

Siouxland Community Health Center

Accountants' Reports and Financial Statements

January 31, 2012 and 2011

Siouxland Community Health Center
January 31, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Siouxland Community Health Center
Sioux City, Iowa

We have audited the accompanying balance sheets of Siouxland Community Health Center as of January 31, 2012 and 2011, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Siouxland Community Health Center as of January 31, 2012 and 2011, 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 June 15, 2012, 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary 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*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 taken as a whole.

BKD, LLP

June 15, 2012

Siouxland Community Health Center

Balance Sheets

January 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 3,537,156	\$ 2,915,343
Patient accounts receivable, net of allowance; 2012 - \$1,450,052, 2011 - \$2,231,359	1,269,612	1,154,141
Grants receivable	169,167	315,613
Estimated amounts due from third-party payers	-	165,000
Inventories	340,289	270,243
Prepaid expenses and other	208,617	152,033
	<u>5,524,841</u>	<u>4,972,373</u>
Property and Equipment, At Cost		
Land and land improvements	1,197,727	1,197,727
Buildings and leasehold improvements	10,550,128	10,539,228
Equipment	1,898,427	1,868,486
Furniture and fixtures	385,730	387,470
	<u>14,032,012</u>	<u>13,992,911</u>
Less accumulated depreciation	2,309,522	1,661,532
	<u>11,722,490</u>	<u>12,331,379</u>
Deferred Financing Costs, Net	<u>79,460</u>	<u>84,528</u>
Total assets	<u>\$ 17,326,791</u>	<u>\$ 17,388,280</u>

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 268,596	\$ 254,492
Accounts payable	239,909	320,094
Accrued expenses	867,486	695,342
Estimated amounts due to third-party payers	<u>200,000</u>	<u>-</u>
Total current liabilities	1,575,991	1,269,928
Interest Rate Swap Agreement	1,328,009	830,488
Long-Term Debt	<u>6,001,516</u>	<u>6,271,148</u>
Total liabilities	<u>8,905,516</u>	<u>8,371,564</u>
Net Assets		
Unrestricted	8,105,188	8,786,368
Temporarily restricted	<u>316,087</u>	<u>230,348</u>
Total net assets	<u>8,421,275</u>	<u>9,016,716</u>
Total liabilities and net assets	<u>\$ 17,326,791</u>	<u>\$ 17,388,280</u>

Siouxland Community Health Center
Statements of Operations
Years Ended January 31, 2012 and 2011

	2012	2011
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 11,955,834	\$ 10,774,319
Grant revenue	3,304,773	3,296,525
Contribution revenue	43,466	15,329
Other revenue	470,485	181,008
Net assets released from restrictions used for operations	1,293,196	1,226,270
Total unrestricted revenues, gains and other support	17,067,754	15,493,451
Expenses and Losses		
Salaries and wages	8,827,125	7,720,722
Employee benefits	1,831,911	1,474,035
Purchased services and professional fees	1,039,225	1,204,651
Supplies and other	3,350,273	3,214,491
Rent	64,076	57,888
Depreciation and amortization	654,349	663,425
Interest	323,115	335,757
Provision for uncollectible accounts	1,175,422	1,121,447
Total expenses and losses	17,265,496	15,792,416
Operating Loss	(197,742)	(298,965)
Other Income		
Investment return	5,939	6,307
Deficiency of Revenues Over Expenses	(191,803)	(292,658)
Change in fair value of interest rate swap agreement	(497,521)	(81,871)
Grants for acquisition of property and equipment	8,144	553,013
Increase (Decrease) in Unrestricted Net Assets	\$ (681,180)	\$ 178,484

Siouxland Community Health Center
Statements of Changes in Net Assets
Years Ended January 31, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (191,803)	\$ (292,658)
Change in fair value of interest rate swap agreement	(497,521)	(81,871)
Grants for acquisition of property and equipment	8,144	553,013
Increase (decrease) in unrestricted net assets	(681,180)	178,484
Temporarily Restricted Net Assets		
Contributions	1,378,935	1,272,639
Net assets released from restriction	(1,293,196)	(1,226,270)
Increase in temporarily restricted net assets	85,739	46,369
Change in Net Assets	(595,441)	224,853
Net Assets, Beginning of Year	9,016,716	8,791,863
Net Assets, End of Year	\$ 8,421,275	\$ 9,016,716

Siouxland Community Health Center
Statements of Cash Flows
Years Ended January 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ (595,441)	\$ 224,853
Items not requiring (providing) cash		
Loss on disposal of property and equipment	450	-
Depreciation and amortization	654,349	663,425
Change in fair value of interest rate swap agreement	497,521	81,871
Grants for acquisition of property and equipment	(8,144)	(553,013)
Changes in		
Patient accounts receivable, net	(115,471)	(406,557)
Grants receivable	146,446	(59,536)
Estimated amounts due to and from third-party payers	365,000	185,000
Inventories	(70,046)	(62,834)
Other current assets	(56,584)	24,443
Accounts payable and accrued expenses	98,409	186,224
	<u>916,489</u>	<u>283,876</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of property and equipment	(47,292)	(533,071)
Disposition of assets limited as to use	-	639,500
	<u>(47,292)</u>	<u>106,429</u>
Net cash provided by (used in) investing activities		
Financing Activities		
Proceeds from grants for acquisition of property and equipment	8,144	553,013
Principal payments on long-term debt	(255,528)	(243,096)
	<u>(247,384)</u>	<u>309,917</u>
Net cash provided by (used in) financing activities		
Increase in Cash and Cash Equivalents	621,813	700,222
Cash and Cash Equivalents, Beginning of Year	2,915,343	2,215,121
Cash and Cash Equivalents, End of Year	\$ 3,537,156	\$ 2,915,343
Supplemental Cash Flows Information		
Interest paid	\$ 324,142	\$ 335,796
Property and equipment acquisitions in accounts payable	\$ -	\$ 6,450

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

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

Nature of Operations

Siouxland Community Health Center (the "Organization") primarily earns revenues by providing medical, dental and related health care services through a clinic located in Sioux City, Iowa.

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 during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At January 31, 2012 and 2011, cash equivalents consist of a bank repurchase agreement.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At January 31, 2012 and 2011, the Organization's cash accounts exceeded federally insured limits by approximately \$235,000. Approximately \$2,712,000 and \$2,179,000 was held in an overnight sweep account at January 31, 2012 and 2011, respectively, that is not covered by FDIC.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

Investment Return

Investment return is comprised of interest income.

Patient Accounts Receivable

The Organization reports patient accounts receivable for services rendered at 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.

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the 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.

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.

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

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended January 31, 2012 and 2011.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

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.

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

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.

In-Kind Contributions

The Organization receives in-kind contributions of pharmacy supplies from various donors. It is the policy of the Organization to record the estimated fair value of these in-kind donations as contribution revenue and supplies and other expense. For the years ended January 31, 2012 and 2011, \$1,369,666 and \$1,259,057, respectively, was received in in-kind contributions.

Donated Services

A number of volunteers contribute to the Organization. Volunteer doctors', nurses' and other health professionals' services are recorded at estimated fair value as contribution revenue and salaries and wages expenses. Donated services of these professionals totaling \$9,269 and \$15,329 are recorded as contribution revenue and salaries and wages expense for the years ended January 31, 2012 and 2011, respectively.

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

Income Taxes

The Organization is 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 statements of operations include deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of an interest rate swap agreement, permanent transfers to and from affiliates for other than goods and services and contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction were to be used for the purpose of acquiring such assets).

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Grant Revenue

The Organization is the recipient of a Community Health Center (CHC) grant from the U.S. Department of Health and Human Services (HHS). The general purpose of the grant is to provide expanded health care service delivery services. 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 January 31, 2012 and 2011, the Organization received \$2,124,974 and \$1,862,915 in CHC grant funds, respectively.

The Organization has received a notice of grant award for an amount of \$2,138,377 for the year ended January 31, 2013.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under the American Recovery and Reinvestment Act (ARRA). The Organization has been awarded \$350,013 for the March 27, 2009, to March 26, 2011, period to assist in meeting the needs of their community under the Increased Demand for Services (IDS) grant. No revenue was recognized for the IDS grant during the year ended January 31, 2012. During the year ended January 31, 2011, the Organization recognized \$242,635 in IDS grant revenue. The Organization has also been awarded \$816,020 for the June 29, 2009, to June 28, 2011, period for facility expansion under the Capital Improvement Program (CIP) grant. During the years ended January 31, 2012 and 2011, the Organization recognized \$8,144 and \$431,909 in CIP grant revenue, respectively.

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

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

Note 3: Net Patient Service Revenue

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 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 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 63% and 55% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended January 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 and discounts from established charges.

Siouxland Community Health Center
Notes to Financial Statements
January 31, 2012 and 2011

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 net receivables from patients and third-party payers at January 31, 2012 and 2011, was:

	2012	2011
Medicare	11%	13%
Medicaid	25%	33%
Other third-party payers	64%	54%
	100.0%	100.0%

Note 5: Medical Malpractice Claims

The U.S. Department of Health and Human Services has 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 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 these 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

The Organization has an \$800,000 bank line of credit which expires November 1, 2012. At January 31, 2012 and 2011, there was no outstanding balance on this line of credit. Interest may change with the bank's prime rate, not to fall below 4.65%. The rate was 4.65% at January 31, 2012. The line is collateralized by substantially all of the Organization's assets.

Siouxland Community Health Center
Notes to Financial Statements
January 31, 2012 and 2011

Note 7: Long-Term Debt

In September 2007, the Organization issued \$7,000,000 of Medical Facility Revenue Notes, Series 2007 through Woodbury County, Iowa. The bonds bear interest at the rate per annum equal to the prime rate minus 90 basis points and multiplied by a factor of .66 (1.55% as of January 31, 2012). The bonds are payable in monthly installment payments of \$46,158 through October 2027. The bonds are payable, both as to principal and interest, solely out of the net income and revenues arising from the operation of the facility after providing for the costs of operation and maintenance thereof, and from all other income made available to the Board of Directors including investment income and gifts, bequests, contributions, grants and all other monies, except to the extent otherwise limited by the donor or grantor. The Board of Directors has pledged said net income and revenues and other income for the payment of such principal and interest. The outstanding balance as of January 31, 2012 and 2011, was \$6,270,112 and \$6,525,640, respectively.

The agreement requires the Organization to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio and a debt-to-equity ratio, certain days cash on hand and restrictions on incurrence of additional debt. One of these covenants was not met for the year ended January 31, 2012. The lender has formally waived noncompliance with this requirement.

The Organization has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the Series 2007 Revenue Bonds. See *Note 8* for additional discussion of the interest rate swap agreement.

Annual maturities of long-term debt at January 31, 2012, are:

2013	\$	268,596
2014		282,348
2015		296,784
2016		311,976
2017		327,936
Thereafter		4,782,472
	\$	6,270,112

Note 8: Interest Rate Swap Agreement

Effective October 1, 2007, the Organization entered into an interest rate swap agreement on the variable rate bonds (see *Note 7*) as a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations. The agreement provides for the Organization to receive interest from the counterparty at 66% of the prime rate and to pay interest to the counterparty at a fixed rate of 4.99% on the notional amount, which is equal to the outstanding balance of the Series 2007 Revenue Bonds. Under the agreement, the Organization pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap agreement matures on October 1, 2027.

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

Management has designated the interest rate swap agreement as a cash flow hedging instrument, and has determined the agreement qualifies for hedge accounting under the provisions of ASC 815. As a result, the agreement is recorded at its fair value with subsequent changes in fair value included in changes in unrestricted net assets. The interest rate swap agreement is tested for effectiveness on an annual basis and has been determined to be effective through January 31, 2012. The fair value of the swap agreement is \$1,328,009 and \$830,488 at January 31, 2012 and 2011, respectively.

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2012	2011
Health care services		
Pharmacy	\$ 30,622	\$ 13,582
Pharmacy inventory	276,568	215,766
Patient transportation	5,000	-
Purchase of equipment	3,897	1,000
	<u>\$ 316,087</u>	<u>\$ 230,348</u>

Net assets are released from donor restrictions upon satisfaction of the purpose restriction or when a stipulated time restriction ends.

Purpose restrictions satisfied during the years ended January 31, 2012 and 2011, were as follows:

	2012	2011
HIV patients	\$ -	\$ 4,118
Pharmacy	2,072	2,302
Equipment	22,353	16,802
Pharmacy inventory	1,268,771	1,203,048
	<u>\$ 1,293,196</u>	<u>\$ 1,226,270</u>

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

Note 10: Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Health care services	\$ 12,734,602	\$ 11,442,175
General and administrative	<u>4,530,894</u>	<u>4,350,241</u>
	<u>\$ 17,265,496</u>	<u>\$ 15,792,416</u>

Note 11: Retirement Plan

The Organization has a defined contribution retirement plan covering substantially all employees who have been employed by the Organization for three months. The Organization matches 100% of the eligible employee's contributions up to 5% of the employees' compensation. The employees are 100% vested when the contributions are made. Pension expense was \$309,979 and \$264,647 for the years ended January 31, 2012 and 2011, respectively.

Note 12: Related Party Transactions

The Organization and Siouxland Community Health Foundation are related parties. The Organization authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions. The Foundation was not holding any assets for the Organization as of January 31, 2012 and 2011. During the year ended January 31, 2012, the Foundation was inactive.

An employee of the Organization had entered into an employment agreement with the Foundation. The Foundation had agreed to reimburse the Organization for all expenses incurred related to this position. Total expenses related to this position amounted to \$0 and \$58,692 during the years ended January 31, 2012 and 2011, respectively.

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

Note 13: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Interest Rate Swap Agreement

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at January 31, 2012 and 2011:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
January 31, 2012				
Interest rate swap agreement	<u>\$ 1,328,009</u>	<u>\$ -</u>	<u>\$ 1,328,009</u>	<u>\$ -</u>
January 31, 2011				
Interest rate swap agreement	<u>\$ 830,488</u>	<u>\$ -</u>	<u>\$ 830,488</u>	<u>\$ -</u>

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Notes to Financial Statements
January 31, 2012 and 2011

The following methods were used to estimate the fair value of all other financial instruments recognized in the Organization's balance sheets at amounts other than fair value.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Assets Limited As To Use

These assets consist of cash and cash equivalents. The carrying amount approximates fair value.

Estimated Third-Party Payer Settlements

The carrying amounts are reasonable estimates of fair value.

Long-Term Debt

The fair value is estimated based on the borrowing rates currently available to the Organization for debt with similar terms and conditions.

The following table presents estimated fair values of the Organization's financial instruments not previously disclosed at January 31, 2012 and 2011.

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 3,537,156	\$ 3,537,156	\$ 2,915,343	\$ 2,915,343
Estimated third-party settlements	-	-	165,000	165,000
Financial liabilities				
Long-term debt	6,270,112	6,270,112	6,525,640	6,525,640
Estimated third-party settlements	200,000	200,000	-	-

Note 14: 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:

Siouxland Community Health Center

Notes to Financial Statements

January 31, 2012 and 2011

Grant Revenue

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

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*.

Malpractice Claims

Estimates related to the accrual for professional liability claims are described in *Note 5*.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Long-Term Debt

The Organization's Series 2007 Revenue Bonds are held by one lender, as described in *Note 7*.

Current Economic Conditions

The current protracted economic decline continues to present Organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions 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 adverse impact on the Organization's future operating results. Further, the effect of economic conditions on the state may have an adverse 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 rapidly, resulting in material future adjustments to the allowances for accounts and contributions receivable that could further hinder the Organization's ability to meet debt covenants or maintain sufficient liquidity.

Siouxland Community Health Center
Notes to Financial Statements
January 31, 2012 and 2011

Note 15: Subsequent Events

In April 2012, the Organization received a notice of grant award in the amount of \$1,300,000 for the period of May 1, 2012, to April 30, 2015. This grant from HHS is to be used for making renovations on the Organization's existing facility.

Subsequent Events

Subsequent events have been evaluated through date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Supplementary Information

Siouxland Community Health Center
Schedule of Expenditures of Federal Awards
Year Ended January 31, 2012

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 H80CS00535- 10-09	<u>\$ 2,124,974</u>
ARRA - Capital Improvement Program	U.S. Department of Health and Human Services	93.703	6 C81CS13960- 01-05	<u>8,144</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76HA00188 14-02	98,877
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	5 H76HA00188- 13-00	<u>149,112</u> <u>247,989</u>
HIV Care Formula Grants	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.917	5880HC04	28,473
HIV Care Formula Grants	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.917	5881HC04	<u>137,297</u> <u>165,770</u>
Public Health Emergency Preparedness	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.069	5881BT104	<u>1,650</u>
Maternal and Child Health Federal Consolidated Programs	U.S. Department of Health and Human Services/Genetic Alliance, Inc.	93.110	Agreement 1	<u>28,000</u>
Total forward				<u>2,576,527</u>

Siouxland Community Health Center
Schedule of Expenditures of Federal Awards
Year Ended January 31, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Total forward				<u>\$ 2,576,527</u>
Maternal and Child Health Services Block Grant to the States	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.994	5882MH22	<u>298,744</u>
University of Iowa Clinical and Translational Science Program	U.S. National Institutes of Health/ University of Iowa	93.389	1000825684	31,850
University of Iowa Clinical and Translational Science Program	U.S. National Institutes of Health/ University of Iowa	93.389	1000918697	<u>24,643</u>
				<u>56,493</u>
Housing Opportunities for Persons with AIDS	U.S. Department of Housing and Urban Development/Iowa Finance Authority	14.241	HOPWA #2011 F1-R1	40,809
Housing Opportunities for Persons with AIDS	U.S. Department of Housing and Urban Development/Iowa Finance Authority	14.241	HOPWA #2012 F1-R1	<u>6,169</u>
				<u>46,978</u>
Special Projects of National Significance	U.S. Department of Health and Human Services	93.928	6 H97HA22727- 01-02	<u>19,527</u>
Immunization Grants	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.268	5882I491	<u>18,941</u>
Total forward				<u>3,017,210</u>

Siouxland Community Health Center
Schedule of Expenditures of Federal Awards
Year Ended January 31, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Total forward				\$ 3,017,210
HIV Prevention Activities Health Department Based	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.940	5881AP23	12,316
HIV Prevention Activities Health Department Based	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.940	5882AP23	791
HIV Prevention Activities Health Department Based	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.940	5881AP12	28,266
HIV Prevention Activities Health Department Based	U.S. Department of Health and Human Services/Iowa Department of Public Health	93.940	5883AP02	1,659
				<u>43,032</u>
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	U.S. Department of Health and Human Services/AIDS Project of Central Iowa	93.943	Agreement 1	39,767
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	U.S. Department of Health and Human Services/AIDS Project of Central Iowa	93.943	Agreement 2	38,295
				<u>78,062</u>
				<u>\$ 3,138,304</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Siouxland Community Health Center 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. Siouxland Community Health Center did not provide any federal awards to a subrecipient during the year ended January 31, 2012.

**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
Siouxland Community Health Center
Sioux City, Iowa

We have audited the financial statements of Siouxland Community Health Center (the "Organization") as of and for the year ended January 31, 2012, and have issued our report thereon dated June 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

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 Organization's financial statements will not be prevented or detected and corrected on a timely basis.

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

Board of Directors
Siouxland Community Health Center

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*.

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

June 15, 2012

**Independent Accountants' 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
Siouxland Community Health Center
Sioux City, Iowa

Compliance

We have audited the compliance of Siouxland Community Health Center (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 could have a direct and material effect on its major federal program for the year ended January 31, 2012. 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 Siouxland Community Health Center 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.

In our opinion, Siouxland Community Health Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended January 31, 2012.

Internal Control Over Compliance

The management of Siouxland Community Health Center 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 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 the Organization's internal control over compliance.

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

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

This report is intended solely for the information and use of the governing body, management, others within the Organization, 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

June 15, 2012

Siouxland Community Health Center
Schedule of Findings and Questioned Costs
Year Ended January 31, 2012

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 disclosed:

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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4. The independent accountants' report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

5. The opinion expressed in the independent accountants' report on compliance with requirements that could have a direct and material effect on major federal awards was:
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133?

	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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7. The Organization's major program was:

Cluster/Program	CFDA Number
Consolidated Health Centers	93.224

Siouxland Community Health Center
Schedule of Findings and Questioned Costs
Year Ended January 31, 2012

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

Siouxland Community Health Center
Schedule of Findings and Questioned Costs
Year Ended January 31, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Siouxland Community Health Center
Schedule of Findings and Questioned Costs
Year Ended January 31, 2012

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Siouxland Community Health Center
Summary Schedule of Prior Audit Findings
Year Ended January 31, 2012

Reference Number	Finding	Status
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No matters are reportable.