

COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED NOVEMBER 30, 2012 AND 2011

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
TABLE OF CONTENTS
YEARS ENDED NOVEMBER 30, 2012 AND 2011**

| | |
|--|-----------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| BALANCE SHEETS | 2 |
| STATEMENTS OF OPERATIONS | 3 |
| STATEMENTS OF CHANGES IN NET ASSETS | 4 |
| STATEMENTS OF CASH FLOWS | 5 |
| NOTES TO FINANCIAL STATEMENTS | 6 |
| SUPPLEMENTARY INFORMATION | |
| SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS | 14 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 15 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 16 |
| 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 | 18 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 20 |



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INDEPENDENT AUDITORS' REPORT

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. as of November 30, 2012 and 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.

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, 2012 and 2011, and the results of its operations, changes in net assets, and 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 a report dated March 15, 2013, on our consideration of Community Health Centers of Southern Iowa, Inc.'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.

CliftonLarsonAllen, LLP

Austin, Minnesota
March 15, 2013

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
BALANCE SHEETS
NOVEMBER 30, 2012 AND 2011**

| ASSETS | <u>2012</u> | <u>2011</u> |
|---|----------------------------|----------------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 7,426 | \$ 167,892 |
| Certificates of Deposit | 2,607 | 2,594 |
| Accounts Receivable, Net | 597,583 | 451,982 |
| Grants and Other Receivables | 18,413 | 16,124 |
| Third Party Payor Settlements Receivable | 435,156 | 483,457 |
| Inventory | 9,744 | 14,492 |
| Prepaid Expenses | 50,474 | 43,999 |
| Total Current Assets | <u>1,121,403</u> | <u>1,180,540</u> |
| PROPERTY AND EQUIPMENT, NET | <u>2,358,672</u> | <u>1,648,004</u> |
| Total Assets | <u><u>\$ 3,480,075</u></u> | <u><u>\$ 2,828,544</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 252,960 | \$ 163,602 |
| Accrued Expenses | 175,469 | 327,575 |
| Line of Credit Payable | 199,500 | 177,581 |
| Current Maturities of Long-Term Debt | 146,850 | 152,351 |
| Total Current Liabilities | <u>774,779</u> | <u>821,109</u> |
| LONG-TERM DEBT | | |
| Long-Term Debt, Net of Current Maturities | <u>375,802</u> | <u>321,292</u> |
| Total Liabilities | 1,150,581 | 1,142,401 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS | | |
| Unrestricted | <u>2,329,494</u> | <u>1,686,143</u> |
| Total Net Assets | <u>2,329,494</u> | <u>1,686,143</u> |
| Total Liabilities and Net Assets | <u><u>\$ 3,480,075</u></u> | <u><u>\$ 2,828,544</u></u> |

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
STATEMENTS OF OPERATIONS
YEARS ENDED NOVEMBER 30, 2012 AND 2011**

| | 2012 | 2011 |
|--|--------------|--------------|
| REVENUE AND OTHER SUPPORT | | |
| Net Patient Service Revenue | \$ 5,277,495 | \$ 4,814,021 |
| Grant Revenue | 817,943 | 866,688 |
| Contributions | 14,000 | 24,000 |
| Other | 175,416 | 263,324 |
| Net Assets Released From Restrictions Used For Operations | - | 32,438 |
| Total Revenue and Other Support | 6,284,854 | 6,000,471 |
| EXPENSES | | |
| Salaries and Wages | 3,699,478 | 3,748,914 |
| Employee Benefits | 850,802 | 832,594 |
| Purchased Services and professional Fees | 385,837 | 498,973 |
| Supplies and Other | 840,588 | 758,665 |
| Rent | 40,993 | 56,112 |
| Depreciation | 212,018 | 212,445 |
| Provision for Bad Debts | 378,759 | (188,025) |
| Interest | 37,351 | 44,257 |
| Total Expenses | 6,445,826 | 5,963,935 |
| Operating Income (Loss) | (160,972) | 36,536 |
| OTHER INCOME AND EXPENSES | | |
| Loss on Disposal of Fixed Assets | (5,348) | (2,702) |
| Loss on Refinancing | (6,000) | - |
| Interest Income | 63 | 68 |
| Insurance Proceeds | 42,791 | - |
| Total Other Income and Expenses | 31,506 | (2,634) |
| Excess (Deficit) of Revenues and Other Support Over Expenses | (129,466) | 33,902 |
| Contribution of Capital Assets | 750,000 | - |
| Grants For The Acquisition of Property and Equipment | 22,817 | - |
| INCREASE IN UNRESTRICTED NET ASSETS | \$ 643,351 | \$ 33,902 |

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED NOVEMBER 30, 2012 AND 2011**

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|----------------------------|
| UNRESTRICTED NET ASSETS | | |
| Excess (Deficit) of Revenues and Other Support Over Expenses | \$ (129,466) | \$ 33,902 |
| Contribution of Property and Equipment | 750,000 | - |
| Grants For The Acquisition of Property and Equipment | <u>22,817</u> | <u>-</u> |
| Increase in Unrestricted Net Assets | 643,351 | 33,902 |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Net Assets Released from Restrictions Used for Operations | <u>-</u> | <u>(32,438)</u> |
| Decrease in Temporarily Restricted Net Assets | <u>-</u> | <u>(32,438)</u> |
| Increase in Net Assets | 643,351 | 1,464 |
| NET ASSETS - BEGINNING OF YEAR | <u>1,686,143</u> | <u>1,684,679</u> |
| NET ASSETS - END OF YEAR | <u><u>\$ 2,329,494</u></u> | <u><u>\$ 1,686,143</u></u> |

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30, 2012 AND 2011**

| | 2012 | 2011 |
|---|------------|------------|
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 643,351 | \$ 1,464 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 212,018 | 212,445 |
| Loss On Disposal of Fixed Assets | 5,348 | 2,702 |
| Loss On Refinancing | 6,000 | - |
| Grants for Acquisition of Property and Equipment | (22,817) | - |
| Contribution of Property and Equipment | (750,000) | - |
| (Increase) Decrease in: | | |
| Patient Accounts Receivable-Net | (145,601) | 115,281 |
| Grants Receivable | (2,289) | 81,267 |
| Third Party Payor Settlements Receivable | 48,301 | (8,457) |
| Inventory | 4,748 | 26,925 |
| Prepaid Expenses | (6,475) | (8,617) |
| Increase (Decrease) in: | | |
| Accounts Payable | 89,358 | (251,745) |
| Accrued Expenses | (152,106) | 80,871 |
| Net Cash Provided (Used) by Operating Activities | (70,164) | 252,136 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net Change in Certificates of Deposit | (13) | 12,111 |
| Purchase of Equipment | (130,644) | (244,387) |
| Net Cash Used by Investing Activities | (130,657) | (232,276) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds From Line Of Credit | - | 160,000 |
| Principal Payments on Line of Credit | - | (19,022) |
| Proceeds From Grants For Acquisition of Property and Equipment | 22,817 | - |
| Proceeds From Issuance of Long-Term Debt | 181,414 | - |
| Principal Payments on Long-Term Debt | (163,876) | (139,236) |
| Net Cash Provided by Financing Activities | 40,355 | 1,742 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (160,466) | 21,602 |
| Cash and Cash Equivalents - Beginning of Year | 167,892 | 146,290 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 7,426 | \$ 167,892 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash Paid for Interest | \$ 37,664 | \$ 44,998 |
| Contributions of Property and Equipment | \$ 750,000 | \$ - |

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Organization

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 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 temporarily or permanently restricted net assets at November 30, 2012 or 2011.

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.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Inventory

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

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Major additions and betterments are charged to the property and 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, 2012 and 2011, the allowance for uncollectible accounts was approximately \$663,910 and \$481,800, 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, 2012 and 2011, were \$14,000 and \$24,000, respectively.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2009 through 2012 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. Net assets were released from restriction in the amount of \$32,438 for the year ended November 30, 2011. The Organization has no temporarily restricted net assets at November 30, 2012 and 2011.

Excess (Deficit) of Revenues and Other Support Over Expenses

The statement of operations includes excess (deficit) of revenues and other support over expenses. Changes in unrestricted net assets which are excluded from excess (deficit) of revenues and other support 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 March 15, 2013, the date the financial statements were available to be issued.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011**

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 Medicaid fiscal intermediary.

Approximately 65% and 68% of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended November 30, 2012 and 2011, 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:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|---------------------|---------------------|
| Total Patient Service Revenue | \$ 9,333,763 | \$ 10,036,369 |
| Revenue Adjustments: | | |
| Medicare | 1,133,398 | 1,553,722 |
| Medicaid | 1,500,316 | 1,896,138 |
| Commercial Insurance and Other | <u>1,422,554</u> | <u>1,772,488</u> |
| Net Patient Service Revenue | <u>\$ 5,277,495</u> | <u>\$ 4,814,021</u> |

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011**

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, 2012 and 2011, the Organization recognized \$778,497 and \$729,346, 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, 2012 and 2011 are summarized as follows:

| | 2012 | 2011 |
|--------------------------------------|--------------|--------------|
| Land and Land Improvements | \$ 14,000 | \$ 14,000 |
| Buildings and Leasehold Improvements | 1,955,791 | 1,202,470 |
| Equipment | 1,236,678 | 1,064,427 |
| Construction in Progress | 12,548 | 26,447 |
| | 3,219,017 | 2,307,344 |
| Less Accumulated Depreciation | 860,345 | 659,340 |
| Property and Equipment, Net | \$ 2,358,672 | \$ 1,648,004 |

NOTE 5 LONG-TERM DEBT

Long-term debt at November 30, 2012 and 2011 consisted of the following:

| Description | 2012 | 2011 |
|--|---------|------------|
| Note payable to Great Western Bank payable in monthly installments of \$3,968 including principal and interest at 7% through July 2015. Collateralized by property, equipment and inventory. | \$ - | \$ 153,118 |
| Note payable to Decatur Medical Services payable in annual installments of \$33,333 including principal and interest at U.S. prime rate less 1% (2.25% at 11/30/12) through 2014; unsecured. | 100,000 | 133,334 |

COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011

NOTE 5 LONG-TERM DEBT (CONTINUED)

| Description | 2012 | 2011 |
|--|-------------------|-------------------|
| Note payable to Great Western Bank payable in monthly installments of \$4,805 including principal and interest at 7% through May 2013. Collateralized by property at 802 East Ackerly. | \$ 28,271 | \$ 81,853 |
| Note payable from US Bankcorp payable in monthly installments of \$2,698 including principal and interest at 7.3% through June 2015. Collateralized by equipment. | - | 101,800 |
| Note payable to Great Western Bank in annual installments of \$1,755 including principal and interest at 5.50% through May 2017. Collateralized by assets of the Organization. | 259,464 | - |
| Note payable to Great Western Bank in annual installments of \$1,755 including principal and interest at 5.50% through August 2017. Collateralized by the assets of the Organization. | 87,696 | - |
| Capital lease obligation-South Central Communications | 2,153 | 3,538 |
| Capital lease obligation- Grand River Mutual | 20,174 | - |
| Capital lease obligation- Lenovo | 24,894 | - |
| Less: Current Maturities | <u>(146,850)</u> | <u>(152,351)</u> |
| Long-Term Debt, Net of Current Maturities | <u>\$ 375,802</u> | <u>\$ 321,292</u> |

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

| Year Ending November 31, | Capital Lease Obligations | Notes Payable |
|--------------------------|---------------------------|-------------------|
| 2013 | \$ 18,617 | \$ 130,147 |
| 2014 | 17,631 | 106,132 |
| 2015 | 12,790 | 110,443 |
| 2016 | 1,782 | 81,474 |
| Thereafter | - | 47,235 |
| | <u>50,820</u> | <u>\$ 475,431</u> |
| Less Interest | <u>(3,599)</u> | |
| | <u>\$ 47,221</u> | |

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011**

NOTE 6 LINE OF CREDIT

At November 30, 2012, the Organization had a \$200,000 unsecured bank line-of-credit bearing interest at the bank's prime rate plus 1.5% with a variable rate (currently 5.5%), due on June 5, 2013. At November 30, 2012 and 2011, the outstanding principal balance on the line-of-credit was \$199,500 and \$177,581, respectively.

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 \$104,331 and \$70,575 for the years ended November 30, 2012 and 2011, respectively

NOTE 8 FUNCTIONAL EXPENSES

Program and general expenses for the years ended November 30, 2012 and 2011 are summarized as follows:

| | 2012 | 2011 |
|----------------------------|--------------|--------------|
| Health Care Services | \$ 3,821,813 | \$ 3,624,185 |
| General and Administrative | 2,624,013 | 2,339,750 |
| Total Expenses | \$ 6,445,826 | \$ 5,963,935 |

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

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were released in the amount of \$0 and \$32,438 during the years ended November 30, 2011 and 2010, respectively. There are no temporarily restricted net assets at November 30, 2012 and 2011. 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.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012 AND 2011**

NOTE 10 CONCENTRATION OF CREDIT RISKS (CONTINUED)

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, 2012 and 2011, is:

| | 2012 | 2011 |
|---------------------------------------|------|------|
| Medicare | 13% | 21% |
| Medicaid | 20% | 15% |
| Other Third Party Payors and Patients | 67% | 64% |
| | 100% | 100% |

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 \$12,548 at November 30, 2012 for preliminary and design costs for a renovation project for the building located in Centerville, Iowa. The renovation is expected to cost approximately \$500,000 and will be financed with a grant awarded in the amount of \$483,500, as well as 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, 2012**

| | <u>Federal CFDA Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---------------------|
| U.S. Department of Health and Human Services | | |
| Consolidated Health Centers Cluster | 93.224 | \$ 770,307 |
| ARRA-Increase Services to Health Centers | 93.703 | 22,817 |
| Basic/Core Area Health Education Centers | 93.824 | 8,190 |
| Total Health Center Cluster | | <u>\$ 801,314</u> |

See accompanying Notes to Schedule of Expenditures of Federal Awards

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
NOVEMBER 30, 2012**

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, Inc.. The reporting entity is defined in Note 1 to Community Health Centers of Southern Iowa, Inc.'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, Inc.'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, Inc.
Leon, Iowa

We have audited the financial statements of Community Health Centers of Southern Iowa, Inc. as of and for the year ended November 30, 2012 and have issued our report thereon dated March 15, 2013. 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, Inc.'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, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Health Centers of Southern Iowa, Inc.'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified a deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.

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. We consider the deficiency described as item 2012-1 to be a material weakness.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Health Centers of Southern Iowa, Inc.'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*.

Community Health Centers of Southern Iowa, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Community Health Centers of Southern Iowa, Inc.'s responses, and accordingly, express no opinion on them.

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
March 15, 2013



CliftonLarsonAllen

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**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, Inc.
Leon, Iowa

Compliance

We have audited Community Health Centers of Southern Iowa, Inc.'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, Inc.'s major federal programs for the year ended November 30, 2012. Community Health Centers of Southern Iowa, Inc.'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, Inc.'s management. Our responsibility is to express an opinion on Community Health Centers of Southern Iowa, Inc.'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, Inc.'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, Inc.'s compliance with those requirements.

In our opinion, Community Health Centers of Southern Iowa, Inc. 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, 2012.

Internal Control Over Compliance

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 Community Health Centers of Southern Iowa, Inc.'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, Inc.'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, Inc. as of and for the year ended November 30, 2012, and have issued our report thereon dated March 15, 2013. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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
March 15, 2013

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED NOVEMBER 30, 2012**

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, Inc..
- (b) One material weakness and one significant deficiency 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, Inc. 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, Inc. expresses an unqualified opinion.
- (f) No audit findings relative to the major federal award programs for Community Health Centers of Southern Iowa, Inc. 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, Inc. 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, 2012**

Part II: Findings Related to the Basic Financial Statements

FINDING: 2012-1

UNADJUSTED FINANCIAL STATEMENT MISSTATEMENTS

Criteria: The Organization does not have an internal control policy in place over annual financial reporting, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the internal controls.

Condition: The Organization must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Effect: No effect on the financial statements. The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the internal controls.

Cause: The Organization relies on the audit firm to prepare the annual financial report. However, they have reviewed and approved the annual financial statements.

Recommendation: We recommend that the Organization continues to evaluate their internal staff, expertise and assigned duties to determine if an internal control policy over the annual financial reporting is beneficial.

Response: The Organization will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.

Conclusion: Response accepted

FINDING: 2012-2

INTERNAL CONTROL OVER PAYROLL

Criteria: The Organization's internal controls over payroll require a review and approval of individual timecards by each department supervisor.

Condition: A number of timecards reviewed during the audit did not contain documented approval by the department supervisor.

Effect: No effect on the financial statements. The potential exists that a misstatement of the annual financial statements could occur and not be prevented or detected by the internal controls.

Cause: Supervisor Review was not appropriately documented on selected timecards.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED NOVEMBER 30, 2012**

FINDING: 2012-2 INTERNAL CONTROL OVER PAYROLL (CONTINUED)

Recommendation: We recommend that the Organization monitors compliance with its internal policies and procedures.

Response: The Organization will monitor compliance with its internal policies and procedures.

Conclusion: Response accepted

Part III: Federal Awards Findings and Questioned Costs

None

Part IV: Prior Year Findings

None