

Community Health Centers of Southern Iowa, Inc.

Accountants' Reports and Financial Statements

November 30, 2007 and 2006

Community Health Centers of Southern Iowa, Inc.

November 30, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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 October 13, 2008, 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.

October 13, 2008

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MEMBER
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Community Health Centers of Southern Iowa, Inc.

Balance Sheets

November 30, 2007 and 2006

Assets

	2007	2006
Current Assets		
Cash	\$ 42,707	\$ 255,520
Certificates of deposit	13,871	12,930
Patient accounts receivable, net of allowance; 2007 - \$677,933, 2006 - \$240,000	406,950	250,803
Grants and other receivables	153,912	-
Pharmacy inventory	46,365	116,523
Estimated amounts due from third-party payers	75,000	-
Prepaid expenses and other	18,428	14,224
Total current assets	757,233	650,000
Property and Equipment, At Cost		
Land and land improvements	14,000	14,000
Buildings and leasehold improvements	540,224	539,104
Equipment	313,380	273,909
	867,604	827,013
Less accumulated depreciation	236,269	171,350
	631,335	655,663
Total assets	\$ 1,388,568	\$ 1,305,663

Liabilities and Net Assets

Current Liabilities		
Line of credit	\$ 400,237	\$ 250,000
Current maturities of long-term debt	7,933	7,333
Accounts payable	90,274	48,617
Accrued expenses	176,626	137,526
Estimated amounts due to third-party payers	-	70,000
Total current liabilities	675,070	513,476
Long-Term Debt		
Total liabilities	4,278	11,612
	679,348	525,088
Net Assets		
Unrestricted	669,335	664,200
Temporarily restricted	39,885	116,375
Total net assets	709,220	780,575
Total liabilities and net assets	\$ 1,388,568	\$ 1,305,663

Community Health Centers of Southern Iowa, Inc.
Statements of Operations
Years Ended November 30, 2007 and 2006

	2007	2006
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 2,230,650	\$ 1,202,268
Grant revenue	856,295	648,500
Contributions	57,110	80,106
Net assets released for operations	76,490	-
Other	47,320	57,618
	<u>3,267,865</u>	<u>1,988,492</u>
Expenses and Losses		
Salaries and wages	1,795,024	1,047,070
Employee benefits	346,660	193,344
Purchased services and professional fees	106,000	74,967
Supplies and other	585,202	412,655
Rent	52,438	35,000
Depreciation and amortization	64,920	60,481
Interest	20,345	17,857
Provision for uncollectible accounts	437,925	198,599
	<u>3,408,514</u>	<u>2,039,973</u>
Total expenses and losses		
	<u>3,408,514</u>	<u>2,039,973</u>
Operating Loss	(140,649)	(51,481)
Other Income		
Investment return	1,362	277
	<u>1,362</u>	<u>277</u>
Deficiency of Revenues Over Expenses	(139,287)	(51,204)
Grants of or for the acquisition of fixed assets	144,422	-
	<u>144,422</u>	<u>-</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 5,135</u>	<u>\$ (51,204)</u>

Community Health Centers of Southern Iowa, Inc.
Statements of Changes in Net Assets
Years Ended November 30, 2007 and 2006

	2007	2006
Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (139,287)	\$ (51,204)
Grants of or for the acquisition of fixed assets	144,422	-
Increase (Decrease) in Unrestricted Net Assets	5,135	(51,204)
Temporarily Restricted Net Assets		
Contributions	-	116,375
Net assets released from restriction	(76,490)	-
Increase (decrease) in temporarily restricted net assets	(76,490)	116,375
Change in Net Assets	(71,355)	65,171
Net Assets, Beginning of Year	780,575	715,404
Net Assets, End of Year	\$ 709,220	\$ 780,575

Community Health Centers of Southern Iowa, Inc.
Statements of Cash Flows
Years Ended November 30, 2007 and 2006

	2007	2006
Operating Activities		
Change in net assets	\$ (71,355)	\$ 65,171
Items not requiring (providing) cash		
Depreciation	64,920	60,481
Change in contributed inventory	71,490	(111,375)
Grants of or for acquisition of property and equipment	(37,250)	-
Note payable acquired through noncash transaction	1,500	-
Changes in		
Patient accounts receivable, net	(156,147)	146,574
Grants receivable	(153,912)	-
Estimated amounts due from and to third-party payers	(145,000)	70,000
Inventory	(1,332)	(5,148)
Accounts payable and accrued expenses	68,372	25,737
Other current assets and liabilities	(4,204)	23,763
	<u>(362,918)</u>	<u>275,203</u>
Investing Activities		
Purchase of certificates of deposit	(941)	-
Purchase of property and equipment	(28,207)	(12,781)
	<u>(29,148)</u>	<u>(12,781)</u>
Financing Activities		
Proceeds from line of credit	1,180,746	564,000
Proceeds from grant for acquisition of property and equipment	37,250	-
Principal payments on line of credit	(1,030,509)	(714,000)
Principal payments on long-term debt	(8,234)	(7,333)
	<u>179,253</u>	<u>(157,333)</u>
Increase (Decrease) in Cash	(212,813)	105,089
Cash, Beginning of Year	<u>255,520</u>	<u>150,431</u>
Cash, End of Year	<u>\$ 42,707</u>	<u>\$ 255,520</u>
Supplemental Cash Flows Information		
Interest paid	\$ 20,345	\$ 17,396
Accounts payable incurred for property and equipment	\$ 12,385	\$ -
Inventory acquired through noncash contributions	\$ 101,900	\$ 111,375
Note payable acquired through noncash transaction	\$ 1,500	\$ -

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2007 and 2006

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.

During 2007, the Organization acquired five additional clinics to provide mental health services to patients in Monroe, Wayne, Apanoose and Lucas counties in Iowa.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues 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.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2007 and 2006

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.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items may be reclaimed 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.

Temporarily Restricted Net Assets

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

Net Patient Service Revenue

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

Contributions

Unconditional 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.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2007 and 2006

In-Kind Revenue

The Organization recognized donated pharmaceutical supplies at fair value. Donated pharmaceutical supplies totaling \$101,900 and \$56,106 are recorded as either contribution revenue or net assets released for operations and supplies and other expenses for the years ended November 30, 2007 and 2006, respectively. The Organization also recognized in-kind rent revenue and expense totaling \$26,700 and \$2,700 for the years ended November 30, 2007 and 2006, 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.

Deficiency of Revenues Over Expenses

The statement of operations includes deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from 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).

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the "granting agency"). The general purpose of the grant is to provide expanded health care service delivery for residents of 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, 2007 and 2006, the Organization recognized \$649,500 and \$643,500 in CHC grant revenue, respectively. The Organization is approved for funding in the amount of \$649,500 for the year ending November 30, 2008.

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.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2007 and 2006

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.

Approximately 61% and 60% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended November 30, 2007 and 2006, 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, 2007 and 2006, is:

	<u>2007</u>	<u>2006</u>
Medicare	18%	32%
Medicaid	45%	18%
Other third-party payers and patients	37%	50%
	<u>100%</u>	<u>100%</u>

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2007 and 2006

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.

Note 6: Line of Credit

At November 30, 2007, the Organization had a \$400,000 bank line of credit bearing interest at 8.250%, due November 30, 2008. At November 30, 2007, the outstanding principal balance on the line of credit was \$400,000. Subsequent to year end, the Organization established an additional \$200,000 line of credit at the same financial institution bearing interest at 7.50%, due November 30, 2008.

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.

Note 7: Long-Term Debt

	<u>2007</u>	<u>2006</u>
Note payable, bank (A)	\$ 11,611	\$ 18,945
Note payable, bank (B)	600	-
	<u>12,211</u>	<u>18,945</u>
Less current maturities	<u>7,933</u>	<u>7,333</u>
	<u>\$ 4,278</u>	<u>\$ 11,612</u>

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

(B) Promissory note to New Directions, due May 2008; payable \$100 monthly; bearing 0% interest; unsecured.

Community Health Centers of Southern Iowa, Inc.
Notes to Financial Statements
November 30, 2007 and 2006

Aggregate annual maturities of long-term debt at November 30, 2007, are:

	Long-Term Debt
2008	\$ 7,933
2009	4,278
	\$ 12,211

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:

	2007	2006
Health care services	\$ 2,276,856	\$ 1,224,715
General and administrative	1,131,658	815,258
	\$ 3,408,514	\$ 2,039,973

Note 9: Operating Leases

The Organization leases various facilities under operating leases expiring at various dates through 2013 with options to renew through 2020.

Future minimum lease payments at November 30, 2007, were:

2008	\$ 23,280
2009	10,243
2010	4,866
2011	2,838
2012	2,838
Thereafter	236
Future minimum lease payments	\$ 44,301

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2007 and 2006

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 \$35,938 and \$19,831 for the years ended November 30, 2007 and 2006, respectively.

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 four 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, 2007

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 4200-03-02	\$ 649,500
Block Grants for Community Mental Health Services	U.S. Department of Health and Human Services/ Iowa Department of Human Services	93.958		55,345
Health Care and Other Facilities	U.S. Department of Health and Human Services	93.887	1 C76 HF 06254-01-00	144,422
Public Health and Social Services Emergency Fund	U.S. Department of Health and Human Services/Iowa Nebraska Primary Care Association	93.003		<u>5,430</u>
				<u>\$ 854,697</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, 2007.



**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, 2007, and have issued our report thereon dated October 13, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a combination of control deficiencies, that adversely affects the Organization'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 Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

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

A material weakness is a significant deficiency, or a 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 Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 and 07-2 to be material weaknesses.

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 October 13, 2008.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and others within the Organization 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

October 13, 2008



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, 2007. 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, 2007.

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 the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose

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

of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

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

October 13, 2008

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2007

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:
Significant deficiency(ies) noted considered material weakness(es)? Yes No
Significant deficiency(ies) 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:
Significant deficiency(ies) noted considered material weakness(es)? Yes No
Significant deficiency(ies) 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
Year Ended November 30, 2007

7. The Organization's major program was:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Consolidated 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
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Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
07-1	<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 incompatible duties in the cash receipts/accounts receivable, cash disbursements/accounts payable and payroll cycles.</p> <p>Context – In the cash receipts/accounts receivable cycle, the biller has the ability to authorize bad debt write-offs, provide EFT information to third parties, receive payments in currency or checks and be a custodian of currency or checks, as well as record discounts/adjustments, change master files affecting billings, discounts and adjustments and reconcile recorded contractual adjustments to supporting remittance advices. The chief financial officer has the ability to authorize bad debt write-offs, access cash, record bad debt write-offs and review account reconciliations prepared by others.</p> <p>In the cash disbursements/accounts payable cycle, the chief financial officer and bookkeeper have access to signed checks, can perform most of the recording duties and have the ability to reconcile bank balances and the accounts payable sub-ledger to the general ledger. The chief financial officer also has the ability to sign checks.</p> <p>In the payroll cycle, the chief financial officer has the ability to perform most duties. However, the primary duties that are conflicting include authorizing payroll payments prepared by others, signing payroll checks and recording EFTs in the payroll/general ledger systems.</p>	None

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2007

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
07-1 (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.</p> <p>Recommendation – Management should periodically reevaluate 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 will periodically reevaluate 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. Management will consult with advisors regarding the types of additional monitoring or other compensating controls which could be implemented to provide adequate controls without incurring significant additional costs.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
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Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
07-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over external reporting.</p> <p>Condition – The Organization’s financial statements required adjusting journal entries for financial statement presentation and the accounting records include other immaterial adjustments that were passed in the course of the audit. Areas in which adjustments were proposed, including those which management recorded, include:</p> <ul style="list-style-type: none"> • Allowance for doubtful accounts and bad debt expense • Accrued payroll, accrued vacation and payroll expense • Donated rent • Temporarily restricted net assets • Inventory • Grants receivable • Supplies and other expense <p>Context – The Organization’s financial statements should be presented in conformity with generally accepted accounting principles and adjustments should be recorded on a timely basis.</p> <p>Effect – Adjusting journal entries were proposed.</p> <p>Cause – The Organization’s policies and procedures in effect at November 30, 2007, did not identify certain necessary adjustments required to present the financial statements in accordance with generally accepted accounting principles or identify the needed adjustments on a timely basis.</p>	None

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2007

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
07-2 (Continued)	<p>Recommendation – Management should modify monthly and year-end closing procedures and revise policies to ensure the controls in place are sufficient to assure all accounts and financial statements are prepared in accordance with generally accepted accounting principles and adjustments are made on a timely basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management has taken steps to correct the timely posting of adjustments necessary for a presentation in accordance with generally accepted accounting principles. Corrections have been made to our payroll system in the reporting of vacations taken and their subsequent posting in the general ledger system. Balance sheet accounts are being reconciled along with their related income and expense accounts on a monthly basis. This includes reconciling grants receivable, grant revenue and related expenses associated with the respective grants; recognizing an allowance for bad debts consistent with our policy on allowances for bad debts and recognizing the requisite adjustment to bad debt expense; reconciling accrued payroll, accrued vacation and wage and salary expense to detail schedules; and recording donated rent income and expense monthly. Annual adjustments to record changes in pharmaceutical inventories and temporarily restricted assets will be made from physical counts taken at year end and valued at current 340B pharmaceutical prices. Such adjustments will be posted to the general ledger in a timely fashion for inclusion in initial year-end reports presented to the board.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2007

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
07-3	<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 4200-03-02 Program Year 2007</p> <p>Criteria or Specific Requirement – Program Income</p> <p>Condition – Patients were given inappropriate sliding fee adjustments under the Organization’s policy.</p> <p>Context – Out of an undetermined number of patients who received total sliding fee scale adjustments of \$67,668, a sample of 30 patients who received sliding fee adjustments of \$4,279 was tested. Three of the patients were billed an inappropriate amount based on the Organization’s sliding fee scale and one file could not be located to verify the proper income documentation support.</p> <p>Effect – Improper sliding fee adjustments were given.</p> <p>Cause – The Organization did not comply with their 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>	\$54

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2007

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
07-3 (Continued)	<p>Views of Responsible Officials and Planned Corrective Action – Management will include sliding fee policy education in new employee orientation/training. All current employees have received education on our sliding fee policy.</p> <p>Management will review a sample of sliding fee applications quarterly to ensure individuals receiving sliding fee scale adjustments qualify under our policy guidelines. Management will review monthly reports to analyze sliding fee adjustments for appropriateness. Separate files kept on individuals applying for sliding fee discounts will include documentation to support sliding fee eligibility. Such files will be updated annually to support continued eligibility.</p>	

Community Health Centers of Southern Iowa, Inc.
Summary Schedule of Prior Audit Findings
Year Ended November 30, 2007

Reference Number	Summary of Finding	Status
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 2006</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>Unresolved. See Finding 07-3.</p>