

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED NOVEMBER 30, 2011 AND 2010**

COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
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CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Community Health Centers of Southern Iowa as of November 30, 2011, 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. The financial statements of Community Health Centers of Southern Iowa for the year ended November 30, 2010, were audited by other auditors whose report dated May 27, 2011, expressed an unqualified opinion on those statements.

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. 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 audit provides 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 as of November 30, 2011 and the results of its operations, changes in net assets, and cash flows for the year 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 a report dated February 22, 2012, on our consideration of Community Health Centers of Southern Iowa'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.

A handwritten signature in cursive script that reads 'CliftonLarsonAllen LLP'.

**CliftonLarsonAllen, LLP**

Austin, Minnesota  
February 22, 2012

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
BALANCE SHEETS  
NOVEMBER 30, 2011 AND 2010**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 167,892	\$ 146,290
Certificates of Deposit	2,594	14,705
Accounts Receivable	451,982	567,263
Grants and Other Receivables	16,124	97,391
Third Party Payor Settlements Receivable	483,457	475,000
Inventory	14,492	41,417
Prepaid Expenses	43,999	35,382
Total Current Assets	<u>1,180,540</u>	<u>1,377,448</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>1,648,004</u>	<u>1,618,764</u>
Total Assets	<u><u>\$ 2,828,544</u></u>	<u><u>\$ 2,996,212</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 163,602	\$ 415,347
Accrued Expenses	327,575	246,704
Line of Credit Payable	177,581	36,603
Current Maturities of Long-Term Debt	152,351	142,762
Total Current Liabilities	<u>821,109</u>	<u>841,416</u>
<b>LONG-TERM DEBT</b>		
Long-Term Debt, Net of Current Maturities	<u>321,292</u>	<u>470,117</u>
Total Liabilities	1,142,401	1,311,533
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	1,686,143	1,652,241
Temporarily Restricted	-	32,438
Total Net Assets	<u>1,686,143</u>	<u>1,684,679</u>
Total Liabilities and Net Assets	<u><u>\$ 2,828,544</u></u>	<u><u>\$ 2,996,212</u></u>

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
STATEMENTS OF OPERATIONS  
YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	2011	2010
<b>REVENUE AND OTHER SUPPORT</b>		
Net Patient Service Revenue	\$ 4,814,021	\$ 4,710,124
Grant Revenue	866,688	932,183
Contributions	24,000	127,292
Other	263,324	23,841
Net Assets Released From Restrictions Used For Operations	32,438	15,713
Total Revenue and Other Support	6,000,471	5,809,153
 <b>EXPENSES</b>		
Salaries and Wages	3,748,914	2,816,934
Employee Benefits	832,594	581,904
Purchased Services and professional Fees	498,973	419,371
Supplies and Other	758,665	805,400
Rent	56,112	81,872
Depreciation	212,445	114,296
Provision for Bad Debts	(188,025)	766,305
Interest	44,257	24,295
Total Expenses	5,963,935	5,610,377
Operating Income	36,536	198,776
 <b>OTHER INCOME AND EXPENSES</b>		
Loss on Disposal of Fixed Assets	(2,702)	(15,219)
Interest Income	68	314
Total Other Income and Expenses	(2,634)	(14,905)
Excess of Revenues Over Expenses	33,902	183,871
Grants For The Acquisition of Property and Equipment	-	592,454
 <b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<b>\$ 33,902</b>	<b>\$ 776,325</b>

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	2011	2010
<b>UNRESTRICTED NET ASSETS</b>		
Excess of Revenues over Expenses	\$ 33,902	\$ 183,871
Grants For The Acquisition of Property and Equipment	-	592,454
Increase in Unrestricted Net Assets	33,902	776,325
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Net Assets Released from Restrictions Used for Operations	(32,438)	(15,713)
	(32,438)	(15,713)
Increase in Net Assets	1,464	760,612
<b>NET ASSETS - BEGINNING OF YEAR</b>	1,684,679	924,067
<b>NET ASSETS - END OF YEAR</b>	\$ 1,686,143	\$ 1,684,679

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
STATEMENTS OF CASH FLOWS  
YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	2011	2010
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,464	\$ 760,612
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	212,445	114,296
Loss On Disposal of Fixed Assets	2,702	15,219
Change in Contributed Inventory	-	15,713
Grants for Acquisition of Property and Equipment	-	(592,454)
(Increase) Decrease in:		
Patient Accounts Receivable-Net	115,281	(110,846)
Grants Receivable	81,267	(11,662)
Third Party Payor Settlements Receivable	(8,457)	(325,000)
Inventory	26,925	23,213
Prepaid Expenses	(8,617)	(23,298)
Increase (Decrease) in:		
Accounts Payable	(251,745)	72,037
Accrued Expenses	80,871	88,792
Net Cash Provided by Operating Activities	252,136	26,622
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Change in Certificates of Deposit	12,111	(281)
Purchase of Equipment	(244,387)	(777,077)
Net Cash Used by Investing Activities	(232,276)	(777,358)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds From Line Of Credit	160,000	73,018
Principal Payments on Line of Credit	(19,022)	(76,425)
Proceeds From Grants For Acquisition of Property and Equipment	-	592,454
Proceeds From Issuance of Long-Term Debt	-	329,602
Principal Payments on Long-Term Debt	(139,236)	(94,964)
Net Cash Provided by Financing Activities	1,742	823,685
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	21,602	72,949
Cash and Cash Equivalents - Beginning of Year	146,290	73,341
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 167,892	\$ 146,290
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 44,998	\$ 24,295
Inventory Acquired Through Noncash Contributions	\$ -	\$ 79,292
Accounts Payable Incurred for Property and Equipment	\$ -	\$ 257,946

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2011 AND 2010**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Community Health Centers of Southern Iowa (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 medical, behavioral and dental services through clinics located in Leon, Lamoni, Albia, Centerville, Chariton and Corydon, Iowa, serving an eight county service area 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Presentation**

Contributions received are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted** – Those resources over which the Board of Directors has discretionary control. These net assets include both board designated and undesignated amounts.

**Temporarily Restricted** – Those resources subject to donor imposed restrictions, which will be satisfied by actions of the Organization or passage of time.

**Permanently Restricted** – Those resources subject to donor imposed restrictions that they be maintained by the Organization. The donors of these resources permitted the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

There were no permanently restricted net assets at November 30, 2011 or 2010.

**Charity Care**

The Organization provides care to patients regardless of their ability to pay. A sliding fee scale with discounts based on patient family size and income in accordance with federal poverty guidelines is used to determine patient fees. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2011 AND 2010**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventory**

Inventory is stated at the lower of cost or market, which approximates the first in, first out method.

**Property and Equipment**

Equipment is stated at cost less accumulated depreciation. Major additions and betterments are charged to the equipment accounts, while replacements, maintenance, and repairs which do not improve or extend the life of the respective assets are expensed currently. When equipment is retired or otherwise disposed of, the cost of the equipment is removed from the asset account, accumulated depreciation is charged with an amount equivalent to the depreciation provided, and the difference, after taking into account any salvage realized, is charged or credited to income. Depreciation is computed on the straight-line method over the estimated useful lives.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expense, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Accounts Receivable**

The Organization provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment is required the day of service otherwise statements are mailed bi-monthly. Accounts past due are analyzed individually for collectibility, and are written off based on management's judgment. At November 30, 2011 and 2010, the allowance for uncollectible accounts was approximately \$481,800 and \$885,000, respectively.

**In-Kind Contributions**

The Organization will at times receive the donation of services from outside parties. In order to recognize the services as in-kind contributions the services must meet specific criteria established under accounting standards. Services recognized as in-kind contributions during the years ended November 30, 2011 and 2010, were \$24,000 and \$143,005, respectively.

**Income Taxes**

The Organization is tax-exempt under Internal Revenue Code Section 501(c)3 and not a private foundation as described in Section 509(a) for federal purposes. The Organization is also tax-exempt under Iowa statutes for state purposes. Consequently, the Organization records no provision for income taxes.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011 AND 2010**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (Continued)**

The Organization follows the income tax standard for uncertain tax positions. As a result of the application of the standard, the Organization has recognized no liability for unrecognized tax benefits.

The Organization files as a tax-exempt organization. Should that status be challenged in the future, the entity's 2008 through 2011 tax years are open for examination by the IRS.

**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. The Organization's temporarily restricted net assets are available for pharmacy services in the amount of \$-0- and \$32,438 at November 30, 2011 and 2010, respectively. Net assets were released from restriction in the amount of \$32,438 and \$15,713, for the years ended November 30, 2011 and 2010, respectively.

**Excess of Revenues Over Expenses**

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, unrealized gains and losses on other than trading securities, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring long-lived assets).

**Donor Restricted Gifts**

Unconditional promises to give cash and other assets to the Organization are reported at the fair value at the date the promise received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

**Subsequent Events**

In preparation of the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 22, 2012, the date the financial statements were available to be issued.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011 AND 2010**

**NOTE 2 NET PATIENT SERVICE REVENUE**

Net patient service revenues is recorded when patient services are performed at the estimated net realizable amounts from patient, third-party payor and others for services rendered. Under the Medicare and Medicaid programs, the Organization is entitled to reimbursement for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as adjustments to patient service revenue. Final determination of amounts due from Medicare and Medicaid programs are subject to review by these programs. Changes resulting from final determination are reflected as changes in estimates, generally in the year of determination. In the opinion of management, adequate provision has been made for adjustments, if any, that may result from such review.

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

*Medicare:* Covered FQHC services provided 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 an established fee schedule.

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

Approximately 68% and 59% of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended November 30, 2011 and 2010, 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.

A summary of patient service revenues and contractual adjustments is as follows:

	2011	2010
Total Patient Service Revenue	\$ 10,036,369	\$ 6,831,072
Revenue Adjustments:		
Medicare	1,553,722	723,104
Medicaid	1,896,138	360,113
Commercial Insurance and Other	1,772,488	1,037,731
Net Patient Service Revenue	<u>\$ 4,814,021</u>	<u>\$ 4,710,124</u>

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011 AND 2010**

**NOTE 3 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 years ended November 30, 2011 and 2010, the Organization recognized \$729,346 and \$675,951, respectively.

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

**NOTE 4 PROPERTY AND EQUIPMENT**

The components of property and equipment at November 30, 2011 and 2010 are summarized as follows:

	2011	2010
Land and Land Improvements	\$ 14,000	\$ 14,000
Buildings and Leasehold Improvements	1,202,470	921,392
Equipment	1,064,427	864,219
Construction in Progress	26,447	274,686
	<u>2,307,344</u>	<u>2,074,297</u>
Less Accumulated Depreciation	659,340	455,533
Property and Equipment, Net	<u>\$ 1,648,004</u>	<u>\$ 1,618,764</u>

**NOTE 5 LONG-TERM DEBT**

Long-term debt at November 30, 2011 and 2010 consisted of the following:

Description	2011	2010
Note payable to Great Western Bank payable in monthly installments of \$3,968 including principle an interest at 7% through July 2015. Collateralized by property, equipment and inventory.	\$ 153,118	\$ 188,695
Note payable to Decatur Medical Services payable in annual installments of \$33,333 including principle and interest at U.S. prime rate less 1% (2.25% at 11/30/12); unsecured.	133,334	166,667

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011 AND 2010**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

Description	2011	2010
Note payable to Great Western Bank payable in monthly installments of \$4,805 including principle and interest at 7% through May 2013. Collateralized by property at 802 East Ackerly.	\$ 81,853	\$ 131,732
Note payable from US Bankcorp payable in monthly installments of \$2,698 including principle and interest at 7.3% through June 2015. Collateralized by equipment.	101,800	125,785
Capital lease obligation	3,538	-
Less: Current Maturities	<u>(152,351)</u>	<u>(142,762)</u>
Long-Term Debt, Net of Current Maturities	<u>\$ 321,292</u>	<u>\$ 470,117</u>

Maturity requirements by year on long-term debt are as follows:

Year Ending November 31,	Amount
2012	\$ 152,351
2013	131,662
2014	107,513
2015	82,117
Total	<u>\$ 473,643</u>

**NOTE 6 LINE OF CREDIT**

At November 30, 2011, the Organization had a \$200,000 bank line-of-credit bearing interest at the bank's prime rate plus 1.5% with a minimum rate of 6.5% (currently 6.5%), due on June 5, 2012. At November 30, 2011, the outstanding principal balance on the line-of-credit was \$177,581.

At November 30, 2010, the Organization had a \$200,000 bank line-of-credit bearing interest at the bank's prime rate plus 1.5% with a minimum rate of 6.5% (currently 6.5%), due on June 5, 2011. At November 30, 2010, the outstanding principal balance on the line-of-credit was \$36,603.

**NOTE 7 DEFINED CONTRIBUTION PENSION PLAN**

The Organization has a defined contribution pension plan covering substantially all employees. The Organization contributes up to 3% of eligible employee's compensation to the plan. Pension expense was \$70,575 and \$56,577 for the years ended November 30, 2011 and 2010, respectively

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2011 AND 2010**

**NOTE 8 FUNCTIONAL EXPENSES**

Program and general expenses for the years ended November 30, 2011 and 2010 are summarized as follows:

	2011	2010
Health Care Services	\$ 3,624,185	\$ 3,409,334
General and Administrative	2,339,750	2,201,043
Total Expenses	\$ 5,963,935	\$ 5,610,377

Fundraising expenses are immaterial and are included with general and administrative expenses.

**NOTE 9 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at November 30, 2011 and 2010 are related to donated pharmacy samples that have not yet been distributed. Temporarily restricted net assets were \$0 and \$32,438 at November 30, 2011 and 2010, respectively. Temporarily restricted net assets were released from restrictions by satisfying the restricted purpose of distributing donated pharmacy items of \$32,438 and \$15,713 during the years ended November 30, 2011 and 2010, respectively. The Organization discontinued the practice of recognizing an in-kind contribution for donated pharmacy samples during the year ended November 30, 2011.

**NOTE 10 CONCENTRATION OF CREDIT RISKS**

The Organization's operations are concentrated in providing health care services to people that are uninsured or underinsured. The Organization also relies on significant grants and contributions to support the program services.

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third party payor agreements. The mix of receivables from patients and third party payors at November 30, 2011 and 2010, is:

	2011	2010
Medicare	21%	29%
Medicaid	15%	25%
Other Third Party Payors and Patients	64%	46%
	100%	100%

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011 AND 2010**

**NOTE 11 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. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

**Construction in Progress**

The Organization reflects construction in progress of \$26,447 at November 30, 2011. The costs relate to a telephone system in one of the locations. The final is expected to be consistent with the outstanding construction balance. The system will be placed into service in early fiscal 2012 and is being funded from the Organization's reserves.

**Healthcare Legislation and Regulation**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statues and regulations by health care providers.

## SUPPLEMENTARY INFORMATION

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED NOVEMBER 30, 2011**

	Federal CFDA Number	<u>Expenditures</u>
U.S. Department of Health and Human Services		
Consolidated Health Centers Cluster	93.224	\$ 729,346
ARRA-Increase Services to Health Centers	93.703	47,367
Block Grants for Community Mental Health Facilities	93.958	30,656
Basic/Core Area Health Education Centers	93.824	28,641
Total Health Center Cluster		<u>\$ 836,010</u>

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
NOVEMBER 30, 2011**

**NOTE 1 GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Community Health Centers of Southern Iowa. The reporting entity is defined in Note 1 to Community Health Centers of Southern Iowa's financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies is included on the schedule.

**NOTE 2 BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to Community Health Centers of Southern Iowa's financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Community Health Centers of Southern Iowa as of and for the year ended November 30, 2011 and have issued our report thereon dated February 22, 2012. 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 Community Health Centers of Southern Iowa'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 Community Health Centers of Southern Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Health Centers of Southern Iowa's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Community Health Centers of Southern Iowa'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 noted certain matters that we reported to management of Community Health Centers of Southern Iowa's in a separate letter dated February 22, 2012.

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



**CliftonLarsonAllen, LLP**

Austin, Minnesota  
February 22, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND  
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited Community Health Centers of Southern Iowa's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Community Health Centers of Southern Iowa's major federal programs for the year ended November 30, 2011. Community Health Centers of Southern Iowa's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Community Health Centers of Southern Iowa's management. Our responsibility is to express an opinion on Community Health Centers of Southern Iowa's compliance 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 Community Health Centers of Southern Iowa'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 of Community Health Centers of Southern Iowa's compliance with those requirements.

In our opinion, Community Health Centers of Southern Iowa complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2011.

**Internal Control Over Compliance**

Management of Community Health Centers of Southern Iowa 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 Community Health Centers of Southern Iowa'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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Community Health Centers of Southern Iowa's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of Community Health Centers of Southern Iowa as of and for the year ended November 30, 2011, and have issued our report thereon dated February 22, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen, LLP**

Austin, Minnesota  
February 22, 2012

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2011**

**Part I: Summary of the Independent Auditors' Results**

- (a) The auditors' report expresses an unqualified opinion on the basic financial statements of Community Health Centers of Southern Iowa.
- (b) No material weaknesses in internal control over financial reporting were identified during the audit of the basic financial statements.
- (c) No instances of noncompliance material to the financial statements of Community Health Centers of Southern Iowa were identified during the audit.
- (d) No material weaknesses in internal control over major programs were identified and disclosed during the audit of the major federal award programs.
- (e) The auditors' report on compliance for the major federal award program for Community Health Centers of Southern Iowa expresses an unqualified opinion.
- (f) No audit findings relative to the major federal award programs for Community Health Centers of Southern Iowa were disclosed during the audit.
- (g) The program tested as a major program is the Health Resources Services Administration Recovery Act Health Centers Cluster Program (CFDA 93.224).
- (h) The threshold for distinguishing Type A and B programs was \$300,000.
- (i) Community Health Centers of Southern Iowa was not determined to be a low-risk auditee.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2011**

**Part II: Findings Related to the Basic Financial Statements**

None

**Part III: Federal Awards Findings and Questioned Costs**

None

**Part IV: Prior Year Findings**

**FINDING: 10-1**

**UNADJUSTED FINANCIAL STATEMENT MISSTATEMENTS**

**Criteria:** Management is responsible for establishing and maintaining effective internal control over financial reporting.

**Condition:** The Organization's financial statements required adjusting journal entries for financial statement presentation and client did not maintain monthly reconciliations on several balance sheet accounts.

**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.

**Effect:** Adjusting journal entries were proposed.

**Cause:** The Organization's policies and procedures in effect 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.

**Status :** Finding corrected

**FINDING: 10-2**

**CONSOLIDATED HEALTH CENTERS CFDA NO. 93.224 - ELIGIBILITY**

**Condition:** Patients were given sliding fee adjustments without providing proper supporting income documentation in accordance with the Organization's policy.

**Context:** Out of an undetermined number of patients who received total sliding fee adjustments of \$349,682, a sample of 40 patients who received sliding fee adjustments in the amount of \$3,121 was tested. Of the 40 patient accounts tested, five patients did not have the proper documentation to support the need for sliding fee adjustment.

**Effect:** Appropriate documentation was not maintained for all adjustments given.

**Cause:** Organization personnel were not appropriately following the sliding fee policy.

**Status :** Finding corrected