



**Financial Statements and Single Audit Reports  
December 31, 2010 and 2009**

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**INDEPENDENT AUDITORS' REPORT**

**Board of Governors  
Community Health Centers, Inc.**

We have audited the accompanying statements of financial position of Community Health Centers, Inc. (the Organization), a nonprofit organization, as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The financial statements of the Organization as of December 31, 2009, were audited by other auditors whose report dated June 24, 2010, expressed an unqualified opinion on those statements.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year 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 30, 2011, 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 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 as a whole.

*Wisam Smith Racken & Prescott, LLP*

Salt Lake City, Utah  
June 30, 2011

**COMMUNITY HEALTH CENTERS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 832,656	\$ 1,377,855
Cash and cash equivalents - designated	504,543	479,402
Investments - designated	-	25,000
Receivables, net	1,446,201	980,939
Prepaid expenses	16,000	16,000
Deposits	5,025	5,025
TOTAL CURRENT ASSETS	2,804,425	2,884,221
<b>PROPERTY AND EQUIPMENT</b>	<b>971,017</b>	<b>875,406</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,775,442</b>	<b>\$ 3,759,627</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 443,402	\$ 264,269
Accrued expenses	265,160	208,524
Other current liabilities	156,000	936,261
TOTAL CURRENT LIABILITIES	864,562	1,409,054
<b>NET ASSETS</b>		
Unrestricted		
Designated	504,543	504,402
Undesignated	2,229,658	1,687,900
Temporarily restricted	176,679	158,271
TOTAL NET ASSETS	2,910,880	2,350,573
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,775,442</b>	<b>\$ 3,759,627</b>

*The accompanying notes are an integral part of the financial statements.*

**COMMUNITY HEALTH CENTERS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended December 31, 2010**

	<u>2010</u>			<u>2009</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>						
Grants and contracts	\$ 5,921,519	\$ -	\$ 5,921,519	\$ 5,770,799	\$ -	\$ 5,770,799
Patient revenue, net of adjustments of \$7,483,630 and 7,631,526	6,917,861	-	6,917,861	7,014,786	-	7,014,786
Contributions	414,708	335,967	750,675	605,359	158,271	763,630
Interest income	27	-	27	553	-	553
Other income	15,201	-	15,201	8,617	-	8,617
In-kind donations	4,585,828	-	4,585,828	4,792,139	-	4,792,139
Net assets released from restrictions	317,559	(317,559)	-	178,219	(178,219)	-
<b>TOTAL REVENUES AND SUPPORT</b>	<b>18,172,703</b>	<b>18,408</b>	<b>18,191,111</b>	<b>18,370,472</b>	<b>(19,948)</b>	<b>18,350,524</b>
<b>EXPENSES</b>						
Program services:						
Community health services	12,097,213	-	12,097,213	12,038,199	-	12,038,199
Farmworker health services	429,773	-	429,773	381,204	-	381,204
Ancillary programs	2,988,030	-	2,988,030	3,215,222	-	3,215,222
Supporting services:						
Fundraising activities	27,754	-	27,754	36,879	-	36,879
Management and general	2,088,034	-	2,088,034	2,054,582	-	2,054,582
<b>TOTAL EXPENSES</b>	<b>17,630,804</b>	<b>-</b>	<b>17,630,804</b>	<b>17,726,086</b>	<b>-</b>	<b>17,726,086</b>
<b>CHANGE IN NET ASSETS</b>	<b>541,899</b>	<b>18,408</b>	<b>560,307</b>	<b>644,386</b>	<b>(19,948)</b>	<b>624,438</b>
Net assets, beginning of year	2,192,302	158,271	2,350,573	1,547,916	178,219	1,726,135
Net assets, end of year	<u>\$ 2,734,201</u>	<u>\$ 176,679</u>	<u>\$ 2,910,880</u>	<u>\$ 2,192,302</u>	<u>\$ 158,271</u>	<u>\$ 2,350,573</u>

*The accompanying notes are an integral part of the financial statements.*

**COMMUNITY HEALTH CENTERS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended December 31, 2010**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total Expenses</u>	
	<u>Community Health Services</u>	<u>Farmworker Health Services</u>	<u>Ancillary Programs</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>		<u>Total Supporting Services</u>
Personnel:								
Salaries and wages	\$ 5,206,481	\$ 172,998	\$ 142,251	\$ 5,521,730	\$ 9,319	\$ 830,408	\$ 839,727	\$ 6,361,457
Employee payroll benefits and taxes	<u>1,715,968</u>	<u>59,493</u>	<u>53,287</u>	<u>1,828,748</u>	<u>3,262</u>	<u>326,751</u>	<u>330,013</u>	<u>2,158,761</u>
Personnel	6,922,449	232,491	195,538	7,350,478	12,581	1,157,159	1,169,740	8,520,218
Professional fees and contract service payments	1,348,215	87,924	83,067	1,519,206	6,894	453,028	459,922	1,979,128
Supplies	908,607	45,969	1,723	956,299	118	24,099	24,217	980,516
Travel and training	53,966	5,552	1,630	61,148	7,581	18,354	25,935	87,083
Insurance	-	1,272	-	1,272	-	20,842	20,842	22,114
Telephone and communications	119,362	6,448	9,586	135,396	-	70,923	70,923	206,319
Facility rental and utilities	586,694	21,103	22,807	630,604	-	66,214	66,214	696,818
Postage and shipping	10,579	52	1,842	12,473	-	49,017	49,017	61,490
Printing	12,230	-	823	13,053	-	6,389	6,389	19,442
Other	168,063	17,980	1,100	187,143	580	129,447	130,027	317,170
In-kind and donated services/supplies	<u>1,908,341</u>	<u>9,117</u>	<u>2,668,370</u>	<u>4,585,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,585,828</u>
<b>TOTAL BEFORE DEPRECIATION AND AMORTIZATION</b>	12,038,506	427,908	2,986,486	15,452,900	27,754	1,995,472	2,023,226	17,476,126
Depreciation and amortization	<u>58,707</u>	<u>1,865</u>	<u>1,544</u>	<u>62,116</u>	<u>-</u>	<u>92,562</u>	<u>92,562</u>	<u>154,678</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 12,097,213</u>	<u>\$ 429,773</u>	<u>\$ 2,988,030</u>	<u>\$ 15,515,016</u>	<u>\$ 27,754</u>	<u>\$ 2,088,034</u>	<u>\$ 2,115,788</u>	<u>\$ 17,630,804</u>

*The accompanying notes are an integral part of the financial statements.*

**COMMUNITY HEALTH CENTERS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended December 31, 2009**

	Program Services			Supporting Services				Total Expenses
	Community Health Services	Farmworker Health Services	Ancillary Programs	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Personnel:								
Salaries and wages	\$ 4,921,557	\$ 146,738	\$ 183,909	\$ 5,252,204	\$ 9,539	\$ 861,548	\$ 871,087	\$ 6,123,291
Employee payroll benefits and taxes	1,837,128	53,210	72,641	1,962,979	3,338	294,702	298,040	2,261,019
Personnel	6,758,685	199,948	256,550	7,215,183	12,877	1,156,250	1,169,127	8,384,310
Professional fees and contract service payments	1,437,672	94,432	101,657	1,633,761	15,829	423,427	439,256	2,073,017
Supplies	964,368	27,159	4,617	996,144	3,799	27,971	31,770	1,027,914
Travel and training	35,447	9,724	2,238	47,409	3,404	35,945	39,349	86,758
Insurance	1,727	1,316	-	3,043	-	20,596	20,596	23,639
Telephone and communications	113,073	5,801	11,875	130,749	-	66,511	66,511	197,260
Facility rental and utilities	502,843	14,510	19,226	536,579	-	66,700	66,700	603,279
Postage and shipping	13,672	147	1,749	15,568	-	57,238	57,238	72,806
Printing	13,239	55	-	13,294	-	6,262	6,262	19,556
Other	174,404	13,909	-	188,313	970	184,968	185,938	374,251
In-kind and donated services/supplies	1,963,903	12,246	2,815,990	4,792,139	-	-	-	4,792,139
<b>TOTAL BEFORE DEPRECIATION AND AMORTIZATION</b>	11,979,033	379,247	3,213,902	15,572,182	36,879	2,045,868	2,082,747	17,654,929
Depreciation and amortization	59,166	1,957	1,320	62,443	-	8,714	8,714	71,157
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 12,038,199</u>	<u>\$ 381,204</u>	<u>\$ 3,215,222</u>	<u>\$ 15,634,625</u>	<u>\$ 36,879</u>	<u>\$ 2,054,582</u>	<u>\$ 2,091,461</u>	<u>\$ 17,726,086</u>

*The accompanying notes are an integral part of the financial statements.*

**COMMUNITY HEALTH CENTERS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 560,307	\$ 624,438
Adjustments to reconcile change in net assets to net cash flows provided (used) by operating activities:		
Depreciation and amortization	154,678	71,157
Loss on disposal of assets	11,781	19,122
(Increase) decrease in assets:		
Receivables	(465,262)	189,975
Prepaid expenses	-	(397)
Increase (decrease) in liabilities:		
Accounts payable	179,133	22,284
Accrued expenses	56,636	(61,336)
Other current liabilities	(780,261)	-
Net cash flows provided (used) by operating activities	(282,988)	865,243
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for purchases of equipment	(262,070)	(345,902)
Cash from sale of investments	25,000	25,000
Net cash used by investing activities	(237,070)	(320,902)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(520,058)	544,341
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	1,857,257	1,312,916
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 1,337,199	\$ 1,857,257
<b>CASH AND CASH EQUIVALENTS RECORDED IN THE ACCOMPANYING STATEMENTS OF FINANCIAL POSITION</b>		
Cash and cash equivalents	\$ 832,656	\$ 1,377,855
Cash and cash equivalents - designated	504,543	479,402
<b>Total cash and cash equivalents</b>	\$ 1,337,199	\$ 1,857,257

*The accompanying notes are an integral part of the financial statements.*

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Community Health Centers, Inc. (the Organization) is a Utah not-for-profit corporation governed by a consumer-controlled volunteer board of Governors. The stated purpose is to provide quality patient-centered primary care services to individuals, regardless of their ability to pay.

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 and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform with the 2010 presentation.

Contributions

Contributions are recognized as support in the statement of activities in the period received or unconditionally pledged and are considered to be available for unrestricted use unless otherwise specified by the donor. Donor-restricted contributions are classified as temporarily restricted and included in net assets released from restrictions when expended for their intended purpose.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Concentration of Credit Risk

A large portion of the Organization's service fees receivable are from patients who have difficulty paying for services rendered. The management of the Organization establishes an allowance for possible losses which, when realized, have been within the range of management expectations.

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk (continued)

The Organization maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. To date, the Organization has not experienced any material loss or lack of access to its invested cash and cash equivalents; however, no assurance can be provided that access to the Organization's invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

The Organization's investments are classified as other-than-trading. These securities are held for an indefinite period to time and may be sold in response to changes in investment strategy, interest rates, liquidity needs or other reasons. Realized gains and losses, which arise principally from the sale of investments, are determined on a specific-identification basis.

Other-than-trading investments that experience declines in value are regularly evaluated for other-than-temporary impairment. Impairment losses for declines in the value of these investments below cost are evaluated based upon relevant facts and circumstances for each investment and are recognized as losses in investment income (loss) when deemed to be other than temporary. Investments in marketable securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Receivables

Receivables consist of service fees receivable, grants and contracts receivable, and other miscellaneous receivables as summarized in Note 4.

Service fees receivable are carried at the original amount less an estimate made for doubtful receivables. A receivable is considered to be past due if any portion of the receivable is outstanding for more than 30 days. Management determines the allowance for doubtful accounts by using historical collection experience applied to an aging of accounts. While management believes this methodology provides a reasonable estimate of the allowance for doubtful accounts, it is possible that actual write-offs may vary from this estimate. Service fees receivable are written off when deemed uncollectible. Recoveries of service fees receivable previously written off are recorded as income when received.

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchased property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method. The assets' estimated lives range from 3 to 20 years.

Donated Property, Equipment and Supplies

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donations of supplies are recorded at estimated fair market value at the time of donation.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people possessing those skills, and would need to be purchased if they were not donated.

Revenue Recognition for Medical Services

Revenue is recognized at the time the medical services are provided.

Patient Revenue

Many of the patients receiving medical services from the Organization qualify for a sliding-scale adjustment based upon family size and income. The sliding scale adjustment is set by the Organization's board using federal poverty guidelines. In addition, the Organization receives fees from various third party programs for qualifying patients. Patient fees are applied in meeting the non-federal share of approved budgets.

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising and Promotion

All costs associated with advertising are related to community outreach activities that increase public awareness of the Organization's services and are expensed in the year incurred. Advertising expense was \$23,200 and \$0 for the years ended December 31, 2010 and 2009.

Income Tax Status

The Organization is a qualified charitable organization under Section 501(c)(3) of the Internal Revenue Code and under the State of Utah tax regulations. The Organization engages in no activity constituting taxable unrelated business income. Consequently, the Organization is not subject to federal or state income taxes on income pertaining to its exempt purpose and no income tax is reflected in the accompanying financial statements. Management has determined that the Organization has no uncertain tax positions that require either recognition or disclosure in the financial statements.

New Accounting Pronouncement

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles." With the issuance of SFAS 168, the FASB Accounting Standards Codification (the "Codification" or "ASC") becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities, with the exception of guidance issued by the Securities and Exchange Commission. Accordingly, all specific references herein to generally accepted accounting principles refer to the Codification and not the pre-codification literature. The Codification does not modify existing GAAP. Non-authoritative accounting literature is excluded from the Codification.

Subsequent Events

Management has evaluated subsequent events through June 30, 2011, which is the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that required recognition or disclosure in the financial statements.

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 2 - INVESTMENTS

The Organization's investments in fixed income securities of \$0 and \$25,000 as of December 31, 2010 and 2009, respectively, consist primarily of funds that invest in municipal and corporate debt securities classified as auction rate securities. Auctions related to many auction rate securities have not always provided a ready market to liquidate such securities. However, during 2010 the Organization sold the remaining balance of \$25,000 at the carrying amount.

Interest, dividends, realized and unrealized gains and losses, net of investment management fees, totaled approximately \$0 and \$1,000 for 2010 and 2009, respectively.

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Authoritative guidance establishes a hierarchy for inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are market inputs participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2: Unobservable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Inputs are unobservable inputs for the asset that are supported by little or no market activity and that are significant to the fair value of the underlying asset.

The following table summarizes the Organization's financial instruments measured at fair value on a recurring basis as of December 31, 2009.

<u>2009</u>	<u>Fair Value</u>	<u>Type of Fair Value Measurement</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Auction rate securities	\$ 25,000	\$ -	\$ 25,000	\$ -

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 4 - RECEIVABLES

Receivables consist of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Service fees receivable	\$ 1,380,782	\$ 1,363,960
Grants and contracts receivable	430,482	410,339
Contributions receivable for HAP	-	20,600
Receivable from vendor	169,483	-
Medicaid final settlement receivable	221,113	-
	<u>2,201,860</u>	<u>1,794,899</u>
Less allowance for contractual adjustments and doubtful accounts on service fees receivable	<u>(755,659)</u>	<u>(813,960)</u>
Receivables, net	<u>\$ 1,446,201</u>	<u>\$ 980,939</u>

All balances noted in the table above are receivable within less than one year.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cost:		
Land	\$ 89,635	\$ 89,635
Autos and trucks	17,474	17,474
Buildings	465,365	465,365
Computer equipment	458,440	749,742
Furniture and fixtures	28,499	25,298
Leasehold improvements	1,050,880	1,037,918
Equipment	419,538	595,049
	<u>2,529,831</u>	<u>2,980,481</u>
Less accumulated depreciation	<u>(1,558,814)</u>	<u>(2,105,075)</u>
Net book value	<u>\$ 971,017</u>	<u>\$ 875,406</u>

NOTE 6 - DESIGNATION OF UNRESTRICTED NET ASSETS

The Organization's Board of Governors designates a portion of unrestricted net assets and an equal amount of cash and investments to be held as an emergency reserve.

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 7 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets totaled \$176,679 and \$158,271 as of December 31, 2010 and 2009, respectively, and are restricted for use in the Health Access Project (HAP) program. The HAP program is a community partnership that works to improve access to and coordinate comprehensive health care for low-income, uninsured residents of Salt Lake County.

NOTE 8 - IN-KIND SERVICES AND SUPPORT

In-kind donations consist of the following for the years ended December 31, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Donated services	\$ 3,319,006	\$3,261,104
Donated pharmaceuticals	233,355	463,764
Donated vaccines for children	1,033,467	1,067,271
	<b>\$ 4,585,828</b>	<b>\$ 4,792,139</b>

NOTE 9 - SIGNIFICANT FUNDING SOURCE

During the years ended December 31, 2010 and 2009, approximately 22% and 21% of the Organization's operating revenues were from one funding source. A second source provided approximately 21% and 19% of the Organization's operating revenues for the years ended December 31, 2010 and 2009, respectively. Future funds available from these funding sources are subject to potential reductions due to changes in governmental budget allocations and other factors.

NOTE 10- RETIREMENT PLAN

The Organization has a defined contribution retirement plan (the Plan) which covers employees meeting the Plan's eligibility requirements. For the years ended December 31, 2010 and 2009, the Organization contributed approximately \$520,000 and \$610,000 to the Plan, respectively.

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

NOTE 11 - OPERATING LEASES

The Organization leases medical clinics and certain equipment under various operating leases. Future minimum rental payments under non-cancelable operating leases as of December 31, 2010 are as follows:

2011	\$ 438,807
2012	265,273
2013	236,247
2014	243,345
2015	250,653
Thereafter	328,062
	\$ 1,762,387

Rent expense related to these non-cancellable operating leases was approximately \$506,000 and \$403,000 for the years ended December 31, 2010, and 2009, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Government Contracts

The Organization has contracts with government agencies to provide funding for health care services. The terms of these contracts may require adjustments to be made to revenues received based on cost settlements and other events. The amount of these adjustments is recorded when determinable. These adjustments may have a material effect on the financial statements in the period in which they are recognized.

Litigation

The Organization has been named in lawsuits and/or claims filed against it. The amount, if any, to be paid by the Organization in connection with these claims is not estimable and the likelihood of an unfavorable outcome is not currently determinable. Management believes damages resulting from these claims will not have a material adverse effect on the Organization's financial position.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Board of Governors  
Community Health Centers, Inc.**

We have audited the financial statements of Community Health Centers, Inc. (the Organization) (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 30, 2011. 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 entity'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 was not designed to identify all deficiencies in internal control over financial reporting 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.

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 noted certain matters that we reported to management of the Organization in a separate letter dated June 30, 2011.

This report is intended solely for the information and use of management, the Board of Governors, others within the entity, 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.

*Wisam Smith Racke & Prescott, LLP*

Salt Lake City, Utah  
June 30, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

**Board of Governors  
Community Health Centers, Inc.**

Compliance

We have audited Community Health Centers, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2010. The Organization's major federal programs are 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 each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Organization 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 management, the Board of Governors, others within the entity, 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.

*Wisam Smith Racke & Prescott, LLP*

Salt Lake City, Utah  
June 30, 2011

**COMMUNITY HEALTH CENTERS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended December 31, 2010**

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services:</b>		
Consolidated Health Centers	93.224*	\$ 3,411,276
ARRA – Grants to Health Center Programs (IDS)	93.703*	329,057
ARRA – Grants to Health Center Programs (CIP)	93.703*	159,297
<b>Passed through the Association for Community Health</b>		
Specially Selected Health Projects	93.888	167,880
Children’s Health Insurance Programs	93.767	223,074
<b>Passed through the State of Utah Department of Health:</b>		
Maternal and Child Health Services Block Grant to the States	93.994	25,000
<b>Passed through the Native American Indian Health Care:</b>		
Indian Health Service-Health Management Development Program	93.228	<u>124,423</u>
Total U.S. Department of Health and Human Services		<u>4,440,007</u>
<b>U.S. Department of Housing and Urban Development:</b>		
<b>Passed through Salt Lake County Municipalities:</b>		
Community Development Block Grants/Entitlement Grants	14.218	<u>126,223</u>
Total U.S. Department of Housing and Urban Development		<u>126,223</u>
Total federal expenditures		<u>\$ 4,566,230</u>

\* Denotes a major program

*The accompanying notes are an integral part of this schedule.*

**COMMUNITY HEALTH CENTERS, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES**  
**OF FEDERAL AWARDS**  
**Year ended December 31, 2010**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Health Centers, Inc. (the Organization) 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.

**Note 2 - Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using a basis of accounting which is consistent with the basic financial statements, as described in Note 1 to the Organization's basic financial statements.

**Note 3 - Subrecipients**

None of the federal expenditures presented in the schedule were provided by the Organization to subrecipients.

**Note 4 - Reconciliation to basic financial statements**

Included in the statement of activities of the Organization's basic financial statements are additional grants and contracts that have not been included in the schedule of expenditures of federal awards, as follows:

Federal awards	\$4,566,230
State grants	74,140
Private grants	<u>1,281,149</u>
 Total grants and contracts	 <u><u>\$5,921,519</u></u>

**Note 5 - In-kind Federal Assistance**

During the year ended December 31, 2010, the Organization received \$1,033,467 in donated vaccines through the Utah Department of Health in connection with the Vaccinations for Children Program, Federal CFDA Number 93.268 Immunization Grants. The Organization is not considered a subrecipient of this grant for purposes of determining audit coverage and reporting under OMB Circular A-133.

**COMMUNITY HEALTH CENTERS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year ended December 31, 2010**

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

**Financial Statements:**

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

**Federal Awards:**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Type of Auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.224	Consolidated Health Centers
93.703	ARRA – Grants to Health Center Programs (IDS)
93.703	ARRA – Grants to Health Center Programs (CIP)

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**COMMUNITY HEALTH CENTERS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year ended December 31, 2010**

**Finding 09-01 Controls Over the Vaccinations for Children Program (noted by other auditors)**

*Condition*

It was noted that Community Health Centers, Inc. (the Organization) was not able to fully account for all vaccines received under the Immunization Grants – Vaccinations for Children Program (“VFC”).

*Recommendation*

The auditors recommended that management continue to monitor and refine the method used to account for the usage of Vaccinations for Children vaccines, and compare the actual usage to information recorded in the Medical Manager Practice management system on a regular basis to ensure that the vaccines are being properly administered.

*Current Status*

The Organization has taken steps to improve the controls over the inventory tracking of vaccinations associated with the VFC program.

Per the A-133 Compliance Supplement for CFDA Number 93.268 pg 4, “vaccinating providers and vaccinated individuals are not considered subrecipients; therefore, the value of vaccine received is not a grant expenditure for purposes of determining audit coverage and reporting for those entities.” The Organization is a vaccinating provider; thus, the value of the vaccine received has not been considered a grant expenditure for determining audit coverage for the year ended December 31, 2010.