

Community Health Centers of Southern Iowa, Inc.

Accountants' Reports and Financial Statements

November 30, 2008 and 2007

Community Health Centers of Southern Iowa, Inc.

November 30, 2008 and 2007

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**Independent Accountants' Report on
Financial Statements and Supplementary Information**

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

We have audited the accompanying balance sheets of Community Health Centers of Southern Iowa, Inc. (the "Organization") as of November 30, 2008 and 2007, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Health Centers of Southern Iowa, Inc. as of November 30, 2008 and 2007, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

December 11, 2009

Community Health Centers of Southern Iowa, Inc.

Balance Sheets

November 30, 2008 and 2007

Assets

	2008	2007
Current Assets		
Cash	\$ 15,817	\$ 42,707
Certificates of deposit	14,324	13,871
Patient accounts receivable, net of allowance; 2008 - \$582,356, 2007 - \$677,933	584,336	406,950
Grants and other receivables	45,579	153,912
Pharmacy inventory	71,724	46,365
Estimated amounts due from third-party payers	150,000	75,000
Prepaid expenses and other	17,135	18,428
Total current assets	<u>898,915</u>	<u>757,233</u>
Property and Equipment, At Cost		
Land and land improvements	14,000	14,000
Buildings and leasehold improvements	517,674	540,224
Equipment	<u>372,617</u>	<u>313,380</u>
	904,291	867,604
Less accumulated depreciation	<u>285,029</u>	<u>236,269</u>
	619,262	631,335
Total assets	<u>\$ 1,518,177</u>	<u>\$ 1,388,568</u>

Liabilities and Net Assets

Current Liabilities		
Line of credit	\$ 186,181	\$ 400,237
Current maturities of long-term debt	26,037	7,933
Accounts payable	99,509	90,274
Accrued expenses	191,778	176,626
Due to Decatur Medical Services	191,992	-
Deferred grant revenue	<u>9,204</u>	<u>-</u>
Total current liabilities	704,701	675,070
Long-Term Debt	<u>178,241</u>	<u>4,278</u>
Total liabilities	<u>882,942</u>	<u>679,348</u>
Net Assets		
Unrestricted	587,132	669,335
Temporarily restricted	<u>48,103</u>	<u>39,885</u>
Total net assets	<u>635,235</u>	<u>709,220</u>
Total liabilities and net assets	<u>\$ 1,518,177</u>	<u>\$ 1,388,568</u>

Community Health Centers of Southern Iowa, Inc.

Statements of Operations

Years Ended November 30, 2008 and 2007

	2008	2007
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 2,300,633	\$ 2,230,650
Grant revenue	887,834	856,295
Contributions	71,282	57,110
Net assets released from restrictions used for operations	-	76,490
Other	41,766	47,320
	<u>3,301,515</u>	<u>3,267,865</u>
Total unrestricted revenues, gains and other support		
	<u>3,301,515</u>	<u>3,267,865</u>
Expenses and Losses		
Salaries and wages	1,909,619	1,795,024
Employee benefits	349,987	346,660
Purchased services and professional fees	240,507	106,000
Supplies and other	539,766	585,202
Rent	69,237	52,438
Depreciation	71,311	64,920
Interest	29,002	20,345
Provision for uncollectible accounts	232,805	437,925
	<u>3,442,234</u>	<u>3,408,514</u>
Total expenses and losses		
	<u>3,442,234</u>	<u>3,408,514</u>
Operating Loss	(140,719)	(140,649)
Other Income		
Investment return	2,251	1,362
	<u>2,251</u>	<u>1,362</u>
Deficiency of Revenues Over Expenses	(138,468)	(139,287)
	<u>(138,468)</u>	<u>(139,287)</u>
Grants of or for the acquisition of fixed assets	56,265	144,422
	<u>56,265</u>	<u>144,422</u>
Increase (Decrease) in Unrestricted Net Assets	\$ (82,203)	\$ 5,135
	<u><u>(82,203)</u></u>	<u><u>5,135</u></u>

Community Health Centers of Southern Iowa, Inc.
Statements of Changes in Net Assets
Years Ended November 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (138,468)	\$ (139,287)
Grants of or for the acquisition of fixed assets	<u>56,265</u>	<u>144,422</u>
	<u>(82,203)</u>	<u>5,135</u>
Temporarily Restricted Net Assets		
Contributions	8,218	-
Net assets released from restriction	<u>-</u>	<u>(76,490)</u>
	<u>8,218</u>	<u>(76,490)</u>
Change in Net Assets	(73,985)	(71,355)
Net Assets, Beginning of Year	<u>709,220</u>	<u>780,575</u>
Net Assets, End of Year	<u><u>\$ 635,235</u></u>	<u><u>\$ 709,220</u></u>

Community Health Centers of Southern Iowa, Inc.
Statements of Cash Flows
Years Ended November 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Change in net assets	\$ (73,985)	\$ (71,355)
Items not requiring (providing) cash		
Depreciation	71,311	64,920
Change in contributed inventory	(8,218)	71,490
Grants of or for acquisition of property and equipment	(56,265)	(144,422)
Note payable acquired through noncash transaction	-	1,500
Changes in		
Patient accounts receivable, net	(177,386)	(156,147)
Grants receivable	10,868	(46,740)
Estimated amounts due from and to third-party payers	(75,000)	(145,000)
Inventory	(17,141)	(1,332)
Accounts payable and accrued expenses	216,379	68,372
Other current assets and liabilities	10,497	(4,204)
	<u>(98,940)</u>	<u>(362,918)</u>
Net cash used in operating activities		
	<u>(98,940)</u>	<u>(362,918)</u>
Investing Activities		
Purchase of certificates of deposit	(453)	(941)
Purchase of property and equipment	(59,238)	(28,207)
	<u>(59,691)</u>	<u>(29,148)</u>
Net cash used in investing activities		
	<u>(59,691)</u>	<u>(29,148)</u>
Financing Activities		
Proceeds from line of credit	1,380,746	1,180,746
Proceeds from grant for acquisition of property and equipment	153,730	37,250
Principal payments on line of credit	(1,394,802)	(1,030,509)
Principal payments on long-term debt	(7,933)	(8,234)
	<u>131,741</u>	<u>179,253</u>
Net cash provided by financing activities		
	<u>131,741</u>	<u>179,253</u>
Decrease in Cash	(26,890)	(212,813)
Cash, Beginning of Year	<u>42,707</u>	<u>255,520</u>
Cash, End of Year	<u><u>\$ 15,817</u></u>	<u><u>\$ 42,707</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 29,002	\$ 20,345
Accounts payable incurred for property and equipment	\$ -	\$ 12,385
Inventory acquired through noncash contributions	\$ 51,500	\$ 101,900
Note payable acquired through noncash transaction	\$ -	\$ 1,500

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Community Health Centers of Southern Iowa, Inc. (the "Organization") is a federally qualified health center that works to improve, promote and maintain the physical and emotional health of people in the communities it serves. The Organization primarily earns revenues by providing physician and related health care services through clinics located in Decatur County, Iowa, serving the eight county service areas in Iowa and Missouri.

On October 1, 2008, the Organization assumed operations of Decatur Medical Services, a primary care medical practice consisting of two providers, located in Leon, Iowa. See *Note 12* for further discussion of this arrangement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Investment Return

Investment return is comprised of interest income.

Patient Accounts Receivable

The Organization reports patient accounts receivable for services rendered at estimated net realizable amounts from third-party payers, patients and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Pharmaceutical Inventory

The Organization states pharmaceutical inventories at the lower of cost, determined using the first-in, first-out method, or market.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items may be reclaimed if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Temporarily Restricted Net Assets

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

Net Patient Service Revenue

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

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

Government Grant Revenue

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by granting agencies and, as a result of such audits, adjustments could be required.

Deferred Grant Revenue

Revenue from grants to provide health care services is deferred and recognized over the periods to which the eligibility requirements are met.

In-Kind Revenue

The Organization recognized donated pharmaceutical supplies at fair value. Donated pharmaceutical supplies totaling \$50,500 and \$101,900 are recorded as contribution revenue and supplies and other expenses for the years ended November 30, 2008 and 2007, respectively. The Organization also recognized in-kind rent revenue and expense totaling \$31,600 and \$26,700 for the years ended November 30, 2008 and 2007, respectively.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Deficiency of Revenues Over Expenses

The statement of operations includes deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the "granting agency"). The general purpose of the grant is to provide expanded health care service delivery for residents of the eight county service area in Iowa and Missouri.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended November 30, 2008 and 2007, the Organization recognized \$650,916 and \$649,500 in CHC grant revenue, respectively. The Organization is approved for funding in the amount of \$675,951 for the year ending November 30, 2009.

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

Note 3: Net Patient Service Revenue

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

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicaid fiscal intermediary.

Approximately 65% and 61% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended November 30, 2008 and 2007, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at November 30, 2008 and 2007, is:

	2008	2007
Medicare	35%	18%
Medicaid	30%	45%
Other third-party payers and patients	35%	37%
	100%	100%

Note 5: Medical Malpractice Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 6: Line of Credit

At November 30, 2008, the Organization had a \$400,000 bank line of credit bearing interest at 8.250%, due November 30, 2008. At November 30, 2008, the outstanding principal balance on the line of credit was \$386,181. Subsequent to year end, this line of credit was restructured into two separate financing arrangements: \$200,000 of the line of credit's balance was refinanced into a note due May 5, 2013, bearing 7% interest (see further details in *Note 7*), and the existing line of credit was amended, with principal lowered to \$200,000 bearing interest at prime plus 1.50%, due on April 29, 2010. As a result of this refinancing arrangement, the outstanding principal balance on the line of credit is recorded as \$186,181.

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

The Organization also had an additional \$200,000 line of credit at the same financial institution bearing interest at 7.50%, due November 30, 2008. This line of credit had no outstanding balance at November 30, 2008, and was not renewed subsequent to year end.

Note 7: Long-Term Debt

	2008	2007
Note payable, bank (A)	\$ 4,278	\$ 11,611
Note payable, bank (B)	-	600
Note payable, bank (C)	200,000	-
	204,278	12,211
Less current maturities	26,037	7,933
	<u>\$ 178,241</u>	<u>\$ 4,278</u>

- (A) Promissory note to Clarke Electric Coop. Due June 14, 2009; payable \$611 monthly; bearing 0% interest; secured by the Organization's real estate.
- (B) Promissory note to New Directions, due May 2008; payable \$100 monthly; bearing 0% interest; unsecured.
- (C) Promissory note to Great Western Bank, due May 2013; principal of \$200,000 payable by monthly payments of \$4,805 bearing 7% interest, secured by commercial property at 802 East Ackerly.

Aggregate annual maturities of long-term debt at November 30, 2008, are:

2009	\$ 26,037
2010	46,509
2011	49,920
2012	53,566
2013	28,246
	<u>\$ 204,278</u>

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

Note 8: Functional Expenses

The Organization provides health care services primarily to residents within its service area. Expenses related to providing these services are as follows:

	<u>2008</u>	<u>2007</u>
Health care services	\$ 2,197,060	\$ 2,276,856
General and administrative	<u>1,245,174</u>	<u>1,131,658</u>
	<u>\$ 3,442,234</u>	<u>\$ 3,408,514</u>

Note 9: Operating Leases

The Organization leases various facilities under operating leases expiring at various dates through 2011 with options to renew through 2020.

Future minimum lease payments at November 30, 2008, were:

2009	\$ 14,305
2010	8,929
2011	<u>6,900</u>
Future minimum lease payments	<u>\$ 30,134</u>

Note 10: Pension Plan

The Organization has a defined contribution pension plan covering substantially all employees. The Organization contributes up to 3% of eligible employees' compensation to the plan. Pension expense was \$35,681 and \$35,938 for the years ended November 30, 2008 and 2007, respectively.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Community Health Centers of Southern Iowa, Inc.

Notes to Financial Statements

November 30, 2008 and 2007

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Grant Awards

A concentration of revenues related to grant awards is described in *Note 2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 5*.

Practicing Providers

The Organization is served by three providers whose patients comprise a substantial portion of the Organization's net patient service revenue.

Current Economic Conditions

The current economic environment presents community health center's with circumstances and challenges, which in some cases could result in future declines in the fair value of investments and declines in contributions. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an impact on the Organization's future operating results. Further, the effect of economic conditions on the state may have an effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change, resulting in future adjustments to the allowances for accounts and contributions receivable that could negatively impact the Organization.

Human Resources Services and Administration Site Visit

In an onsite visit and report dated April 22, 2009, by the Health Resources Services and Administration (HRSA), certain compliance concerns were raised. These concerns were predominantly due to the absence of a formal agreement related to the acquisition of Decatur Medical Services (DMS) (as described in *Note 12*). While the Organization feels that they have taken the necessary steps to address the compliance concerns, the effect of any noncompliance on future grant funding is not know and could have a material effect on the financial statements in the future.

Community Health Centers of Southern Iowa, Inc.
Notes to Financial Statements
November 30, 2008 and 2007

Note 12: Acquisition of Decatur Medical Services

Effective October 1, 2008, the Organization acquired the operations of Decatur Medical Services (DMS) as an affiliate of the Organization. A liability to DMS in the amount of \$191,922 is included in the financial statements as of November 30, 2008, for reimbursement of operating expenditures during this transition period that were paid by DMS.

On September 1, 2009, the Organization and DMS finalized this acquisition in a written restatement to the initial verbal agreement. At this date, a liability in the amount of \$200,000 for operating costs incurred from the merger's effective date of October 1, 2008, through the finalization date of September 1, 2009, was financed through a six-year promissory note to DMS, bearing interest at 2.25% annually, with the interest rate reset at July 1 of each year to the then prime rate minus 1.00%. The Organization is to make six equal principal payments of \$33,333, plus accrued interest thereon, commencing on July 1, 2010, and each year thereafter until July 1, 2015.

Note 13: Subsequent Events

The federal government passed legislation appropriating grant dollars to community health centers under an Increased Demand for Services (IDS) grant. The Organization has been awarded \$148,990 for the March 27, 2009, to March 26, 2011, period to assist in meeting the needs of their community.

Additionally the Organization has been awarded \$448,380 for the period June 29, 2009, to June 28, 2011, under the Capital Improvement Program. This award is to be used for the remodel of the Organization's Leon, Lamoni and Centerville sites, and also for the purchase of new medical equipment.

Supplementary Information

Community Health Centers of Southern Iowa, Inc.
Schedule of Expenditures of Federal Awards
Year Ended November 30, 2008

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS4200 04-03	\$ 650,916
Health Care and Other Facilities	U.S. Department of Health and Human Services	93.887	1 C76HF06254- 01-00	46,673
Block Grants for Community Mental Health Facilities	U.S. Department of Health and Human Services/Iowa Department of Human Services	93.958	BDPS07-005	52,969
Public Health Preparedness and Response to Bioterrorism	U.S. Department of Health and Human Services/Iowa Department of Human Services	93.069	588BT04CHCLEAON	8,500
Basic/Core Area Health Education Centers	U.S. Department of Health and Human Services/The University of Iowa	93.824	5U76HP0826202	<u>29,850</u>
				<u>\$ 788,908</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Community Health Centers of Southern Iowa, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Community Health Centers of Southern Iowa, Inc. did not provide a federal award to a subrecipient during the year ended November 30, 2008.

**Independent Accountants' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of Community Health Centers of Southern Iowa, Inc. (the "Organization") as of and for the year ended November 30, 2008, and have issued our report thereon dated December 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-1 and 08-2 to be significant deficiencies in internal control over financial reporting.

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

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-1 and 08-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to the Organization's management in a separate letter dated December 11, 2009.

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

This report is intended solely for the information and use of the governing body, management and others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 11, 2009

Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

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

Compliance

We have audited the compliance of Community Health Centers of Southern Iowa, Inc. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended November 30, 2008. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the compliance of Community Health Centers of Southern Iowa, Inc. based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

As described in item 08-4 in the accompanying schedule of findings and questioned costs, Community Health Centers of Southern Iowa, Inc. did not comply with requirements regarding program income that are applicable to its consolidated health centers program. Compliance with such requirements is necessary, in our opinion, Community Health Centers of Southern Iowa, Inc. to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Community Health Centers complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended November 30, 2008.

Internal Control Over Compliance

The management of Community Health Centers of Southern Iowa, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 08-3 and 08-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 08-4 to be a material weakness.

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

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKID, LLP

December 11, 2009

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
Significant deficiency(ies) noted considered material weakness(es)? ☒ Yes ☐ No
Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
Significant deficiency(ies) noted considered material weakness(es)? ☒ Yes ☐ No
Significant deficiency(ies) noted that are not considered to be a material weakness? ☒ Yes ☐ No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
☐ Unqualified ☒ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☒ Yes ☐ No

Community Health Centers of Southern Iowa, Inc.

Schedule of Findings and Questioned Costs

Year Ended November 30, 2008

7. The Organization's major program was:

Cluster/Program	CFDA Number
Consolidated Health Centers	93.224

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

☐ Yes

☒ No

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
08-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Certain individuals perform or have the ability to perform incompatible duties in the cash receipts/accounts receivable, cash disbursements/ accounts payable and payroll cycles.</p> <p>Context – In the cash receipts/accounts receivable cycle, the biller has the ability to authorize bad debt write-offs, provide EFT information to third parties, as well as record discounts/adjustments, change master files affecting billings, discounts and adjustments and reconcile recorded contractual adjustments to supporting remittance advices. The chief financial officer has the ability to authorize bad debt write-offs, access cash, record bad debt write-offs and review account reconciliations prepared by others.</p> <p>In the cash disbursements/accounts payable cycle, the chief financial officer and bookkeeper have access to signed checks, can perform most of the recording duties and have the ability to reconcile bank balances and the accounts payable subledger to the general ledger. The chief financial officer also has the ability to sign checks.</p> <p>In the payroll cycle, the bookkeeper has the ability to perform most duties. However, the primary duties that are conflicting include editing/modifying payroll information, recording of journal entries for payroll activity in the payroll/general ledger systems, and review of the finalized payroll report.</p> <p>In regards to the Organization’s information technology systems, the chief financial officer has been assigned as the system administrator, and thus has significant influence over the processing of data. Responsibilities associated to this individual’s system administrator</p>	None

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
08-1 (Continued)	<p>responsibilities conflict with his recording duties within all accounting cycles.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the cash receipts/accounts receivable, cash disbursements/accounts payable and payroll cycles are not adequately segregated.</p> <p>Recommendation – Management should periodically reevaluate the costs versus benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Organization has eliminated the (CFO) as the signer of any cash accounts. Further delegation of duties in the accounts receivable, accounts payable and payroll cycles has and will continue to be addressed. Write-off authorization has been removed from individuals directly responsible for charges, both the generation and recording of payments. The reconciliation of bank accounts, journal entries and other G/L functions will be reviewed by the CFO. The payroll review of payroll processing will be performed by the CFO prior to releasing for processing to assure that policy and procedures in effect are being performed. As the two offices in Leon combine, the ability to further separate overlapping responsibilities and will enable personnel to be more proficient in one area without overlapping into another.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
08-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization did not maintain reconciliations of several balance sheet accounts. Furthermore, the Organization’s financial statements required adjusting journal entries for financial statement presentation. Areas in which adjustments were proposed, which management recorded, include:</p> <ul style="list-style-type: none"> • Allowance for doubtful accounts and provision for uncollectible accounts • Accounts receivable and patient revenue • Liability and related expenses related to merger agreement • Revenue and expenses related to in-kind rent <p>Context – The Organization’s financial statements should be presented in conformity with generally accepted accounting principles and adjustments should be recorded on a timely basis.</p> <p>Effect – Adjusting journal entries were proposed.</p> <p>Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with generally accepted accounting principles or identify the needed adjustments on a timely basis.</p>	None

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
08-2 (Continued)	<p>Recommendation – Management should modify monthly and year-end closing procedures and revise policies to ensure the controls in place are sufficient to assure all accounts and financial statements are prepared in accordance with generally accepted accounting principles and adjustments are made on a timely basis. This should include the development of a new methodology for estimating the allowance for uncollectible accounts that takes into account all aging categories and all payer types, and uses historical collection trends for each respective payer types as a basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The CFO will audit the general ledger monthly and approve only adjustments and entries that have been reviewed and signed off on. An estimation of allowances and write-offs based on client mix, sliding fee utilization and improved billing and collection efforts will be done monthly.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
08-3	Consolidated Health Centers CFDA No. 93.224	None
	U.S. Department of Health and Human Services Award No. 6 H80 CS 4200-04-03 Program Year 2008	
	Criteria or Specific Requirement – Program Income	
	Condition – Patients were given inappropriate sliding fee adjustments under the Organization’s policy.	
	Context – Out of an undetermined number of patients who received total sliding fee scale adjustments of \$233,866, a sample of 30 patients who received sliding fee adjustments of \$2,901 was tested. For three of the patients selected, the Organization failed to update income documentation after one year, which is not compliant with the Organization’s policy. For two other patients, there was no income documentation available for review.	
	Effect – Improper sliding fee adjustments were given.	
	Cause – The Organization did not comply with their sliding fee policy, or with federal guidelines for federally qualified health centers.	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
08-3 (Continued)	<p>Recommendation – Management should ensure all personnel understand the sliding fee scale policy and adhere to the requirements and guidelines set forth in the policy. Because the policy affects program income, procedures should be implemented to ensure that only individuals who qualify under the policy guidelines receive sliding fee scale adjustments. Patient files should include documentation of eligibility for such adjustments.</p> <p>Views of Responsible Officials and Planned Corrective Action – A revised sliding fee form and procedure has been instituted, available to all clients regardless of their eligibility to receive slide. Review is under way to explore ways to expand the sliding fee availability to clients currently not having access to it. All clients are being asked to fill out a new form and it will be updated annually.</p>	

Community Health Centers of Southern Iowa, Inc.
Schedule of Findings and Questioned Costs
Year Ended November 30, 2008

Findings Required to be Reported by OMB Circular A-133

Reference Number	Summary of Finding	Status
08-4	Consolidated Health Centers CFDA No. 93.224	None
	U.S. Department of Health and Human Services Award No. 6 H80 CS 4200-03-02 Program Year 2008	
	Criteria or Specific Requirement – Program Income	
	Condition – The Organization’s newly acquired location failed to offer sliding fee services to patients.	
	Context – Sliding fee services were not offered to patients that were seen at the Organization’s new location effective October 1, 2009. These patients were asked to see the Organizations’ sole provider at its main location that did take part in the program, or seek health care services elsewhere.	
	Effect – Patients were inappropriately refused service which contradicts the community health center model.	
	Cause – The Organization did not comply with their sliding fee policy, or with federal guidelines for federally qualified health centers.	
	Recommendation – All of the Organization’s health care providers should accept any patient that qualifies for the Organization’s sliding fee program. No patients should be denied service, due to an inability to pay, before being screened for eligibility into the sliding fee program.	
	Views of Responsible Officials and Planned Corrective Action – As reviewed in 08-3, mistakes were made that have now been corrected and the procedure encompasses all locations and all providers’ clients.	

Community Health Centers of Southern Iowa, Inc.
Summary Schedule of Prior Audit Findings
Year Ended November 30, 2008

Reference Number	Summary of Finding	Status
07-3	<p data-bbox="646 522 984 585">Consolidated Health Centers CFDA No. 93.224</p> <p data-bbox="532 623 1097 720">U.S. Department of Health and Human Services Award No. 6 H80 CS 4200-03-02 Program Year 2007</p> <p data-bbox="479 758 1086 787">Criteria or Specific Requirement – Program Income</p> <p data-bbox="479 825 1107 888">Condition – Patients were given inappropriate sliding fee adjustments under the Organization’s policy.</p> <p data-bbox="479 926 1127 1190">Context – Out of an undetermined number of patients who received total sliding fee scale adjustments of \$233,866, a sample of 30 patients who received sliding fee adjustments of \$4,279 was tested. Three of the patients were billed an inappropriate amount based on the Organization’s sliding fee scale and one file could not be located to verify the proper income documentation support.</p> <p data-bbox="479 1228 1110 1257">Effect – Improper sliding fee adjustments were given.</p> <p data-bbox="479 1295 1091 1358">Cause – The Organization did not comply with their sliding fee policy.</p>	Unresolved. See Finding 08-3.

Community Health Centers of Southern Iowa, Inc.
Summary Schedule of Prior Audit Findings
Year Ended November 30, 2008

Reference Number	Summary of Finding	Status
06-3	<p data-bbox="646 520 987 583">Consolidated Health Centers CFDA No. 93.224</p> <p data-bbox="532 621 1101 722">U.S. Department of Health and Human Services Award No. 6 H80 CS 4200-01-01 Program Year 2006</p> <p data-bbox="480 760 1089 789">Criteria or Specific Requirement – Program Income</p> <p data-bbox="480 827 1135 957">Condition – Patients were given sliding fee adjustments without providing proper supporting income documentation in accordance with the Organization’s policy.</p> <p data-bbox="480 995 1117 1192">Context – Out of an undetermined number of patients who received total sliding fee scale adjustments of \$85,249, a sample of 30 patients who received sliding fee adjustments of \$3,310 was tested. Four of the patients were billed an inappropriate amount based on the Organization’s sliding fee scale.</p> <p data-bbox="480 1230 1089 1293">Effect – Improper sliding fee adjustments may have been given.</p> <p data-bbox="480 1331 1130 1394">Cause – Organization personnel were not appropriately following the sliding fee policy.</p>	Unresolved. See Finding 08-3.