

**COMMUNITY HEALTH CENTERS  
OF SOUTHERN IOWA, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED NOVEMBER 30, 2013 AND 2012**



**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
TABLE OF CONTENTS  
YEARS ENDED NOVEMBER 30, 2013 AND 2012**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>BALANCE SHEETS</b>	<b>3</b>
<b>STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS</b>	<b>4</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>5</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>6</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>14</b>
<b>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>15</b>
<b>INDEPENDENT AUDITORS' 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></b>	<b>16</b>
<b>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</b>	<b>18</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>21</b>



## INDEPENDENT AUDITORS' REPORT

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Community Health Centers of Southern Iowa, Inc., which comprise of the balance sheets as of November 30, 2013 and 2012, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

**Opinions**

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, 2013 and 2012, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as 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 financial statements.

The schedule of expenditures of federal awards 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 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 financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014, on our consideration of Community Health Centers of Southern Iowa, Inc.'s, internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Health Centers of Southern Iowa, Inc.'s, internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
March 20, 2014

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
BALANCE SHEETS  
NOVEMBER 30, 2013 AND 2012**

<b>ASSETS</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 15,951	\$ 7,426
Certificates of Deposit	76,049	2,607
Accounts Receivable, Net	554,029	597,583
Grants and Other Receivables	19,385	18,413
Third Party Payor Settlements Receivable	34,516	435,156
Inventory	9,744	9,744
Prepaid Expenses	46,498	50,474
Total Current Assets	<u>756,172</u>	<u>1,121,403</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>2,165,120</u>	<u>2,358,672</u>
Total Assets	<u><u>\$ 2,921,292</u></u>	<u><u>\$ 3,480,075</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 172,600	\$ 252,960
Accrued Expenses	193,025	175,469
Line-of-Credit Payable	-	199,500
Current Maturities of Long-Term Debt	124,026	146,850
Total Current Liabilities	<u>489,651</u>	<u>774,779</u>
<b>LONG-TERM DEBT</b>		
Long-Term Debt, Net of Current Maturities	<u>255,929</u>	<u>375,802</u>
Total Liabilities	745,580	1,150,581
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	<u>2,175,712</u>	<u>2,329,494</u>
Total Net Assets	<u>2,175,712</u>	<u>2,329,494</u>
Total Liabilities and Net Assets	<u><u>\$ 2,921,292</u></u>	<u><u>\$ 3,480,075</u></u>

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
YEARS ENDED NOVEMBER 30, 2013 AND 2012**

	2013	2012
<b>REVENUE AND OTHER SUPPORT</b>		
Net Patient Service Revenue (net of provision for uncollectible accounts of \$378,759 in 2013 and \$399,115 in 2012)	\$ 4,190,749	\$ 4,898,736
Grant Revenue	875,713	817,943
Contributions	-	14,000
Other	260,004	175,416
Total Revenue and Other Support	5,326,466	5,906,095
<b>EXPENSES</b>		
Salaries and Wages	3,429,665	3,699,478
Employee Benefits	715,536	850,802
Purchased Services and professional Fees	241,495	385,837
Supplies and Other	802,855	840,588
Rent	27,914	40,993
Depreciation	241,440	212,018
Interest	24,909	37,351
Total Expenses	5,483,814	6,067,067
Operating Loss	(157,348)	(160,972)
<b>OTHER INCOME AND EXPENSES</b>		
Gain (Loss) on Disposal of Fixed Assets	2,500	(5,348)
Loss on Refinancing	-	(6,000)
Interest Income	66	63
Insurance Proceeds	1,000	42,791
Total Other Income and Expenses	3,566	31,506
Deficit of Revenues and Other Support Over Expenses	(153,782)	(129,466)
Contribution of Property and Equipment	-	750,000
Grants for the Acquisition of Property and Equipment	-	22,817
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(153,782)	643,351
<b>NET ASSETS - BEGINNING OF YEAR</b>	2,329,494	1,686,143
<b>NET ASSETS - END OF YEAR</b>	\$ 2,175,712	\$ 2,329,494

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
STATEMENTS OF CASH FLOWS  
YEARS ENDED NOVEMBER 30, 2013 AND 2012**

	2013	2012
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (153,782)	\$ 643,351
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	241,440	212,018
(Gain) Loss On Disposal of Fixed Assets	(2,500)	5,348
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	43,554	(145,601)
Grants Receivable	(972)	(2,289)
Third Party Payor Settlements Receivable	400,640	48,301
Inventory	-	4,748
Prepaid Expenses	3,976	(6,475)
Increase (Decrease) in:		
Accounts Payable	(80,360)	89,358
Accrued Expenses	17,556	(152,106)
Net Cash Provided (Used) by Operating Activities	469,552	(70,164)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Change in Certificates of Deposit	(73,442)	(13)
Purchase of Equipment	(45,590)	(130,644)
Net Cash Used by Investing Activities	(119,032)	(130,657)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds From Line Of Credit	65,000	-
Principal Payments on Line of Credit	(264,500)	-
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	(142,495)	(163,876)
Net Cash Provided (Used) by Financing Activities	(341,995)	40,355
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	8,525	(160,466)
Cash and Cash Equivalents - Beginning of Year	7,426	167,892
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 15,951	\$ 7,426
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 25,096	\$ 37,664
Equipment Acquired Under Capital Lease Obligation	\$ 4,798	\$ -
Contributions of Property and Equipment	\$ -	\$ 750,000

See accompanying Notes to Financial Statements

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2013 AND 2012**

**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, 2013 or 2012.

**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, 2013 AND 2012**

**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, 2013 and 2012, the allowance for uncollectible accounts was approximately \$599,180 and \$663,910, 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, 2013 and 2012, were \$0 and \$14,000, respectively.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2013 AND 2012**

**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. The entity's 2010 through 2012 tax years are open for examination by the IRS.

**Deficit of Revenues and Other Support Over Expenses**

The statement of operations includes deficit of revenues and other support over expenses. Changes in unrestricted net assets which are excluded from 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 20, 2014, the date the financial statements were available to be issued.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2013 AND 2012**

**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 62% and 65% of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended November 30, 2013 and 2012, 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>2013</u>	<u>2012</u>
Total Patient Service Revenue	\$ 8,363,999	\$ 9,333,763
Revenue Adjustments:		
Medicare	1,175,180	1,133,398
Medicaid	1,370,912	1,500,316
Commercial Insurance and Other	1,228,043	1,422,554
Provision for Bad Debt	<u>399,115</u>	<u>378,759</u>
Net Patient Service Revenue	<u>\$ 4,190,749</u>	<u>\$ 4,898,736</u>

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2013 AND 2012**

**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, 2013 and 2012, the Organization recognized \$781,706 and \$778,497, 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, 2013 and 2012 are summarized as follows:

	2013	2012
Land and Land Improvements	\$ 14,000	\$ 14,000
Buildings and Leasehold Improvements	1,955,791	1,955,791
Equipment	1,262,095	1,236,678
Construction in Progress	35,020	12,548
	3,266,906	3,219,017
Less Accumulated Depreciation	1,101,786	860,345
Property and Equipment, Net	\$ 2,165,120	\$ 2,358,672

**NOTE 5 LONG-TERM DEBT**

Long-term debt at November 30, 2013 and 2012 consisted of the following:

Description	2013	2012
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 11/30/13) through 2014; unsecured.	\$ 66,667	\$ 100,000

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2013 AND 2012**

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

Description	2013	2012
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
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.	207,255	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.	71,147	87,696
Capital lease obligation-South Central Communications	610	2,153
Capital lease obligation- Grand River Mutual	14,328	20,174
Capital lease obligation- Lenovo	15,651	24,894
Capital lease obligation- Lenovo #2	4,297	-
Total Long-Term Debt	379,955	522,652
Less: Current Maturities	(124,026)	(146,850)
Long-Term Debt, Net of Current Maturities	<u>\$ 255,929</u>	<u>\$ 375,802</u>

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

Year Ending November 31,	Capital Lease Obligations	Notes Payable
2014	\$ 19,272	\$ 106,214
2015	14,431	110,325
2016	2,649	81,333
2017	-	47,197
	<u>36,352</u>	<u>\$ 345,069</u>
Less Interest	(1,466)	
	<u>\$ 34,886</u>	

Equipment under capital lease obligations had a cost of \$61,861 and \$57,063 and accumulated depreciation of \$9,778 and \$4,429 at November 30, 2013 and 2012, respectively.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2013 AND 2012**

**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%), originally due on June 5, 2013, which was extended one year to June 5, 2014. At November 30, 2013 and 2012, the outstanding principal balance on the line-of-credit was \$0 and \$199,500, 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 \$78,234 and \$104,331 for the years ended November 30, 2013 and 2012, respectively

**NOTE 8 FUNCTIONAL EXPENSES**

Program and general expenses for the years ended November 30, 2013 and 2012 are summarized as follows:

	2013	2012
Health Care Services	\$ 2,859,801	\$ 3,443,054
General and Administrative	2,624,013	2,624,013
Total Expenses	\$ 5,483,814	\$ 6,067,067

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

**NOTE 9 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, 2013 and 2012, is:

	2013	2012
Medicare	17%	13%
Medicaid	15%	20%
Other Third Party Payors and Patients	68%	67%
	100%	100%

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2013 AND 2012**

**NOTE 10 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 11 COMMITMENTS AND CONTINGENCIES**

**Construction in Progress**

The Organization reflects construction in progress of \$35,020 at November 30, 2013 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 statutes and regulations by health care providers.

**Litigation**

The Organization is subject to litigation in the ordinary course of business. Management intends to vigorously defend all claims and does not anticipate a material adverse outcome.

## **SUPPLEMENTARY INFORMATION**

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED NOVEMBER 30, 2013**

	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services		
Consolidated Health Centers Cluster	93.224	\$ 826,130
Community Outreach	93.527	6,970
Total Health Center Cluster		<u>\$ 833,100</u>

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
NOVEMBER 30, 2013**

**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.



**INDEPENDENT AUDITORS' 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, 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, the financial statements of Community Health Centers of Southern Iowa, Inc., which comprise the balance sheet as of November 30, 2013 and the related statements of operations and changes in net assets and cash flows and for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Community Health Centers of Southern Iowa, Inc.'s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Community Health Centers of Southern Iowa, Inc.'s internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 2013-1 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 2013-2 to be a significant deficiency.

**Compliance and Other Matters**

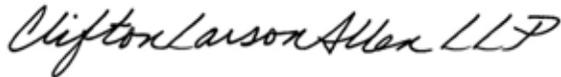
As part of obtaining reasonable assurance about whether Community Health Centers of Southern Iowa, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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*.

**Responses to Findings**

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. Community Health Centers of Southern Iowa, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, express no opinion on them.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
March 20, 2014



**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

**Report on Compliance for Each Major Federal Program**

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, 2013. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Community Health Centers of Southern Iowa, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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. compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Community Health Centers of Southern Iowa, Inc. compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Community Health Centers of Southern Iowa, Inc. complied, in all material respects, with the types of 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, 2013.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-3. Our opinion on each major federal program is not modified with respect to these matters.

Community Health Centers of Southern Iowa, Inc.'s response to the noncompliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. Community Health Centers of Southern Iowa, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

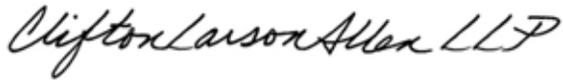
Management of Community Health Centers of Southern Iowa, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Health Centers of Southern Iowa, Inc. internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

**CliftonLarsonAllen LLP**

Austin, Minnesota  
March 20, 2014

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2013**

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

- (a) The auditors' report expresses an unmodified 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 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 unmodified opinion.
- (f) One audit finding relative to the major federal award programs for Community Health Centers of Southern Iowa, Inc. was disclosed during the audit.
- (g) The programs tested as a major programs are the Health Resources Services Administration Health Centers Cluster Program which includes CFDA 93.224 and CFDA 93.527.
- (h) The threshold for distinguishing Type A and B programs was \$300,000.
- (i) Community Health Centers of Southern Iowa, Inc. was determined to not be a low-risk auditee.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2013**

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

<b>FINDING: 2013-1</b>	<b>ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)</b>
<b>Condition:</b>	The Organization does not have an internal control policy in place over annual financial reporting under GAAP.
<b>Criteria:</b>	The Organization must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.
<b>Effect:</b>	The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the Organization's internal controls.
<b>Cause:</b>	The Organization has not adopted a policy over the annual financial reporting under GAAP; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.
<b>Recommendation:</b>	The Organization should continue to evaluate their internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.
<b>Management's Response:</b>	Management will continue to rely upon the audit firm to create the draft financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the annual financial statements.
<b>FINDING: 2013-2</b>	<b>UNADJUSTED FINANCIAL STATEMENT MISSTATMENTS</b>
<b>Criteria:</b>	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.
<b>Condition:</b>	The Organization must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.
<b>Effect:</b>	The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the internal controls.
<b>Cause:</b>	The Organization relies on the audit firm to propose corrections to certain balances.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2013**

**Part II: Findings Related to the Basic Financial Statements (Continued)**

**FINDING: 2013-2                      UNADJUSTED      FINANCIAL      STATEMENT      MISSTATEMENTS  
(CONTINUED)**

**Recommendation:**                      We recommend that the Organization continues to evaluate their internal staff, expertise and assigned duties to determine if accounts are adjusted to their proper year end balances.

**Response:**                                      The Organization will review its year end proposed audit adjustments to make a judgment to determine if they have the expertise to accomplish such adjustments in the future.

**Conclusion:**                                      Response accepted

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

**FINDING: 2013-3                      CONSOLIDATED HEALTH CENTERS CFDA NO. 93.224 – PROGRAM  
INCOME**

**Criteria:**                                      The Organization's is not continually monitoring their patient discounts

**Condition:**                                      The Organization must properly apply discounts to their patients.

**Effect:**    The potential exists for any given patient to be charged the incorrect amount, along with the Organization over or under recording their revenue and related contractual.

**Cause:**    Applied discounts are not being continually monitored. This along with staff turnover caused patient discounts to be incorrectly applied.

**Recommendation:**                      We recommend that the Organization continue to monitor and properly assess discounts.

**Response:**                                      The Organization will monitor review discounts during the course of the year.

**Conclusion:**                                      Response accepted

