

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED NOVEMBER 30, 2015 AND 2014**



**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
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## 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 the balance sheets as of November 30, 2015 and 2014, 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 audits 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.

**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, 2015 and 2014, 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 14, 2016, 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 14, 2016

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.  
BALANCE SHEETS  
NOVEMBER 30, 2015 AND 2014**

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 191,648	\$ 108,173
Certificates of Deposit	432,815	107,517
Accounts Receivable, Net	440,238	325,211
Grants and Other Receivables	19,747	15,701
Third-Party Payor Settlements Receivable	187,361	216,262
Prepaid Expenses	48,153	55,822
Total Current Assets	1,319,962	828,686
<b>PROPERTY AND EQUIPMENT, NET</b>	2,444,814	2,616,266
Total Assets	\$ 3,764,776	\$ 3,444,952
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 167,259	\$ 214,859
Accrued Expenses	213,590	185,994
Current Maturities of Long-Term Debt	107,914	142,656
Total Current Liabilities	488,763	543,509
<b>LONG-TERM DEBT</b>		
Long-Term Debt, Net of Current Maturities	83,174	179,274
Total Liabilities	571,937	722,783
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted	3,192,839	2,722,169
Total Liabilities and Net Assets	\$ 3,764,776	\$ 3,444,952

See accompanying Notes to Financial Statements.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.  
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
YEARS ENDED NOVEMBER 30, 2015 AND 2014**

	2015	2014
<b>REVENUE AND OTHER SUPPORT</b>		
Net Patient Service Revenue (Net of Provision for Uncollectible Accounts (Recoveries) of \$(71,304) in 2015 and \$477,286 in 2014)	\$ 5,647,123	\$ 4,621,170
Grant Revenue	1,272,808	1,534,139
Other	603,002	514,184
Total Revenue and Other Support	7,522,933	6,669,493
<b>EXPENSES</b>		
Salaries and Wages	3,746,292	3,564,832
Employee Benefits	854,506	760,787
Purchased Services and Professional Fees	853,468	533,435
Supplies and Other	1,267,749	962,413
Rent	35,074	29,766
Depreciation	281,599	253,336
Interest	13,988	18,569
Total Expenses	7,052,676	6,123,138
<b>OPERATING INCOME</b>	470,257	546,355
<b>OTHER INCOME AND EXPENSES</b>		
Interest Income	413	102
<b>EXCESS OF REVENUES AND OTHER SUPPORT OVER EXPENSES</b>	470,670	546,457
Net Assets - Beginning of Year	2,722,169	2,175,712
<b>NET ASSETS - END OF YEAR</b>	\$ 3,192,839	\$ 2,722,169

See accompanying Notes to Financial Statements.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED NOVEMBER 30, 2015 AND 2014**

	2015	2014
<b>RECONCILIATION OF EXCESS OF REVENUES AND OTHER SUPPORT OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 470,670	\$ 546,457
Adjustments to Reconcile Excess of Revenues and Other Support Over Expenses to Net Cash Provided by Operating Activities:		
Depreciation	281,599	253,336
(Increase) Decrease in:		
Patient Accounts Receivable, Net	(115,027)	228,818
Grants Receivable	(4,046)	3,684
Third-Party Payor Settlements Receivable	28,901	(181,746)
Inventory	-	9,744
Prepaid Expenses	7,669	(9,324)
Increase (Decrease) in:		
Accounts Payable	(47,600)	42,259
Accrued Expenses	27,596	(7,031)
Net Cash Provided by Operating Activities	649,762	886,197
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Change in Certificates of Deposit	(325,298)	(31,468)
Purchase of Equipment	(91,904)	(630,958)
Net Cash Used by Investing Activities	(417,202)	(662,426)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Line Of Credit	-	45,000
Principal Payments on Line of Credit	-	(45,000)
Principal Payments on Long-Term Debt	(149,085)	(131,549)
Net Cash Used by Financing Activities	(149,085)	(131,549)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	83,475	92,222
Cash and Cash Equivalents - Beginning of Year	108,173	15,951
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 191,648	\$ 108,173
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 14,301	\$ 19,006
Equipment Acquired Under Capital Lease Obligation	\$ 18,243	\$ 73,524

See accompanying Notes to Financial Statements.

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**NOTE 1 SUMMARY OF 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 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, 2015 or 2014.

**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, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**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.

**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. Additions and betterments of \$1,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to operations when incurred.

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, 2015 and 2014, the allowance for uncollectible accounts was approximately \$330,000 and \$865,000, respectively.

**Grants Receivable**

Grants receivable consists of costs under the grant agreements that were incurred prior to year-end, for which payment has not been received. Costs incurred recoverable under grants are stated at the amount management expects to collect from outstanding balances.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**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.

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

The statements of operations include an excess of revenues and other support over expenses. Changes in unrestricted net assets which are excluded from excess 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).

**Contributions and Grants**

Contributions and grants that are essentially contributions, including unconditional promises to give, are recognized as revenue in the period awarded.

**Electronic Health record (EHR) Incentive Payments**

As discussed in Note 11, the Organization received funds under the EHR Incentive program during 2015 and 2014. The Organization recognized revenue for payments received during the period.

**Subsequent Events**

In preparation of the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 14, 2016, the date the financial statements were available to be issued.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**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 59% and 66% of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended November 30, 2015 and 2014, 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>2015</u>	<u>2014</u>
Total Patient Service Revenue	\$ 9,430,965	\$ 9,523,280
Revenue Adjustments:		
Medicare	852,131	896,922
Medicaid	1,920,141	2,126,815
Commercial Insurance and Other	1,082,874	1,401,087
Provision for Bad Debt (Recoveries)	<u>(71,304)</u>	<u>477,286</u>
Net Patient Service Revenue	<u>\$ 5,647,123</u>	<u>\$ 4,621,170</u>

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**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, 2015 and 2014, the Organization recognized \$1,175,842 and \$1,017,092, respectively.

The Organization is also the recipient of a Capital Development grant from the U.S. Department of Health and Human Services (the 'granting agency'). The general purpose of the grant is to fund the construction, renovation, and equipment purchases for the Centerville, Iowa facility. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended November 30, 2015 and 2014, the Organization recognized \$0- and \$475,310, respectively.

In addition to those 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. During the years ended November 30, 2015 and 2014, the Organization recognized \$96,966 and \$41,737, respectively.

**NOTE 4 PROPERTY AND EQUIPMENT**

The components of property and equipment at November 30, 2015 and 2014 are summarized as follows:

	2015	2014
Land and Land Improvements	\$ 14,000	\$ 14,000
Buildings and Leasehold Improvements	2,636,785	2,636,785
Equipment	1,415,435	1,320,602
Construction in Progress	15,584	-
Total	<u>4,081,804</u>	<u>3,971,387</u>
Less: Accumulated Depreciation	1,636,990	1,355,121
Property and Equipment, Net	<u><u>\$ 2,444,814</u></u>	<u><u>\$ 2,616,266</u></u>

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**NOTE 5 LONG-TERM DEBT**

Long-term debt at November 30, 2015 and 2014 consisted of the following:

Description	2015	2014
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 11/30/14) through December 2014; unsecured.	\$ -	\$ 33,333
Note payable to Great Western Bank in monthly installments of \$5,443 including principal and interest at 5.50% through May 2017. Collateralized by assets of the Organization.	93,387	152,103
Note payable to Great Western Bank in monthly installments of \$1,755 including principal and interest at 5.50% through August 2017. Collateralized by the assets of the Organization.	34,990	53,564
Capital lease obligations	62,711	82,930
Total Long-Term Debt	191,088	321,930
Less: Current Maturities	(107,914)	(142,656)
Long-Term Debt, Net of Current Maturities	<u>\$ 83,174</u>	<u>\$ 179,274</u>

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

<u>Year Ending November 31.</u>	<u>Capital Lease Obligations</u>	<u>Notes Payable</u>
2016	\$ 26,440	\$ 81,474
2017	22,148	46,903
2018	14,123	-
Total	<u>\$ 62,711</u>	<u>\$ 128,377</u>

Equipment under capital lease obligations had a cost of \$129,790 and \$140,226 and accumulated depreciation of \$24,175 and \$22,091 at November 30, 2015 and 2014, respectively.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**NOTE 6 LINE OF CREDIT**

At November 30, 2015, 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 April 15, 2015, which was extended one year to April 15, 2016. The outstanding principal balance was \$-0- at November 30, 2015 and 2014.

**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 \$97,164 and \$81,881 for the years ended November 30, 2015 and 2014, respectively

**NOTE 8 FUNCTIONAL EXPENSES**

Program and general expenses for the years ended November 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Health Care Services	\$ 4,030,318	\$ 3,499,125
General and Administrative	<u>3,022,358</u>	<u>2,624,013</u>
Total Expenses	<u>\$ 7,052,676</u>	<u>\$ 6,123,138</u>

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 who are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third party payors at November 30, 2015 and 2014, is:

	<u>2015</u>	<u>2014</u>
Medicare	19 %	8 %
Medicaid	17	10
Other Third-Party Payors and Patients	64	82
Total	<u>100 %</u>	<u>100 %</u>

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2015 AND 2014**

**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 EHR INCENTIVE PAYMENTS**

The EHR incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payment under both the Medicare and Medicaid programs to eligible organizations that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the organization continuing to meet the escalating meaningful use criteria. For the first payment year, the organization must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period.

The Organization recognized EHR incentive revenue of approximately \$110,500 and \$34,000 during the years ended November 30, 2015 and 2014, respectively. This amount is included within Other Revenues on the statements of operations and changes in net assets.

**NOTE 12 COMMITMENTS AND CONTINGENCIES**

**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.

**SUPPLEMENTARY INFORMATION**

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**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED NOVEMBER 30, 2015**

	Federal CFDA Number	Expenditures
<b>U.S. Department of Health and Human Services</b>		
Consolidated Health Centers Cluster	93.224	\$ 1,106,716
Community Outreach	93.527	69,126
Total Health Center Cluster		\$ 1,175,842

*See accompanying Notes to Schedule of Expenditures of Federal Awards.*

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**NOVEMBER 30, 2015**

**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, 2015 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 14, 2016.

**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 2015-001 to be a material weakness.

**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 Community Health Centers of Southern Iowa, Inc.'s internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
March 14, 2016

**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, 2015. 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.

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, 2015.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-002 and 2015-003. 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 findings identified in our audit are described in the accompanying schedule of findings and questions 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**

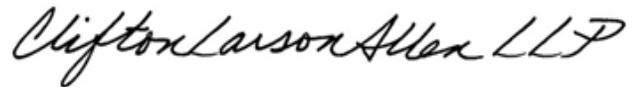
Management of Community Health Centers of Southern Iowa, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Community Health Centers of Southern Iowa, Inc.'s 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.'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. *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 14, 2016

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2015**

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**Section I – Summary of Auditors’ Results**

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**Financial Statements**

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified?   x   yes            no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?            yes   x   none reported
3. Noncompliance material to financial statements noted?            yes   x   no

**Federal Awards**

1. Internal control over major federal programs:
- Material weakness(es) identified?            yes   x   no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?            yes   x   none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   x   yes            no

**Identification of Major Federal Programs**

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Consolidated Health Centers Cluster
93.527	Community Outreach

Dollar threshold used to distinguish between Type A and Type B programs: \$   300,000  

Auditee qualified as low-risk auditee pursuant to OMB Circular A-133?            yes   x   no

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2015**

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***Section II – Financial Statement Findings***

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**2015 – 001**

Type of Finding:

- Material Weakness in Internal Control over Financial Reporting

**Condition:** The Organization does not have a policy in place to provide reasonable assurance that financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented, or detected and corrected, by the Organization's internal controls.

**Criteria or specific requirement:** Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

**Context:** While performing audit procedures, it was noted that management does not have internal controls in place to provide reasonable assurance with U.S. GAAP.

**Effect:** The lack of controls in place over the financial reporting function increases the risk misstatements, fraud, or errors occurring and not being detected and corrected.

**Cause:** 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.

**Recommendation:** 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.

**Views of responsible officials and planned corrective actions:** Management will continue to rely upon the audit firm to create the draft financial statements and related footnote disclosure, and will review and approve these prior to the issuance of the annual financial statements.

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2015**

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***Section III – Findings and Questioned Costs – Major Federal Programs***

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**2015– 002**

Federal agency: U.S. Department of Health and Human Resources

Federal program: Consolidated Health Centers Cluster

CFDA Number: 93.224

Award Period: 12/1/14-11/30/16

Type of Finding:

- Compliance

**Criteria or specific requirement:** The Organization must verify income is properly verified.

**Condition:** During our testing, we noted 1 of 40 patients tested did not have supporting documentation verifying patient's income.

**Questioned costs:** None

**Context:** CLA tested 40 patients to test the compliance and internal control over compliance of the benefits given to patients.

**Cause:** The Organization cannot support the discounts given to patients.

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

**Recommendation:** The Organization should continue to monitor and properly assess discounts.

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** There is no disagreement with the audit finding.

**Actions planned in response to finding:** The Organization will continue to monitor and properly assess discounts.

**Responsible party:** The Organization

**Planned completion date for corrective action plan:** Immediately

**Plan to monitor completion of corrective action plan:** Ongoing review of patient income verification

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2015**

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***Section III – Findings and Questioned Costs – Major Federal Programs (Continued)***

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**2015– 003**

Federal agency: U.S. Department of Health and Human Resources

Federal program: Consolidated Health Centers Cluster

CFDA Number: 93.224

Award Period: 12/1/14-11/30/16

Type of Finding:

- Compliance

**Criteria or specific requirement:** The Organization must verify benefits are properly discontinued.

**Condition:** During our testing, we noted 1 of 40 patients tested did not have their slide properly discontinued.

**Questioned costs:** None

**Context:** CLA tested 40 patients to test the compliance and internal control over compliance of the benefits given to patients.

**Cause:** Applied discounts are not being continually monitored.

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

**Recommendation:** The Organization should continue to monitor and properly assess discounts.

**Views of responsible officials and planned corrective actions:**

**Explanation of disagreement with audit finding:** There is no disagreement with the audit finding.

**Actions planned in response to finding:** The Organization will continue to monitor and properly assess discounts.

**Responsible party:** The Organization

**Planned completion date for corrective action plan:** Immediately

**Plan to monitor completion of corrective action plan:** Ongoing review of patient sliding fee documentation

**COMMUNITY HEALTH CENTERS OF SOUTHERN IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED NOVEMBER 30, 2015**

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***Section IV – Prior Year Major Federal Program Findings***

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There were no findings in the prior year that were required to be reported in accordance with Section 510(a) of OMB Circular A-133.