

Community Health Centers of Southern Iowa, Inc.

Accountants' Reports and Financial Statements

November 30, 2006 and 2005

Community Health Centers of Southern Iowa, Inc.

November 30, 2006 and 2005

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**Independent Accountants' Report on
Financial Statements and Supplementary Information**

Board of Directors
Community Health Centers
of Southern Iowa, Inc.
Leon, Iowa

We have audited the accompanying balance sheets of Community Health Centers of Southern Iowa, Inc. (the "Organization") as of November 30, 2006 and 2005, 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 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 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 Community Health Centers of Southern Iowa, Inc. as of November 30, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2007, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

May 24, 2007

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Beyond Your Numbers



Community Health Centers of Southern Iowa, Inc.

Balance Sheets

November 30, 2006 and 2005

Assets

	2006	2005
Current Assets		
Cash	\$ 255,520	\$ 150,431
Short-term investments	12,930	12,930
Patient accounts receivable, net of allowance; 2006 - \$240,000, 2005 - \$115,000	250,803	397,377
Pharmacy inventory	116,523	-
Prepaid expenses and other	14,224	37,987
Total current assets	650,000	598,725
Property and Equipment, At Cost		
Land and land improvements	14,000	14,000
Buildings and leasehold improvements	539,104	537,573
Equipment	273,909	262,778
	827,013	814,351
Less accumulated depreciation	171,350	110,988
	655,663	703,363
Total assets	\$ 1,305,663	\$ 1,302,088

Liabilities and Net Assets

Current Liabilities		
Line of credit	\$ 250,000	\$ 400,000
Current maturities of long-term debt	7,333	7,333
Accounts payable	48,617	68,391
Accrued expenses	137,526	92,015
Estimated amounts due to third-party payers	70,000	-
Total current liabilities	513,476	567,739
Long-Term Debt		
	11,612	18,945
Total liabilities	525,088	586,684
Net Assets		
Unrestricted	664,200	715,404
Temporarily restricted	116,375	-
Total net assets	780,575	715,404
Total liabilities and net assets	\$ 1,305,663	\$ 1,302,088

Community Health Centers of Southern Iowa, Inc.
Statements of Operations
Years Ended November 30, 2006 and 2005

	2006	2005
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 1,202,268	\$ 726,392
Grant revenue	648,500	650,000
Contributions	80,106	24,000
Other	57,618	80,055
Total unrestricted revenues, gains and other support	1,988,492	1,480,447
Expenses and Losses		
Salaries and wages	1,047,070	569,388
Employee benefits	193,344	94,335
Purchased services and professional fees	74,967	47,109
Supplies and other	408,895	310,425
Rent	39,221	35,799
Depreciation and amortization	60,481	36,370
Interest	17,396	71
Provision for uncollectible accounts	198,599	115,000
Total expenses and losses	2,039,973	1,208,497
Operating Income (Loss)	(51,481)	271,950
Other Income		
Investment return	277	444
Excess (Deficiency) of Revenues Over Expenses	\$ (51,204)	\$ 272,394

Community Health Centers of Southern Iowa, Inc.
Statements of Changes in Net Assets
Years Ended November 30, 2006 and 2005

	2006	2005
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ (51,204)	\$ 272,394
Temporarily Restricted Net Assets		
Contributions	116,375	-
Increase in temporarily restricted net assets	116,375	-
Change in Net Assets	65,171	272,394
Net Assets, Beginning of Year	715,404	443,010
Net Assets, End of Year	\$ 780,575	\$ 715,404

Community Health Centers of Southern Iowa, Inc.
Statements of Cash Flows
Years Ended November 30, 2006 and 2005

	2006	2005
Operating Activities		
Change in net assets	\$ 65,171	\$ 272,394
Item not requiring cash		
Depreciation	60,481	36,370
Changes in		
Patient accounts receivable, net	146,574	(397,377)
Estimated amounts due to third-party payers	70,000	-
Inventory	(116,523)	-
Accounts payable and accrued expenses	25,737	145,010
Other current assets and liabilities	23,763	(37,987)
	<u>275,203</u>	<u>18,410</u>
Net cash provided by operating activities		
Investing Activities		
Proceeds from certificates of deposit	-	9,595
Purchase of property and equipment	(12,781)	(271,906)
	<u>(12,781)</u>	<u>(262,311)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from line of credit	564,000	400,000
Principal payments on line of credit	(714,000)	-
Principal payments on long-term debt	(7,333)	(6,722)
	<u>(157,333)</u>	<u>393,278</u>
Net cash provided by (used in) financing activities		
Increase in Cash	105,089	149,377
Cash, Beginning of Year	<u>150,431</u>	<u>1,054</u>
Cash, End of Year	<u>\$ 255,520</u>	<u>\$ 150,431</u>
Supplemental Cash Flows Information		
Interest paid	\$ 17,396	\$ 71
Accounts payable incurred for property and equipment	\$ -	\$ 14,896

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2006 and 2005

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

Nature of Operations

Community Health Centers of Southern Iowa, Inc. (the "Organization") is a federally qualified health center that works to improve, promote and maintain the physical and emotional health of people in the communities it serves. The Organization primarily earns revenues by providing physician and related health care services through clinics located in Decatur County, Iowa, serving the eight county service areas in Iowa and Missouri.

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, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Investment Return

Investment return is comprised of interest income.

Patient Accounts Receivable

The Organization reports patient accounts receivable for services rendered at estimated 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.

Pharmaceutical Inventory

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

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2006 and 2005

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.

Temporarily and Permanently 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. These restricted assets are available for use in the next fiscal year for medical services.

Net Patient Service Revenue

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

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. 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.

Donated Supplies

The Organization recognized donated pharmaceutical supplies at fair value. Donated pharmaceutical supplies totaling \$56,106 and \$0 are recorded as contribution revenue and supplies and other expenses for the years ended November 30, 2006 and 2005, respectively.

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.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2006 and 2005

Excess (Deficiency) of Revenues Over Expenses

The statement of operations includes 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 unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services and 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).

Note 2: Grant Revenue

The Organization is the recipient of a Community Health Center (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 the eight county service area in Iowa and Missouri. 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 November 30, 2006 and 2005, the Organization recognized \$643,500 and \$650,000 in CHC grant revenue, respectively. The Organization is approved for funding in the amount of \$643,500 for the year ending November 30, 2007.

In addition to these grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support required 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 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 tentative rates with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid fiscal intermediary.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2006 and 2005

Approximately 60% and 59% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended November 30, 2006 and 2005, 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.

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at November 30, 2006 and 2005, is:

	<u>2006</u>	<u>2005</u>
Medicare	32%	58%
Medicaid	18%	30%
Other third-party payers and patients	<u>50%</u>	<u>12%</u>
	<u>100%</u>	<u>100%</u>

Note 5: Medical Malpractice Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of 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. It is reasonably possible that this estimate could change materially in the near term.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2006 and 2005

Note 6: Line of Credit

At November 30, 2006, the Organization had a \$250,000 bank line of credit bearing interest at 8.250%, due November 30, 2007. At November 30, 2006, the outstanding principal balance on the line of credit was \$250,000.

At November 30, 2005, the Organization had a \$400,000 bank line of credit bearing interest at 7.75%, with \$150,000 due December 5, 2005, and the remaining \$250,000 due on October 4, 2006. At November 30, 2005, the principal balance outstanding on the line of credit was \$400,000.

Note 7: Long-Term Debt

	<u>2006</u>	<u>2005</u>
Note payable, bank (A)	\$ 18,945	\$ 26,278
Less current maturities	<u>7,333</u>	<u>7,333</u>
	<u>\$ 11,612</u>	<u>\$ 18,945</u>

(A) Promissory note to Clark Electric Coop. Due June 14, 2009; payable \$611 monthly; bearing 0% interest; secured by the Organization's real estate.

Aggregate annual maturities of long-term debt at November 30, 2006, are:

	<u>Long-Term Debt</u>
2007	\$ 7,333
2008	7,334
2009	<u>4,278</u>
	<u>\$ 18,945</u>

Community Health Centers of Southern Iowa, Inc.
Notes to Financial Statements
November 30, 2006 and 2005

Note 8: Functional Expenses

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

	<u>2006</u>	<u>2005</u>
Health care services	\$ 1,224,715	\$ 698,263
General and administrative	<u>815,258</u>	<u>510,234</u>
	<u>\$ 2,039,973</u>	<u>\$ 1,208,497</u>

Note 9: Operating Leases

The Organization leases various facilities under operating leases expiring at various dates through 2010 with options to renew through 2020.

Future minimum lease payments at November 30, 2006, were:

2007	\$ 8,125
2008	2,125
2009	2,125
2010	<u>708</u>
Future minimum lease payments	<u>\$ 13,083</u>

Note 10: Pension Plan

The Organization has a defined contribution pension plan covering substantially all employees. The Organization contributes up to 3% of eligible employees' compensation to the plan. Pension expense was \$19,831 and \$11,672 for the years ended November 30, 2006 and 2005, respectively.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2006 and 2005

Note 11: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Grant Revenues

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

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 5*.

Practicing Providers

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

Supplementary Information

Community Health Centers of Southern Iowa, Inc.
Schedule of Expenditures of Federal Awards
Year Ended November 30, 2006

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Community Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 4200-01-01	\$ 643,500
Public Health and Social Services Emergency Fund	U.S. Department of Health and Human Services/Iowa Nebraska Primary Care Association	93.003		<u>5,000</u>
				<u>\$ 648,500</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Community Health Centers of Southern Iowa, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Community Health Centers of Southern Iowa, Inc. did not provide a federal award to a subrecipient during the year ended November 30, 2006.



Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Community Health Centers
of Southern Iowa, Inc.
Leon, Iowa

We have audited the financial statements of Community Health Centers of Southern Iowa, Inc. (the "Organization") as of and for the year ended November 30, 2006, and have issued our report thereon dated May 24, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Board of Directors
Community Health Centers
of Southern Iowa, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the Organization's management in a separate letter dated May 24, 2007.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 24, 2007



Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

Board of Directors
Community Health Centers
of Southern Iowa, Inc.
Leon, Iowa

Compliance

We have audited the compliance of Community Health Centers of Southern Iowa, Inc. (the "Organization"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended November 30, 2006. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the compliance of Community Health Centers of Southern Iowa, Inc. based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, Community Health Centers of Southern Iowa, Inc., complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended November 30, 2006.

Board of Directors
Community Health Centers
of Southern Iowa, Inc.

Internal Control Over Compliance

The management of Community Health Centers of Southern Iowa, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 24, 2007

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Years Ended November 30, 2006 and 2005

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
Reportable condition(s) noted considered material weakness(es)? Yes No
Reportable condition(s) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
Reportable condition(s) noted considered material weakness(es)? Yes No
Reportable condition(s) noted that are not considered to be a material weakness? Yes No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Years Ended November 30, 2006 and 2005

7. The Organization's major program was:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Community Health Centers	93.224

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes

No

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2006

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
06-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Certain individuals perform or have the ability to perform duties in the cash receipts/accounts receivable, cash disbursements/accounts payable and payroll cycles that are incompatible from a control perspective.</p> <p>Context – In the cash receipts/accounts receivable cycle, one individual has the ability to authorize discounts and adjustments, has access to cash, prepares daily cash reconciliations to amounts posted in the billing software and has access to change online patient billing files. Another individual has the ability to authorize changes in payer class, authorize discounts and adjustments, can change online billing files and posts and reconciles patient billing transactions in the general ledger.</p> <p>In the cash disbursements/accounts payable cycle, one individual has the ability to issue a check and has access to signed checks to be issued to vendors. Two individuals have the ability to add vendors, post payments and add invoices in the accounts payable subsidiary ledger and make adjustments to the general ledger with one of these individuals having the ability to reconcile cash and accounts payable.</p> <p>In the payroll cycle, two individuals have the ability to issue a time card, generate a payroll payment, add and change employee information in the payroll module and issue a payroll check. These individuals also have the ability to record payroll journal entries and reconcile bank balances and employee payroll records to general ledger control accounts. One of these individuals has the ability to sign checks.</p>	None

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2006

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
06-1 (Continued)	<p>Effect – Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the cash receipts/accounts receivable, cash disbursements/accounts payable and payroll cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should periodically review the costs versus benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management recognizes the need for adequate segregation of duties and the monitoring of activities of the accounts receivable, accounts payable and payroll cycles of the Organization. However, as a relatively new start and small FQHC, available staff to accomplish complete segregation of duties is not feasible. As we have grown, we have hired more staff to help with the segregation of duties. During the last year, we have hired an accounting clerk to do the daily processing of accounts payable and the recording of payroll activity. Prior to issuing checks for either accounts payable or the payroll system, the accounting clerk presents the CFO with a schedule of checks to be written for approval. Payroll time sheets are approved by department heads prior to entering data into the payroll system and again by the CFO, as HR, before checks are issued. The CEO will monitor the CFO’s bi-monthly paycheck and the CFO will monitor the accounting clerk’s bi-monthly paycheck.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2006

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
06-1 (Continued)	<p>When the listings of payroll and accounts payable checks to be written are presented to the CFO, the CFO will review supporting documentation for appropriate approval prior to authorizing the printing of checks. Once checks have been printed, the CFO will sign all checks excluding checks made payable to the CFO. These checks will be signed by either the CEO or a board member upon approval of supporting documentation. Any check in excess of \$2,000 requires two signatures and will be signed by either the CEO or a board member in addition to the CFO.</p> <p>The accounting clerk is also responsible for reconciling the various bank accounts of the Organization. As the accounting clerk has neither check signing capabilities nor is responsible for the deposit of funds into the accounts, it is believed adequate segregation of duties exists over accounts payable and the payroll cycles.</p> <p>In the accounts receivable cycle, our limited staffing does not allow for complete separation of duties. One process where additional controls have been inserted is to have a person not associated with the accounts receivable process open all incoming mail and prepare a daily deposit of funds received. Copies of all checks and a listing of cash received will be presented to the billing clerk for recording into the accounts receivable system and another copy provided to the accounting clerk for bank reconciliation purposes. The daily deposit will be taken to the bank by someone not involved in either the billing or accounting process with the deposit receipt returned to the accounting clerk. Deposits into the bank will be reconciled to the receipts posted into the accounts receivable system by the accounting clerk, who is not associated with the accounts receivable system.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2006

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
06-1 (Continued)	<p>Another step to provide monitoring of activities will be to require approval by the CFO or CEO of all adjustment to a patient's account if that patient is an employee or employee's family member or if the adjustment to the account affects the balance due from the patient by \$100 or more. This approval is not required for adjustment necessitated by contracts with third party payers or governmental agencies.</p> <p>The CFO, in his supervisory role, continues to have software permissions to do all of the above functions although turning all the day to day functions over to other individuals. In management's opinion, there are adequate checks and balances in the above mentioned systems for our size of organization. Management will continue to monitor the costs versus benefits of further segregation of duties or addition of monitoring or other compensating controls to determine which benefits are determined to exceed their costs and proceed to implement the same. As the organization grows and new positions are added and new employees are hired, careful attention will be given to developing greater segregation of duties within these areas.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2006

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
06-2	<p>Criteria or Specific Requirement – Management is responsible for issuing interim financial statements using reconciled account information.</p> <p>Condition – The Organization did not prepare monthly reconciliations of accounts payable with corresponding general ledger control accounts.</p> <p>Context – For accounts payable, an interim month was selected for testing. The accounts payable balance on the general ledger at the end of the month was not reconciled to the accounts payable balance on the Organization’s accounts payable subsidiary ledger.</p> <p>Effect – Interim financial statements were presented to the Board of Directors with potential misstatements.</p> <p>Cause – The general ledger accounts used to prepare the interim financial statements were not properly reconciled.</p> <p>Recommendation – Monthly reconciliations to detailed accounts payable records should be performed and differences should be resolved prior to the monthly closing of the accounting records and issuance of the financial statements. Without relevant, reliable financial information, the Board could have made decisions that were detrimental to the financial condition of the Organization.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management is aware of the need for reconciliation of detail ledgers with the summary accounts in the General Ledger and thus, the monthly financial statements. An accounting clerk has been hired to assist with the recording of accounts payable and the preparation of monthly financial statements. Part of her duties is the reconciliation of detail accounts payable records with the general ledger prior to issuance of monthly financial statements.</p>	None

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2006

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
06-2 (Continued)	<p>During the most current audit period, there were staff changes in the accounting clerk position that required training in operations of the accounting software. In order to provide financial statements to the Board of Directors in a timely fashion, the CFO made judgment calls regarding materiality when looking at account balance differences between detail and summary accounts and passed on immaterial differences during periods of staff training. With this training completed, the detail records will be reconciled. The CFO will review the reconciliations monthly, prior to presenting financials to the Finance Committee and Board of Directors and will make detail notes on accounts not reconciled, noting the immaterial differences, should any accounts not be reconciled.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2006

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
06-3	<p style="text-align: center;">Consolidated Health Centers CFDA No. 93.224</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 6 H80 CS 4200-01-01 Program Year 2005</p> <p>Criteria or Specific Requirement – Program Income</p> <p>Condition – Patients were given sliding fee adjustments without providing proper supporting income documentation in accordance with the Organization’s policy.</p> <p>Context – Out of an undetermined number of patients who received total sliding fee scale adjustments of \$85,249, a sample of 30 patients who received sliding fee adjustments of \$3,310 was tested. Four of the patients were billed an inappropriate amount based on the Organization’s sliding fee scale.</p> <p>Effect – Improper sliding fee adjustments may have been given.</p> <p>Cause – Organization personnel were not appropriately following the sliding fee policy.</p> <p>Recommendation – Management should ensure all personnel understand the sliding fee scale policy and adhere to the requirements and guidelines set forth in the policy. Because the policy affects program income, procedures should be implemented to ensure that only individuals who qualify under the policy guidelines receive sliding fee scale adjustments. Patient files should include documentation of eligibility for such adjustments.</p>	\$89

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year November 30, 2006

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
06-3 (Continued)	<p>Views of Responsible Officials and Planned Corrective Action – Management is very concerned with the documentation of eligibility for sliding fee adjustments and the calculation of the appropriate adjustment. All staff has been informed of our sliding fee structure and that there is a qualification process requiring patients to provide proof of income before the sliding fee adjustment can be considered. Training has been provided to reception and billing staff of the documentation needed to determine qualification for the sliding fee adjustments. Additional training is planned for twice a year as a refresher for the reception/billing staff to keep the sliding fee process fresh in their minds. There has been a staff member assigned the processing of sliding fee applications and associated documentation. Training has been provided as to how to calculate the appropriate sliding fee adjustment and what documentation is to be used in determining the correct income to be used in the calculation.</p> <p>The CEO will initiate an audit of randomly selected patients given sliding fee adjustments quarterly during January, April, July, and October and the Finance Committee will receive a report of the findings during each respective month. This random selection, although not designed to catch all data input errors, should identify errors within the process to be addressed to insure correct calculation and selection of the appropriate sliding fee scale to be used for the patient.</p>	

Community Health Centers of Southern Iowa, Inc.
Summary Schedule of Prior Audit Findings
Year Ended November 30, 2006

Reference Number	Summary of Finding	Status
05-3	<p style="text-align: center;">Consolidated Health Centers CFDA No. 93.224</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 6 H80 CS 4200-01-01 Program Year 2005</p> <p>Criteria or Specific Requirement – Program Income</p> <p>Condition – Patients were given sliding fee adjustments without providing proper supporting income documentation in accordance with the Organization’s policy.</p> <p>Context – Out of an undetermined number of patients who received total sliding fee scale adjustments of \$41,860, a sample of 30 patients who received sliding fee adjustments of \$5,370 was tested. Four of the patients were billed an inappropriate amount based on the Organization’s sliding fee scale.</p> <p>Effect – Improper sliding fee adjustments may have been given.</p> <p>Cause – Organization personnel were not appropriately following the sliding fee policy.</p>	<p>Unresolved. See Finding 06-3.</p>



Board of Directors
Community Health Centers
of Southern Iowa, Inc.
Leon, Iowa

As part of our audit of the financial statements of Community Health Centers of Southern Iowa, Inc. for the year ended November 30, 2006, we studied and evaluated the Organization's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all opportunities for improvement. We observed the following matters and offer these comments and suggestions. Previously, we made observations as a result of our 2005 audit engagement in a letter dated February 2, 2006.

Allowance for Doubtful Accounts

The Organization should develop a methodology for estimating the allowance for doubtful accounts based on historical collections, and the aging and payer mix of the accounts receivable balances. This should assist in providing a consistent evaluation of net realizable value of the patient accounts receivable on a monthly basis.

Accounts Receivable

The Organization should consider revising and updating its procedures related to patient accounts receivable. In an effort to improve this situation and enhance operating cash flows, management should implement corrective measures as soon as possible. The actions to consider are:

- There was \$2,359 of credit account balances in the accounts receivable subsidiary records. Although some of these problems may be software related, the Organization should work to ensure that the processes in place minimize credit balances and strive for accurate patient account balances.
- At November 30, 2006, there was approximately \$270,000 of patient accounts receivable that was over 120 days old (approximately 55% of gross patient receivables). The Organization should regularly review patient accounts receivable, evaluate the collectibility of the balances and write off amounts that are deemed to be uncollectible.

Insurance Coverage

As part of the overall protection of the Organization's assets, insurance needs should be reviewed on a periodic basis. Consideration should be given to potential gaps in coverage related to employee fidelity, loss of data or other risk areas of the Organization. The cost versus the benefits of both the deductible and the types of coverage should be considered when determining the coverage that is necessary for the Organization.

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New Auditing Standards

The Sarbanes-Oxley Act and other events have dramatically affected the setting of auditing standards and the focus of the audit process primarily for public companies. Not surprisingly, the focus has been extended to nonpublic entities. In 2006, the Auditing Standards Board of the American Institute of Certified Public Accountants, the standard setting body for audits of nonpublic entities, issued 11 new auditing standards. These auditing standards include a documentation standard, a suite of eight risk assessment standards, a standard that defines professional requirements in statements on auditing standards and a standard that provides guidance on communicating matters related to an entity's internal control over financial reporting. Some of the more significant changes are summarized on the following page.

Risk Assessment Standards (SAS 104-111)

Statements on Auditing Standards (SAS) No. 104-111 relates to the assessment of risk in an audit of financial statements. These statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit and the design and performance of audit procedures whose nature, timing and extent are responsive to the assessed risks. Additionally, the statements establish standards and provide guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these statements is to enhance an auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement in the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing and extent of audit procedures performed in response to those risks.

These statements will be effective for audits of financial statements for periods beginning on or after December 15, 2006.

Communicating Internal Control-Related Matters Identified in an Audit (SAS 112)

SAS 112 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. It is applicable whenever an auditor expresses an opinion on financial statements. Among other things, SAS 112:

- Requires the auditor to communicate control deficiencies that are significant deficiencies or material weaknesses in internal control.

- A significant deficiency is a control deficiency or a combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America 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.
- A material weakness is a significant deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.
- Provides guidance on evaluating the severity of control deficiencies and requires that the auditor conclude whether prudent officials, having knowledge of the same facts and circumstances, would agree with the auditor's classification of the deficiency.
- Identifies areas in which control deficiencies ordinarily are to be evaluated as at least significant deficiencies, as well as indicators that control deficiencies should be regarded as at least a significant deficiency and a strong indicator of a material weakness.
- Requires the auditor to communicate significant deficiencies and material weaknesses identified in the audit, in writing, to management and those charged with governance. This communication should be made no later than 60 days following the report release date.

* * *

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Organization's overall internal control structure; it does, however, include items which we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 24, 2007