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December 31, 2009

Board of Directors
Family Health Center of Floyd County
1000 E. Spring St.
New Albany, IN 47150

We have reviewed the audit report prepared by London Witte Group, LLC, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Family Health Center of Floyd County, as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the finding in the report. The management letter contains one comment.

STATE BOARD OF ACCOUNTS

FAMILY HEALTH CENTER OF FLOYD COUNTY

Financial Statements

Years ended June 30, 2008 and 2007

FAMILY HEALTH CENTER OF FLOYD COUNTY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Family Health Center of Floyd County

We have audited the statements of financial position of

FAMILY HEALTH CENTER OF FLOYD COUNTY

(a not-for-profit organization) as of June 30, 2008 and 2007, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Family Health Center of Floyd County as of June 30, 2008 and 2007, and the results of its operations and its changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

London Witte Group, LLC

September 2, 2008

FAMILY HEALTH CENTER OF FLOYD COUNTY

STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

| | 2008 | 2007 |
|---|-------------------|-------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | | |
| Unrestricted | \$ 104,987 | \$ 50,480 |
| Restricted for prescriptions | 24,381 | 0 |
| Total cash and cash equivalents | 129,368 | 50,480 |
| Unconditional promises to give | 37,500 | 37,500 |
| Accounts receivable | 14,355 | 32,680 |
| Prepaid expenses | 9,696 | 9,594 |
| TOTAL CURRENT ASSETS | 190,919 | 130,254 |
| PROPERTY AND EQUIPMENT, NET | 222,815 | 236,134 |
| TOTAL ASSETS | \$ 413,734 | \$ 366,388 |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 777 | \$ 1,815 |
| Accrued expenses | 3,598 | 2,410 |
| Current portion of long-term debt | 5,446 | 5,130 |
| TOTAL CURRENT LIABILITIES | 9,821 | 9,355 |
| LONG-TERM DEBT, less current portion | 106,836 | 112,367 |
| TOTAL LIABILITIES | 116,657 | 121,722 |
| <u>NET ASSETS</u> | | |
| Unrestricted | 220,841 | 174,486 |
| Temporarily restricted | 76,236 | 70,180 |
| Permanently restricted | 0 | 0 |
| TOTAL NET ASSETS | 297,077 | 244,666 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 413,734 | \$ 366,388 |

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF FLOYD COUNTY

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008, with Comparative Totals for 2007

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|-------------------|
| | | | | <u>2008</u> | <u>2007</u> |
| SUPPORT AND REVENUE | | | | | |
| Direct public support | | | | | |
| Donations | \$ 2,143,985 | \$ 37,500 | \$ 0 | \$ 2,181,485 | \$ 1,985,885 |
| Grants | 232,823 | 34,355 | 0 | 267,178 | 195,516 |
| Total support revenue | <u>2,376,808</u> | <u>71,855</u> | <u>0</u> | <u>2,448,663</u> | <u>2,181,401</u> |
| Other revenue | | | | | |
| Clinic fees | 64,497 | 0 | 0 | 64,497 | 66,210 |
| Interest income | 743 | 0 | 0 | 743 | 274 |
| Net assets released from restrictions | 65,799 | (65,799) | 0 | 0 | 0 |
| Total other revenue | <u>131,039</u> | <u>(65,799)</u> | <u>0</u> | <u>65,240</u> | <u>66,484</u> |
| TOTAL SUPPORT AND REVENUE | <u>2,507,847</u> | <u>6,056</u> | <u>0</u> | <u>2,513,903</u> | <u>2,247,885</u> |
| EXPENSES | | | | | |
| Program service | 2,305,001 | 0 | 0 | 2,305,001 | 2,093,523 |
| Administrative and general | 156,491 | 0 | 0 | 156,491 | 112,602 |
| TOTAL EXPENSES | <u>2,461,492</u> | <u>0</u> | <u>0</u> | <u>2,461,492</u> | <u>2,206,125</u> |
| CHANGE IN NET ASSETS | 46,355 | 6,056 | 0 | 52,411 | 41,760 |
| NET ASSETS, BEGINNING | <u>174,486</u> | <u>70,180</u> | <u>0</u> | <u>244,666</u> | <u>202,906</u> |
| NET ASSETS, ENDING | <u>\$ 220,841</u> | <u>\$ 76,236</u> | <u>\$ 0</u> | <u>\$ 297,077</u> | <u>\$ 244,666</u> |

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF FLOYD COUNTY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| SUPPORT AND REVENUE | | | | |
| Direct public support | | | | |
| Donations | \$ 1,948,385 | \$ 37,500 | \$ 0 | \$ 1,985,885 |
| Grants | 162,836 | 32,680 | 0 | 195,516 |
| Total support revenue | 2,111,221 | 70,180 | 0 | 2,181,401 |
| Other revenue | | | | |
| Clinic fees | 66,210 | 0 | 0 | 66,210 |
| Interest income | 274 | 0 | 0 | 274 |
| Total other revenue | 66,484 | 0 | 0 | 66,484 |
| TOTAL SUPPORT AND REVENUE | 2,177,705 | 70,180 | 0 | 2,247,885 |
| EXPENSES | | | | |
| Program service | 2,093,523 | 0 | 0 | 2,093,523 |
| Administrative and general | 112,602 | 0 | 0 | 112,602 |
| TOTAL EXPENSES | 2,206,125 | 0 | 0 | 2,206,125 |
| CHANGE IN NET ASSETS | (28,420) | 70,180 | 0 | 41,760 |
| NET ASSETS, BEGINNING OF YEAR | 202,906 | 0 | 0 | 202,906 |
| NET ASSETS, END OF YEAR | \$ 174,486 | \$ 70,180 | \$ 0 | \$ 244,666 |

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF FLOYD COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|-------------------------------------|---------------------|---------------------|
| PROGRAM SERVICES | | |
| BCCP reimbursement fees | \$ 23,194 | \$ 15,685 |
| Contracted labor and benefits | 128,028 | 142,380 |
| Educational materials | 16 | 0 |
| Depreciation | 298 | 310 |
| Grant expenses | 0 | 3,338 |
| Medical supplies expense | 277 | 0 |
| Miscellaneous | 0 | 383 |
| Non BCCP reimbursements | 1,478 | 1,305 |
| Patient drug expense | 20,619 | 44,781 |
| Travel | 20 | 0 |
| Donated services: | | |
| Hospital services | 1,556,394 | 1,316,676 |
| Specialists and volunteers | 56,900 | 75,213 |
| Medicine | 517,777 | 493,452 |
| Total program service | 2,305,001 | 2,093,523 |
| GENERAL AND ADMINISTRATIVE | | |
| Bank charges | 122 | 128 |
| Broadband cable service | 1,079 | 540 |
| Computer startup expenses | 0 | 368 |
| Contracted labor and benefits | 33,412 | 0 |
| Depreciation | 13,504 | 12,841 |
| Dues and subscriptions | 7 | 7 |
| Equipment repairs | 585 | 456 |
| Insurance | 14,887 | 12,907 |
| Interest expense | 7,675 | 7,173 |
| Interpreting fees | 0 | 250 |
| Repairs and maintenance | 4,522 | 4,955 |
| Management fee | 55,865 | 49,307 |
| Merchant discount / monthly fees | 418 | 289 |
| Miscellaneous | 48 | 0 |
| Office supplies | 3,379 | 2,610 |
| Postage | 922 | 1,252 |
| Professional services | 3,900 | 5,012 |
| Property insurance | 3,644 | 3,441 |
| Security service | 593 | 605 |
| Software/equipment support contract | 2,135 | 0 |
| Internet service | 0 | 938 |
| Loss on sale of equipment | 279 | 0 |
| Telephone | 2,507 | 2,526 |
| Travel and seminars | 151 | 0 |
| Utilities | 6,857 | 6,997 |
| Total general and administrative | 156,491 | 112,602 |
| TOTAL FUNCTIONAL EXPENSES | \$ 2,461,492 | \$ 2,206,125 |

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF FLOYD COUNTY

STATEMENTS OF CASH FLOWS Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from contributors and service recipients | \$ 400,414 | \$ 297,410 |
| Cash paid to employees and suppliers | (316,292) | (308,642) |
| Interest received | 743 | 274 |
| | <u>84,865</u> | <u>(10,958)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| | <u>84,865</u> | <u>(10,958)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (763) | (6,494) |
| | <u>(763)</u> | <u>(6,494)</u> |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | | |
| | <u>(763)</u> | <u>(6,494)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of long-term debt | (5,214) | (4,868) |
| | <u>(5,214)</u> | <u>(4,868)</u> |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | | |
| | <u>(5,214)</u> | <u>(4,868)</u> |
| NET INCREASE (DECREASE) IN CASH | 78,888 | (22,320) |
| CASH, BEGINNING | <u>50,480</u> | <u>72,800</u> |
| CASH, ENDING | <u>\$ 129,368</u> | <u>\$ 50,480</u> |

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF FLOYD COUNTY

STATEMENT OF CASH FLOWS Years Ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|------------------|--------------------|
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Change in net assets | \$ 52,411 | \$ 41,760 |
| Non-cash items | | |
| Depreciation and amortization | 13,802 | 13,151 |
| Donated equipment | 0 | (380) |
| Loss on equipment | 279 | 0 |
| Decrease (increase) in assets | | |
| Accounts receivable | 18,325 | (26,982) |
| Unconditional promises to give | 0 | (37,500) |
| Prepaid expenses | (102) | (1,756) |
| Increase (decrease) in liabilities | | |
| Accounts payable | (1,038) | 172 |
| Accrued expenses | 1,188 | 577 |
| | <u>1,188</u> | <u>577</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ 84,865</u> | <u>\$ (10,958)</u> |

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF FLOYD COUNTY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(1) Summary of significant accounting policies

The significant accounting policies followed by the Family Health Center are summarized below.

Nature of operations - The Family Health Center of Floyd County ("Center") is a community-based nonprofit organization established to provide preventative and primary care, as well as health educational opportunities to the low income, uninsured, and under insured residents of Floyd County and its surrounding area.

Preparation of financial statements - The financial statements are prepared in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-profit Organizations." Under SFAS 117, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Center is required to present a statement of cash flows.

Depreciation - The Center follows the policy of capitalizing fixed assets purchased at cost and fixed assets donated at fair market value. Depreciation of property and equipment is computed by the straight-line method over their estimated useful lives as follows: building, 15-20 years; telephone and medical equipment, 5-7 years; and computer equipment, 3-5 years.

Cash - Cash consists of funds in demand accounts. At times, such funds may be in excess of the FDIC insurance limits.

Contributions - The Center has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions.

Promises to give - Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contribution of donated services - The Center receives a substantial amount of services donated from the physicians and nurses, as well as other administrators of the Floyd Memorial Hospital. These professionals have donated services to examine, treat, and educate many of the Center's patients, as well as perform regular operations of the Center. The fair market value of donated services received during the year ended June 30, 2008 and 2007 have been recorded as a revenue and an expense.

Financial statement estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

FAMILY HEALTH CENTER OF FLOYD COUNTY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(2) Concentration of credit risk

The Center is predominately funded by the Floyd Memorial Hospital Foundation, Indiana State Department of Health, Metro United Way of Floyd County, and public support from foundations and individuals. The Center provides medical assistance to low income, uninsured, and underinsured residents of Floyd County and its surrounding area.

The Center received from the Metro United Way grants totaling \$14,533 and \$14,533 for the pharmaceutical supplies fund program for the donor's fiscal years of 2007/2008 and 2006/2007, respectively. Under FASB 116, unconditional promises to give with payments due in future periods shall be reported as temporarily restricted support.

The Center received from the Indiana State Department of Health grants totaling \$232,625 and \$152,625 for unrestricted purchases for the fiscal years of 2007/2008 and 2006/2007, respectively. Under FASB 116, unconditional promises to give with payments due in future periods shall be reported as temporarily restricted support.

Allocations received from the Indiana State Department of Health represented approximately 9% and 7% of total revenue during the years ended June 30, 2008 and 2007, respectively. Donated services received from the Floyd Memorial Hospital represented approximately 62% and 59% during the years ended June 30, 2008 and 2007, respectively.

(3) Property and equipment, net

Property and equipment, net, consists of the following:

| | 2008 | 2007 |
|---|-------------------|-------------------|
| Cost | | |
| Land | \$ 57,000 | \$ 57,000 |
| Building | 220,102 | 220,102 |
| Building equipment | 4,150 | 4,150 |
| Telephone equipment | 4,512 | 4,512 |
| Medical equipment | 2,473 | 2,169 |
| Office equipment and furniture | 1,799 | 1,721 |
| Computer equipment | 7,344 | 7,344 |
| Total cost | 297,380 | 296,998 |
| Accumulated depreciation and amortization | 74,565 | 60,864 |
| PROPERTY AND EQUIPMENT, NET | \$ 222,815 | \$ 236,134 |

Depreciation expense was \$13,802 and \$13,151 for the years ended June 30, 2008 and 2007, respectively. The depreciation policies followed by the Center are described in Note 1.

The land and building are pledged to secure the long-term debt as described in Note 4.

FAMILY HEALTH CENTER OF FLOYD COUNTY

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2008 and 2007

(4) Long-term debt

Long-term debt consists of the following:

| | 2008 | 2007 |
|--|------------|------------|
| 8.0% variable rate note, payable to First Harrison Bank in monthly installments of approximately \$1,900, including interest, with final maturity in 2022. Secured by land and building. | \$ 112,282 | \$ 117,497 |
| Total long-term debt | 112,282 | 117,497 |
| Less current portion | 5,446 | 5,130 |
| LONG-TERM DEBT, less current portion | \$ 106,836 | \$ 112,367 |

As of June 30, 2008, future maturities of long-term debt principal are as follows: 2009 - \$5,446; 2010 - \$5,782; 2011 - \$6,139; 2012 - \$6,518; 2013 - \$6,919; thereafter - \$81,478.

(5) Provision for income tax

The Center operates as a nonprofit organization as provided for in Section 501(c)(3) of the Internal Revenue Code, and therefore is exempt from income taxes.

(6) Related party transactions

The Center has entered into an agreement to receive managerial services of the CEO and the Finance Director of the Family Health Center of Clark County ("Clark"). Total amounts paid for this management agreement were \$55,865 and \$49,307 for the years ended June 30, 2008 and 2007, respectively. This contract is automatically renewable each year with the consent of both parties. As of June 30, 2008, the contract agreement remained valid.

The bi-weekly payroll, payroll taxes, and benefits of the Center are paid by Clark, who then invoices and is reimbursed by the Center for the total amounts paid. The total amount of payroll, payroll taxes, and benefits paid by Clark on behalf of these employees during the years ended June 30, 2008 and 2007 was \$161,440 and \$142,380, respectively. In addition, the Center had amounts of \$3,685 and \$2,410 payable to Clark at June 30, 2008 and 2007, respectively.

(7) Retirement Plan

Clark maintains a 403(b) annuity plan for all eligible employees of the Center. Total amounts paid to employees for contribution to the plan were \$6,802 and \$6,293 for the years ended June 30, 2008 and 2007, respectively. These amounts have been recorded as contracted labor and benefits.

September 2, 2008



To the Board of Directors of the
Family Health Center of Floyd County

In planning and performing our audits of the financial statements of the Family Health Center of Floyd County for the years ended June 30, 2008 and 2007, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing our an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

There is an absence of appropriate segregation of duties in certain accounting areas consistent with control objectives. However, the hiring of additional employees in order to segregate the duties may not be economically practical for the benefit to be derived.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control would not necessarily disclose all control deficiencies in the internal control and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above. However, we believe that the significant deficiency described above is not a material weakness.

This report is intended for the information of management.

London Witte Group, LLC
Certified Public Accountants

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