ 1,049,334</u>	<u>\$ 316,387</u>

Eastern Iowa Health Center
Statements of Changes in Net Assets
Years Ended June 30, 2020 and 2019

	2020	2019
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 1,000,093	\$ 270,338
Contributions of property and equipment	36,622	-
Grants for acquisition of property and equipment	12,619	46,049
Increase in net assets without donor restrictions	1,049,334	316,387
Net Assets With Donor Restrictions		
Contributions received	177,730	223,416
Net assets released from restrictions	(207,675)	(161,537)
Increase (decrease) in net assets with donor restrictions	(29,945)	61,879
Change in Net Assets	1,019,389	378,266
Net Assets, Beginning of Year	4,064,037	3,685,771
Net Assets, End of Year	\$ 5,083,426	\$ 4,064,037

Eastern Iowa Health Center
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 1,019,389	\$ 378,266
Items not requiring (providing) operating cash flow		
Loss on disposal of property and equipment	13,790	22,281
Undistributed gain on investment in equity investee	(53,153)	(99,515)
Depreciation	318,973	347,335
Contributions for acquisition of property and equipment	(36,622)	-
Grants for acquisition of property and equipment	(12,619)	(46,049)
Change in interest in Greater Cedar Rapids Community Foundation	(1,145)	-
Changes in		
Patient accounts receivable, net	68,775	125,521
Grants receivable and other receivables	269,836	(397,298)
Contributions receivable	18,407	20,085
Estimated amounts due from and due to third-party payors	(114,113)	241,713
Notes receivable	40,000	(83,333)
Inventory	4,904	(13,392)
Prepaid and other assets	(19,994)	(28,712)
Deferred revenue	320,657	-
Accounts payable and accrued expenses	(378,019)	597,345
	<u>1,459,066</u>	<u>1,064,247</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of short-term investments	(374,650)	(1,068,991)
Return of investments in equity investees	(8,753)	-
Purchase of property and equipment	(12,622)	(52,081)
Purchase of interest in Greater Cedar Rapids Community Foundation	(25,000)	-
	<u>(421,025)</u>	<u>(1,121,072)</u>
Net cash used in investing activities		
Financing Activities		
Principal payments on long-term debt	(93,887)	(126,573)
Proceeds from grant for acquisition of property and equipment	12,619	46,049
	<u>(81,268)</u>	<u>(80,524)</u>
Net cash used in financing activities		
Increase (Decrease) in Cash	<u>956,773</u>	<u>(137,349)</u>
Cash, Beginning of Year	<u>668,641</u>	<u>805,990</u>
Cash, End of Year	<u>\$ 1,625,414</u>	<u>\$ 668,641</u>
Supplemental Cash Flows Information		
Interest paid	\$ 72,429	\$ 85,965
Property and equipment acquired through noncash contribution	\$ 36,622	\$ -

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

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, 2020, the Organization’s cash accounts exceeded federally insured limits by approximately \$1,483,000.

Investments and Investment Return

The investment in equity investee is reported on the equity method of accounting. Investments in certificates of deposit are carried at cost. Investment return is comprised of interest income and is reported in the statement of operations as a component of net assets without donor restrictions.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient’s responsibility for copays, coinsurance, and deductibles is determined. Patient accounts receivable are due in full when billed.

No material bad debt expense has been recognized for the years ended June 30, 2020 and 2019.

Inventories

The Organization states supply inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2020 and 2019

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 net assets without donor restrictions 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 net assets without donor restrictions 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 June 30, 2020 and 2019.

Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Patient Service Revenue

Patient service revenue is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization’s policies, and implicit price concessions provided to uninsured patients.

The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies, and historical experience by payor groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations by third-party payors.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restriction.

Government Grant Revenue

Support funded by government grants is generally considered a conditional contribution and recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grants agreements which are reimbursement for services provided are considered exchange transactions and recognized as net patient service revenue which is recognized as the service is performed. 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.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of professional services and capital equipment from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by the same amount. For the years ended June 30, 2020 and 2019, \$51,587 and \$11,970, respectively, was received in in-kind contributions and is included in the other revenue and nonoperating revenue section within the statement of operations.

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.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2020 and 2019

340B Revenue

The Organization participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization benefits under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients.

The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

	<u>2020</u>	<u>2019</u>
Gross receipts	\$ 455,473	\$ 268,600
Drug replenishment costs	(79,870)	(65,506)
Administrative and filling fees	<u>(190,559)</u>	<u>(101,936)</u>
Net revenue	<u>\$ 185,044</u>	<u>\$ 101,158</u>

The 340B gross receipts are included in net patient service revenue on the statements of operations. The drug replenishment costs and administrative and filling fees are included in supplies and other expenses on the statements of operations. The net 340B revenue from this program is used in furtherance of the Organization’s mission.

Electronic Health Records Incentive Program

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

The Organization recognizes revenue ratably over the reporting period starting at the point when meaningful use objectives have been met and any other specific grant requirements applicable for the reporting period.

The Organization has recorded EHR revenue of approximately \$110,500 for 2019 which is included in other revenue within operating revenues in the statements of operations. The Organization did not record any EHR revenue in 2020.

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Excess of Revenues Over Expenses

The statements of operations includes excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess 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, 2020 and 2019, the Organization recognized \$1,563,483 and \$1,745,926 in CHC grant funds, respectively.

The Organization’s present CHC grant award covers the grant year ending April 30, 2021, and is approved at \$1,745,348. The CHC grant fund is considered a conditional award. As such, the approved funding in which the Organization has not yet incurred allowable expenditures, has not been recognized in the financial statements at year-end.

In addition to the CHC grant, 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.

Note 3: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on nonemergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases.

Beginning in mid-March, the Organization deferred all nonessential medical and dental procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year at lower than historical volumes.

The Organization’s pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2020 and 2019

The extent of the COVID-19 pandemic's adverse effect on the Organization's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Organization's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Organization cannot estimate the length or severity of the effect of the pandemic on the Organization's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, and potential impairments of long-lived assets.

Provider Relief Fund

During the year ended June 30, 2020, the Organization received \$325,657 of distributions from the CARES Act Provider Relief Fund (collectively the "Provider Relief Fund"). These distributions from the Provider Relief Fund are not subject to repayment, provided the Organization is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

Subsequent to year-end, the Organization received an additional \$43,330 in Provider Relief Fund distributions.

The Organization has elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Organization's revenues and expenses through June 30, 2020, the Organization recognized \$5,000, related to the distributions from the Provider Relief Fund, and these payments are recorded as grant revenue in the accompanying statement of operations. The unrecognized amount of distributions from the Provider Relief Fund are recorded as deferred grant revenue in the accompanying balance sheets.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund. The Organization considered the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at June 30, 2020. As a result, the amounts recorded in the financial statements compared to the Organization's Provider Relief Fund reporting could differ. Based on guidance as of March 11, 2021, there are no changes expected to the amounts recorded in the fiscal year 2020 financial statements.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2020 and 2019

The Organization will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Organization's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Organization is unable to attest to or comply with current or future terms and conditions, our ability to retain some or all of the distributions received may be affected. The Provider Relief Funds are subject to government oversight, including potential audits.

Paycheck Protection Program (PPP) Loan

In April of 2020, the entity received a PPP loan established by the CARES Act in the amount of \$1,067,100 and has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting FTE and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue.

As of June 30, 2020, the Organization met the conditions noted above in order to recognize conditional contribution revenue. Subsequent to year-end, the Organization received legal notice that the PPP loan was forgiven in its entirety.

Supplementary CARES Act Grant

In the Spring of 2020, the Organization was awarded three additional federal grant awards with various budget periods through March 2021 from the *Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding* totaling \$1,135,024. Each grant award contains specific terms and conditions that must be followed when utilizing this funding. Grant revenue is recognized, and grant funds are drawn down, as the Organization meets the conditions prescribed by the grant agreements which require incurring qualifying expenditures over the grant period. During the years ended June 30, 2020 and 2019, the Organization recognized \$116,208 and \$0 in CARES Act grant funds, respectively.

Note 4: Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2020 and 2019

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services in our clinics. The Organization measures the performance obligation from commencement of a service to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals) and the Organization does not believe it is required to provide additional goods related to the patient. The Organization had no performance obligations considered unsatisfied or partially unsatisfied as of June 30, 2020 and 2019, respectively.

Transaction Price

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors and discounts provided to uninsured patients in accordance with the Organization's sliding fee discount program policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its sliding fee discount program policy and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients.

Third-Party Payors

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 payors that typically provide for payment at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. Covered federally qualified health center (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.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates and discounts from established charges.

Eastern Iowa Health Center

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June 30, 2020 and 2019

Laws and regulations concerning government programs, including Medicare and Medicaid are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2020 and 2019.

Patient and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. As required by Section 330 of the Public Health Service Act (42 U.S.C. §254b), the Organization also has established a sliding fee discount program and offers low-income patients a sliding fee discount from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, sliding fee discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2020 and 2019, no significant revenue was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

Eastern Iowa Health Center
Notes to Financial Statements
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Refund Liabilities

From time to time the Organization will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of June 30, 2020 and 2019, the Organization has a liability for refunds to third-party payors and patients recorded of \$25,122 and \$18,145, respectively, which is included in accounts payable on the balance sheets.

Revenue Composition

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care, or other insurance, patients have different reimbursement and payment methodologies)
- Method of reimbursement (fee for service)

For the years ended June 30, 2020 and 2019, the Organization recognized revenue of \$10,388,044 and \$10,851,551, respectively, from services that transfer to the patient over time and \$455,473 and \$268,600, respectively, from goods and services that transfer to the patient at a point in time.

Contract Balances

The following table provides information about the Organization’s receivables from contracts with customers:

	2020	2019
Accounts receivable, beginning of year	\$ 515,327	\$ 640,848
Accounts receivable, end of year	\$ 446,552	\$ 515,327

Financing Component

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization’s expectation that the period between the time the service is provided to a patient and the time the patient pays for that service will be one year or less.

Contract Costs

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

Eastern Iowa Health Center

Notes to Financial Statements

June 30, 2020 and 2019

Note 5: 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 payor agreements. The mix of receivables from patients and third-party payors at June 30, 2020 and 2019, is:

	<u>2020</u>	<u>2019</u>
Medicaid	64%	58%
Other third-party payors	29%	33%
Medicare	2%	7%
Self-pay	5%	2%
	<u>100%</u>	<u>100%</u>

Note 6: Conditional Grants and Contribution

The Organization has received the following conditional promises to give June 30, 2020 and 2019, that are not recognized in the financial statements:

	<u>2020</u>	<u>2019</u>
Given upon incurring allowable expenditures under the agreement	\$ 5,076,726	\$ -

Note 7: Investments and Investment Return

Other Investments

Other investments, at June 30, include:

	<u>2020</u>	<u>2019</u>
Certificates of deposit	\$ 1,443,641	\$ 1,068,991

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Total investment return is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest income	<u>\$ 30,968</u>	<u>\$ 27,735</u>

Total investment return is reflected in the statements of operations as follows:

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions		
Other nonoperating income	<u>\$ 30,968</u>	<u>\$ 27,735</u>

Note 8: 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 percent ownership.

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

	<u>2020</u>	<u>2019</u>
Current assets	<u>\$ 3,058,869</u>	<u>\$ 2,110,454</u>
Total assets	<u>3,062,533</u>	<u>2,110,454</u>
Current liabilities	<u>684,606</u>	<u>440,621</u>
Total liabilities	<u>684,606</u>	<u>440,621</u>
Equity	<u>\$ 2,377,927</u>	<u>\$ 1,669,833</u>
Revenues	\$ 1,558,477	\$ 1,611,977
Net surplus	\$ 681,428	\$ 934,390

The Organization's proportionate share of net income amounted to \$67,205 and \$92,152 for the years ended June 30, 2020 and 2019, respectively. The Organization's investment in the Iowa Health+ is included in investment in equity investee on the balance sheet.

Eastern Iowa Health Center
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In 2010, the Organization entered into a joint venture with other Iowa federally qualified health centers to purchase a membership interest in Cedar Rapids Physician Hospital Organization, LLC (PHO). As of June 30, 2020, the Organization owns a .16 percent membership interest in PHO.

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

	2020	2019
Current assets	\$ 287,191	\$ 704,869
Total assets	4,655,789	3,241,857
Current liabilities	528,599	423,684
Total liabilities	1,041,264	423,684
Equity	\$ 3,085,925	\$ 2,818,173
Revenues	\$ 1,627,118	\$ 1,597,585
Net surplus	\$ 481,591	\$ 445,068

The Organization's investment in the PHO is included in investment in equity investee on the balance sheet.

Note 9: 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, 2020 and 2019. 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 10: Line of Credit

The Organization has a \$1,900,000 bank line of credit, secured by accounts receivable, maturing on March 28, 2021. The Organization did not have any borrowings against the bank line of credit at June 30, 2020 and 2019. Interest varies with the bank's prime rate and has a minimum rate of 4.50 percent. The interest rate was 4.25 percent at June 30, 2020, and 6.00 percent at June 30, 2019.

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Note 11: Long-Term Debt

Long-term debt at June 30, 2020 and 2019, consisted of the following:

	2020	2019
Note payable, bank (A)	\$ 673,106	\$ 712,586
Note payable, bank (B)	538,833	562,488
Note payable, bank (C)	42,880	57,297
Note payable, bank (D)	308,353	324,688
	1,563,172	1,657,059
Less current maturities	132,494	93,257
	\$ 1,430,678	\$ 1,563,802

- (A) Due August 1, 2023; payable in installments of \$6,409 monthly including interest at 4.75 percent with a final payment of all outstanding principal and interest upon maturity. Note is collateralized by the clinic 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.

- (B) Due May 4, 2025; payable in installments of \$3,935 monthly including interest at 3.60 percent with a final payment of all outstanding principal and interest upon maturity. Note is collateralized by the clinic 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, 2023; payable in installments of \$1,381 monthly including interest at 3.60 percent with a final payment of all outstanding principal and interest upon maturity. Note is collateralized by the clinic 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.

Subsequent to year-end, the Organization paid off this balance in full.

- (D) Due September 21, 2022; payable in installments of \$2,346 monthly including interest at 4.00 percent 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.

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Aggregate annual maturities of long-term debt at June 30, 2020, are:

2021	\$	132,494
2022		93,550
2023		355,737
2024		560,983
2025		420,408
		420,408
	\$	1,563,172

Note 12: Interest in Assets at Greater Cedar Rapids Community Foundation

The Organization established a beneficial interest in certain endowments held by Greater Cedar Rapids Community Foundation (the “Foundation”). This interest is carried at fair value and the assets from this and other endowments are maintained in the Foundation’s endowment fund and are pooled on a market value basis. Investment return from securities in the endowment fund is allocated to the individual endowments based on the relationship of the fair value of interest of each endowment to the total fair value of the endowment fund, as adjusted for additions to or deductions from these accounts. The Foundation makes annual distributions to the Organization for investment returns received on these endowments based on the Foundation’s spending policy percentage of up to 4.5 percent of the trailing 12 quarters ending December 31st. The Organization did not receive a distribution during the years ended June 30, 2020 and 2019.

Note 13: Net Assets with Donor Restrictions

Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019, are available for the following purposes:

	2020	2019
Children's books	\$ -	\$ 1,795
COVID-19	20,000	-
Diaper drive	22,830	29,516
Navigation and care coordination	50,000	50,000
Patient unmet needs - dental	35,340	41,613
Patient unmet needs - healthcare	63,286	98,477
	\$ 191,456	\$ 221,401

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors.

	<u>2020</u>	<u>2019</u>
Purpose restrictions accomplished		
Children's books	\$ 1,795	\$ 489
Diaper drive	29,517	17,239
Navigation and care coordination	50,000	50,000
Patient unmet needs - dental	27,887	-
Patient unmet needs - healthcare	98,476	93,809
	<u>\$ 207,675</u>	<u>\$ 161,537</u>

Note 14: Liquidity and Availability

The Organization's financial assets available within one year of the balance sheet date for general expenditures are:

	<u>2020</u>	<u>2019</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 1,625,404	\$ 668,641
Investments	1,443,641	1,068,991
Patient accounts receivable	446,552	515,327
Grants and other receivables	201,093	470,929
Contribution receivables	129,900	148,307
Estimated amounts due from third-party payors	610,000	580,199
	<u> </u>	<u> </u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,456,590</u>	<u>\$ 3,452,394</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$1,900,000, which it could draw upon.

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Note 15: Functional Expenses

The Organization provides health care services primarily to residents within its service area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative, and fundraising functional expense classifications based on various methods. The following schedule presents the natural classification of expenses by function as follows:

	2020				2020			
	Health Care Program Services			Total Health Care Program Services	Support Services			Total
	Medical	Dental	Behavioral Health		General and Administrative	Fundraising	Total Support Services	
Salaries and wages	\$ 5,094,976	\$ 879,510	\$ 258,293	\$ 6,232,779	\$ 869,177	\$ 46,376	\$ 915,553	\$ 7,148,332
Employee benefits	1,129,782	240,624	73,874	1,444,280	186,088	11,723	197,811	1,642,091
Purchased services and professional fees	1,699,644	59,568	3,876	1,763,088	290,885	3,283	294,168	2,057,256
Supplies and other	1,276,055	230,735	10,126	1,516,916	279,915	2,017	281,932	1,798,848
Rent	100,310	-	-	100,310	103,131	-	103,131	203,441
Interest	-	12,577	-	12,577	63,538	-	63,538	76,115
Depreciation	192,508	123,806	-	316,314	2,659	-	2,659	318,973
Loss on disposal of property and equipment	-	-	-	-	13,790	-	13,790	13,790
Total expenses	\$ 9,493,275	\$ 1,546,820	\$ 346,169	\$ 11,386,264	\$ 1,809,183	\$ 63,399	\$ 1,872,582	\$ 13,258,846

	2019				2019			
	Health Care Program Services			Total Health Care Program Services	Support Services			Total
	Medical	Dental	Behavioral Health		General and Administrative	Fundraising	Total Support Services	
Salaries and wages	\$ 5,326,517	\$ 890,149	\$ 263,929	\$ 6,480,595	\$ 875,607	\$ 45,274	\$ 920,881	\$ 7,401,476
Employee benefits	1,070,434	224,046	68,298	1,362,778	197,051	10,421	207,472	1,570,250
Purchased services and professional fees	1,723,227	57,004	4,955	1,785,186	304,244	3,213	307,457	2,092,643
Supplies and other	1,144,497	214,776	15,273	1,374,546	197,035	1,665	198,700	1,573,246
Rent	92,036	-	-	92,036	100,529	-	100,529	192,565
Depreciation	67,532	13,788	-	81,320	-	-	-	81,320
Interest	211,864	131,997	-	343,861	3,474	-	3,474	347,335
Loss on disposal of property and equipment	-	-	-	-	22,281	-	22,281	22,281
Total expenses	\$ 9,636,107	\$ 1,531,760	\$ 352,455	\$ 11,520,322	\$ 1,700,221	\$ 60,573	\$ 1,760,794	\$ 13,281,116

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Note 16: Operating Leases

Noncancellable operating leases for primary care outpatient and administrative offices expire in various years through 2024. These leases generally contain renewal options for periods ranging from 5 to 11 years and require the Organization to pay all executory costs (property taxes, maintenance, and insurance).

Future minimum lease payments at June 30, 2020, were:

2021		\$ 193,213
2022		154,478
2023		109,792
2024		94,010
2025		<u>47,005</u>
Future minimum lease payments		<u>\$ 598,498</u>

Note 17: 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 percent of the employee's first 3 percent of contributions, plus 50 percent of their next 2 percent of contributions. Pension expense was \$241,371 and \$232,643 for the years ended June 30, 2020 and 2019, respectively.

Note 18: 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 as a nonvoting member. CRMEF has an employee who is a voting member of the Organization's Quality Committee. CRMEF also has an employee who is a nonvoting member of the Organizations board of directors. CRMEF provides the Organization with preventative and primary health care services at various clinics. The Organization recorded expenses for this arrangement of \$635,320 and \$594,240 for the years ended June 30, 2020 and 2019, respectively. These amounts are included in supplies and other expense on the statement of operations. The Organization owed \$36,440 and \$54,905 to CRMEF at June 30, 2020 and 2019, respectively. These amounts are included in accounts payable on the balance sheet.

Subsequent to year-end, the health center terminated their Clinical Service Agreement with CRMEF on July 1, 2020.

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Note 19: 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:

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in *Notes 1* and *4*.

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 10*.

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.

Mediation Contingent Liability

At June 30, 2019, the Organization recorded an estimated liability of \$350,000 for an employment related matter. A related insurance receivable was also recorded. These balances were included in grant and other receivable and accrued expenses on the Organization's balance sheet at June 30, 2019. The Organization has also accrued the insurance deductible of \$10,000 which is included in accrued expenses on the Organization's balance sheet. During fiscal year 2020, the matter was settled for \$350,000. No such accrual was recorded at June 30, 2020.

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.

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

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 patient service revenue.

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 20: Subsequent Events

Subsequent to year-end, the Organization purchased property in Cedar Rapids, Iowa, in the amount of \$173,750. The property will be converted into a respiratory clinic that is dedicated to COVID-19 and seasonal flu. The purchase will be funded by grant revenues.

Subsequent events have been evaluated through March 11, 2021, which is the date the financial statements were available to be issued.

Note 21: Change in Accounting Principle

Topic 606 Revenue from Contracts with Customers

On July 1, 2019, the Organization adopted Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a full retrospective method of adoption to all contracts with customers (patients) at July 1, 2019.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to customers, or patients in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients. Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the financial statements.

Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for copays, coinsurance, and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which the Organization does not expect to be entitled or collect from the patients are

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

considered implicit price concessions and excluded from the Organization's estimation of the transaction price or revenue recorded.

The following table presents the related effects of the adoption of Topic 606 on the statement of operations for the year ended June 30, 2019:

	As Previously Reported	As Adjusted	Adoption Impact
Statement of Operations			
Without Donor Restrictions			
Patient service revenue (net of contractual discounts and allowances)	\$ 11,273,620	\$ -	\$ (11,273,620)
Provision for uncollectible accounts	(153,469)	-	153,469
Net patient service revenue	<u>\$ 11,120,151</u>	<u>\$ -</u>	<u>\$ (11,120,151)</u>
Patient service revenue	<u>\$ -</u>	<u>\$ 11,120,151</u>	<u>\$ 11,120,151</u>

The adoption had no impact on operating income, change in net assets, or net cash provided by operating activities.

Clarifying Contributions Received and Contributions Made

In 2020, the Organization adopted ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective bases to all agreements not completed as of July 1, 2019, or entered into after July 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Organization determines whether a resource provider (including a foundation, a government, or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact on the 2020 financial statements or on the previously reported 2019 financial statements.

ASU 2016-15, Statement of Cash Flows (Topic 230) Classifications of Certain Cash Receipts and Cash Payments

In 2020, the Organization changed its method of presentation and classification for certain cash flow transactions by adopting the provisions of Accounting Standards Update No. 2016-15 (ASU 2016-05), *Classification of Certain Cash Receipts and Cash Payments*. The new accounting guidance in ASU 2016-15 provides clarification on presentation and classification requirements on

Eastern Iowa Health Center
Notes to Financial Statements
June 30, 2020 and 2019

certain cash flow transactions where previous accounting guidance is either unclear or does not provide specific guidance. This change was applied retrospectively to all periods presented and did not result in any change to the previously reported 2019 financial statements.

Note 22: Future Change in Accounting Principle

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for consolidated statements of operations recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021. The Organization is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Eastern Iowa Health Center
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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/Consolidated Health Center/ Health Center Program Cluster	93.224	N/A	\$ -	\$ 371,945
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		1,191,538
U.S. Department of Health and Human Services/Grants for New and Expanded Services under the Health Center Program - COVID-19 - Health Center Program Cluster	93.224	N/A	-	<u>116,208</u>
Total Health Center Program Cluster			-	1,679,691
U.S. Department of Health and Human Services/American Cancer Society, Inc./ Organized Approaches to Increase Colorectal Cancer Screening	93.800	5880CRC16	-	33,706
U.S. Department of Health and Human Services/Iowa Department of Public Health/ Family Planning Services	93.217	5888FP05	-	116,062
U.S. Department of Health and Human Services/COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	93.461	N/A	-	1,209
U.S. Department of Health and Human Services/Linn County Public Health/ Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	93.426	20AHP6	-	<u>1,500</u>
			<u>\$ -</u>	<u>\$ 1,832,168</u>

Eastern Iowa Health Center
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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, 2020. 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, 2020.
4. Personal Protective Equipment (PPE) (Unaudited): Eastern Iowa Health Center did not receive any donated PPE during the year ended June 30, 2020.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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, 2020, 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 11, 2021, which contained an "Emphasis of Matters" paragraph regarding changes in accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

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 from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BKD, LLP

Springfield, Missouri
March 11, 2021

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 its major federal program for the year ended June 30, 2020. 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, 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 on the Organization's compliance.

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, 2020.

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 an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
March 11, 2021

Eastern Iowa Health Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

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, 2020

7. The Organization's major program was:

Cluster/Program	CFDA Number
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, 2020

Findings Required to be Reported by *Government Auditing Standards*

**Reference
Number**

Finding

No matters are reportable.

Eastern Iowa Health Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

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, 2020

Reference Number	Summary of Finding	Status
2019-001	<p style="text-align: center;">Health Center Program Cluster CFDA Nos. 93.224 and 93.527 U.S. Department of Health and Human Services Award No. 3 H80CS08226-13-02 Program Year 2020</p> <p>Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(g); 42 CFR sections 51c.303(g) and 42 CFR section 56.303(f)).</p> <p>Condition – Patients who were eligible for sliding fee discounts under the Organization’s policy were given incorrect sliding fee discounts or were provided a percentage of gross charge as their nominal fee for Slide A eligible patients.</p> <p>Questioned cost – None</p> <p>Context – A sample of 40 patient encounters were tested out of the population of 93,524 transactions. The sample is not, and is not intended to be, statistically valid. Of the 40 patient encounters tested, 2 were determined to have resulted in an improper sliding fee adjustment based on the Organization’s policy and screening of patient eligibility. It was also noted that 5 patients were not given a proper sliding fee adjustment due to the Organization’s policy not being in compliance under the health center program compliance manual.</p> <p>Effect – Improper sliding fee discounts were given to patients.</p> <p>Cause – The Organization sliding fee policy did not comply with the compliance manual.</p>	Resolved