

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health**

Accountants' Report and Financial Statements

December 31, 2010 and 2009

Independent Accountants' Report

Board of Directors
Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health
Sedalia, Missouri

We have audited the accompanying balance sheets of Regional Health Care Clinic, Inc., d/b/a Katy Trail Community Health (the "Organization"), as of December 31, 2010 and 2009, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Health Care Clinic, Inc., d/b/a Katy Trail Community Health, as of December 31, 2010 and 2009, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

May 18, 2011

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health**

Balance Sheets

December 31, 2010 and 2009

Assets

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 647,508	\$ 448,876
Assets limited as to use - current	877,633	-
Patient accounts receivable, net of allowance; 2010 - \$57,127, 2009 - \$70,000	183,777	248,664
Estimated amounts due from third-party payers	294,470	93,754
Grants receivable	9,500	81,779
Contributions receivable	8,333	-
Supplies	94,870	44,932
Prepaid expenses and other	57,632	35,170
Total current assets	2,173,723	953,175
Property and Equipment		
Land	125,000	125,000
Building and leasehold improvements	1,889,466	1,840,299
Office equipment	275,675	243,730
Medical equipment	478,867	268,081
	2,769,008	2,477,110
Less accumulated depreciation	645,569	458,164
	2,123,439	2,018,946
Total assets	\$ 4,297,162	\$ 2,972,121

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Current maturities of long-term debt	\$ 27,878	\$ 24,480
Accounts payable	60,834	47,017
Accrued expenses	224,215	140,643
Estimated amounts due to third-party payers	<u>878,376</u>	<u>318,457</u>
Total current liabilities	1,191,303	530,597
Long-Term Debt		
	<u>138,659</u>	<u>218,798</u>
Total liabilities	<u>1,329,962</u>	<u>749,395</u>
Net Assets		
Unrestricted	2,722,591	2,222,726
Temporarily restricted	<u>244,609</u>	<u>-</u>
Total net assets	<u>2,967,200</u>	<u>2,222,726</u>
Total liabilities and net assets	<u><u>\$ 4,297,162</u></u>	<u><u>\$ 2,972,121</u></u>

Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health
Statements of Operations
Years Ended December 31, 2010 and 2009

	2010	2009
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 3,133,075	\$ 2,088,029
Grant revenue	1,710,525	1,152,369
Contribution revenue	138,787	58,027
Other revenue	33,985	39,023
Net assets released from restrictions used for operations	-	43
Total unrestricted revenues, gains and other support	5,016,372	3,337,491
Expenses and Losses		
Salaries and wages	2,393,896	1,707,533
Employee benefits	537,017	345,272
Purchased services and professional fees	463,487	453,125
Supplies	565,639	271,690
Travel and training	93,776	57,530
Facilities	131,977	100,850
Equipment (noncapitalized)	90,577	42,607
Rent	16,845	10,990
Depreciation	187,405	180,596
Provision for uncollectible accounts	60,067	35,017
Other	192,558	161,639
Total expenses and losses	4,733,244	3,366,849
Operating Income (Loss)	283,128	(29,358)
Investment Return	5,967	1,275
Excess (Deficiency) of Revenues Over Expenses	289,095	(28,083)
Contributions of or for acquisition of property and equipment	-	5,820
Grant of or for acquisition of property and equipment	210,770	38,844
Increase in Unrestricted Net Assets	\$ 499,865	\$ 16,581

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health
Statements of Changes in Net Assets
Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 289,095	\$ (28,083)
Contributions of or for acquisition of property and equipment	-	5,820
Grant of or for acquisition of property and equipment	<u>210,770</u>	<u>38,844</u>
Increase in unrestricted net assets	<u>499,865</u>	<u>16,581</u>
Temporarily Restricted Net Assets		
Contributions	244,609	-
Net assets released from restriction	<u>-</u>	<u>(43)</u>
Increase (decrease) in temporarily restricted net assets	<u>244,609</u>	<u>(43)</u>
Change in Net Assets	744,474	16,538
Net Assets, Beginning of Year	<u>2,222,726</u>	<u>2,206,188</u>
Net Assets, End of Year	<u><u>\$ 2,967,200</u></u>	<u><u>\$ 2,222,726</u></u>

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health**

Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities		
Change in net assets	\$ 744,474	\$ 16,538
Items not requiring (providing) cash		
Depreciation	187,405	180,596
Grants of or for acquisition of property and equipment	(210,770)	(38,844)
Contributions of or for acquisition of property and equipment	-	(5,820)
Changes in		
Patient accounts receivable, net	64,887	(150,909)
Grants receivable	72,279	206,961
Estimated amounts due to third-party payers	359,203	499,703
Supplies	(49,938)	(19,770)
Accounts payable and accrued expenses	97,389	32,980
Prepaid expenses and other	(30,795)	(11,630)
Net cash provided by operating activities	1,234,134	709,805
Investing Activities		
Purchase of assets limited as to use	(877,633)	-
Purchase of property and equipment	(291,898)	(404,700)
Net cash used in investing activities	(1,169,531)	(404,700)
Financing Activities		
Principal payments on long-term debt	(76,741)	(23,442)
Proceeds from grant received for purchase of equipment	210,770	38,844
Proceeds from contributions received for purchase of equipment	-	5,820
Proceeds from issuance of note payable to bank	-	200,000
Principal payments on note payable to bank	-	(200,000)
Net cash provided by financing activities	134,029	21,222
Increase in Cash and Cash Equivalents	198,632	326,327
Cash and Cash Equivalents, Beginning of Year	448,876	122,549
Cash and Cash Equivalents, End of Year	\$ 647,508	\$ 448,876
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 8,955	\$ 19,026

Regional Health Care Clinic, Inc. d/b/a Katy Trail Community Health

Notes to Financial Statements

December 31, 2010 and 2009

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

Nature of Operations

Regional Health Care Clinic, Inc., d/b/a Katy Trail Community Health (the "Organization"), primarily earns revenues by providing physician and related health care services to residents of Pettis and Benton Counties, through clinics located in the Sedalia and Warsaw, Missouri, areas.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of money market deposit accounts and certificates of deposit.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2010, the Organization's cash accounts exceeded federally insured limits by approximately \$328,000. The Organization also holds a Depository Contract with this bank, providing the securitization of funds in excess of FDIC limits which guarantees the funds.

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

Investments and Investment Return

Investment return is comprised of interest income and is included in other revenue in the statement of operations.

Assets Limited As To Use

Assets limited as to use consist of assets set aside by the Board of Directors to pay the estimated amounts due to third-party payers over which the Board retains control and may at its discretion use for other purposes. Amounts available to meet current liabilities of the Organization are included in current assets.

Regional Health Care Clinic, Inc. d/b/a Katy Trail Community Health

Notes to Financial Statements

December 31, 2010 and 2009

Patients Accounts Receivable

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

Supplies

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

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain equipment has been purchased with grant funds received from federal agencies. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

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 December 31, 2010 and 2009.

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health**

**Notes to Financial Statements
December 31, 2010 and 2009**

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive adjustments. Retroactive adjustments are considered in recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of professional services, pharmaceutical supplies and rent. It is the policy of the Organization to record the estimated fair value of these in-kind contributions as contribution revenue and purchased services, professional fees, donated supplies and rent expense. For the years ended December 31, 2010 and 2009, \$138,787 and \$58,027, respectively, was received in in-kind contributions.

Regional Health Care Clinic, Inc. d/b/a Katy Trail Community Health

Notes to Financial Statements

December 31, 2010 and 2009

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 taxes on any unrelated business taxable income.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through May 18, 2011, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Sedalia, Missouri, and the surrounding area. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. The Organization recognized \$678,642 in revenues from this grant for the years ended December 31, 2010 and 2009. The Organization has been approved for funding in the amount of \$296,706 for fiscal year 2011. Additional funding will be determined by the granting agency based on the approval of a budget submitted by the Organization prior to the expiration of the present grant award.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under the American Recovery and Reinvestment Act (ARRA). The Organization has been awarded \$167,257 for the March 27, 2009, to March 26, 2011, period to assist in meeting the needs of their community under the Increased Demand for Services (IDS) grant. Grant revenue is recognized as qualifying

Regional Health Care Clinic, Inc. d/b/a Katy Trail Community Health

Notes to Financial Statements

December 31, 2010 and 2009

expenditures are incurred over the grant period. During the years ended December 31, 2010 and 2009, the Organization recognized \$146,475 and \$20,782, respectively, in IDS grant revenue. The Organization has also been awarded \$425,805 under the Capital Improvement Program (CIP) grant for the June 29, 2009, to June 28, 2011, period to assist in meeting the needs of their community. During the years ended December 31, 2010 and 2009, the Organization recognized \$200,000 and \$225,805, respectively, in CIP grant revenue.

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

Note 3: Net Patient Service Revenue

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicaid fiscal intermediary.

Approximately 86% and 77% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health**

Notes to Financial Statements

December 31, 2010 and 2009

Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2010 and 2009, was:

	2010	2009
Medicare	7%	3%
Medicaid	80%	86%
Other	13%	11%
	100%	100%

Note 5: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use include:

	2010	2009
Certificates of deposit	\$ 877,633	\$ -

Investment Return

Total investment return is comprised of the following:

	2010	2009
Interest income	\$ 5,967	\$ 1,275

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health**

Notes to Financial Statements

December 31, 2010 and 2009

Note 6: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage and personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claim experience, no such accrual has been made. However, because of the risk in providing health care services, it is reasonably possible that an event has occurred which will be the basis of a future material claim.

Note 7: Line of Credit

At December 31, 2010, the Organization has available a bank revolving line-of-credit agreement secured by deed of trust, due on demand with maximum borrowings of \$600,000, bearing interest at 6.5%, expiring August 4, 2011. There was no principal balance outstanding on the line of credit at December 31, 2010.

At December 31, 2009, the Organization has available a bank revolving line-of-credit agreement, secured by deed of trust, due on demand with maximum borrowings of \$600,000, bearing interest at 6.5%, expiring August 4, 2010. There was no principal balance outstanding on the line of credit at December 31, 2009.

Note 8: Long-Term Debt

	2010	2009
Note payable, bank (A)	\$ 166,537	\$ 243,278
Less current maturities	27,878	24,480
	\$ 138,659	\$ 218,798

(A) Due June 2018; payable \$2,880 monthly, including interest of 4.34%; secured by a certain deed of trust dated June 30, 2008.

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health
Notes to Financial Statements
December 31, 2010 and 2009**

Aggregate annual maturities of long-term debt at December 31, 2010, are:

2011	\$	27,878
2012		29,112
2013		30,401
2014		31,747
2015		33,153
Thereafter		14,246
	\$	166,537

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010, are available for capital expansion. During 2010 and 2009, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$0 and \$43, respectively.

Note 10: Functional Expenses

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

	2010	2009
Health care services	\$ 3,066,295	\$ 1,909,275
General and administrative	1,666,949	1,457,574
	\$ 4,733,244	\$ 3,366,849

Note 11: Retirement Plan

The Organization provides a retirement plan under Internal Revenue Code section 408(k) which includes a participant elective deferral provision under section 408(k). The Plan covers all full-time employees. The Organization's discretionary pension contribution was \$0 for the years ended December 31, 2010 and 2009.

**Regional Health Care Clinic, Inc.
d/b/a Katy Trail Community Health**

Notes to Financial Statements

December 31, 2010 and 2009

Note 12: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Physicians

The Organization is served by three providers whose patients comprise a substantial portion of the Organization's net patient service revenue.

Grant Revenues

Concentration of revenues related to grant awards and other support are described in *Note 2*.

Malpractice Claims

Estimates related to the accrual for professional liability claims are described in *Note 5*.

Current Economic Conditions

The current protracted economic decline continues to present community health centers with difficult circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

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

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to the allowances for accounts receivable that could further hinder the Organization's ability to maintain sufficient liquidity.