

7256

**SWLA CENTER
FOR HEALTH SERVICES
Lake Charles, Louisiana**

**Financial and Compliance Report
May 31, 2011 and 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **NOV 09 2011**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3 - 4
Statements of Activities	5
Statements of Cash Flows	6
Schedule of Functional Expenses	7
Notes to Financial Statements	8 - 14
Supplementary Information	
Schedule of Expenditures of Federal Awards	15
Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	16 - 17
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	18 - 19
Schedule of Findings and Questioned Cost	20 - 21

STEVEN M. DEROUEN, CPA

P.O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE | (337) 513-4737 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
SWLA Center for Health Services
Lake Charles, Louisiana

I have audited the accompanying statements of financial position of SWLA Center for Health Services, (a non-profit organization) as of May 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of SWLA Center for Health Services' management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my 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 I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of SWLA Center for Health Services as of May 31, 2011 and 2010, and 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*, I have also issued my report dated October 18, 2011, on my consideration of SWLA Center for Health Services' internal control over financial reporting and on my 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 my 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 my audit.

Board of Directors
SWLA Center for Health Services
Lake Charles, Louisiana
Page 2

My audit was conducted for the purpose of forming an opinion on the basic financial statements of SWLA Center for Health Services taken 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 of SWLA Center for Health Services. 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. This 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 my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Steven M. DeFournier CPA

Lake Charles, Louisiana
October 18, 2011

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Statements of Financial Position
As of May 31,

	2011	As restated 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,546,639	\$ 2,462,464
Cash and cash equivalents - designated for construction	1,158,199	854,761
Certificate of deposit	108,299	107,592
Patient accounts receivable, net	363,137	568,023
Grant receivable	-	25,000
Supplies inventory	103,376	121,980
Prepaid expenses	63,797	62,153
Deposits	34,556	10,271
Total Current Assets	4,378,003	4,212,244
Property, Plant and Equipment		
Furniture and equipment	3,119,984	2,924,401
Building and improvements	7,240,906	7,240,906
Automobiles	64,280	64,280
	10,425,170	10,229,587
Less accumulated depreciation	(2,652,666)	(2,046,158)
	7,772,504	8,183,429
Land	518,654	380,369
Construction in progress	4,776,737	299,809
Net Property, Plant and Equipment	13,067,895	8,863,607
Other Assets		
Investment - LA Partnership for Choice and Access, LL	240,236	250,000
Investments - other	-	99,998
Total Other Assets	240,236	349,998
Total Assets	\$ 17,686,134	\$ 13,425,849

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Statements of Financial Position (Continued)
As of May 31,

	2011	As restated 2010
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 631,278	\$ 402,688
Accrued vacation and payroll	437,021	373,927
Payroll taxes payable	3,029	1,810
Sales tax payable	313	854
Accrued interest payable	2,638	613
Deferred income	50,000	-
Loan payable to LPCA	125,000	114,099
Current portion of notes payable	77,266	73,807
	1,326,545	967,798
Long Term Liabilities		
Notes payable - net of current portion	59,735	137,008
	1,386,280	1,104,806
Net Assets		
Unrestricted net assets	16,299,854	12,321,043
Total Net Assets	16,299,854	12,321,043
Total Liabilities and Net Assets	\$ 17,686,134	\$ 13,425,849

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES

Lake Charles, Louisiana

Statements of Activities

For the Year Ended May 31,

	<u>2011</u>	<u>As restated 2010</u>
Revenue and Support - Unrestricted		
Revenue:		
Net patient service revenue	\$ 5,443,413	\$ 5,469,974
Support and other income:		
Grant awards	8,163,264	3,650,853
Contributions	19,747	163,697
Investment income (loss)	8,840	25,017
Other income	60,757	91,443
Total Support	<u>8,252,608</u>	<u>3,931,010</u>
Total Revenue and Support - Unrestricted	<u>13,696,021</u>	<u>9,400,984</u>
Expenses		
Program Services:		
Medical	5,058,253	4,515,006
Ancillary	197,349	200,862
Enabling services	826,239	587,116
WIC program	94,266	96,468
Total Program Services	<u>6,176,107</u>	<u>5,399,452</u>
Support Services:		
General and administrative	3,541,103	3,552,437
Total Expenses	<u>9,717,210</u>	<u>8,951,889</u>
Change in Net Assets - Unrestricted	<u>3,978,811</u>	<u>449,095</u>
Net Assets - Beginning of Year	12,321,043	11,905,666
Prior Period Adjustment - Correction of error	-	(33,718)
Net Assets - Beginning of Year, as restated	<u>12,321,043</u>	<u>11,871,948</u>
Net Assets - End of Year	<u>\$ 16,299,854</u>	<u>\$ 12,321,043</u>

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Statements of Cash Flows
For the Year Ended May 31,

	2011	As restated 2010
Cash Flows From Operating Activities		
Change in net assets	\$ 3,978,811	\$ 449,095
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	632,063	585,710
Change in allowance for doubtful accounts	6,687	(415,241)
(Increase) decrease in accounts receivable	184,730	663,192
(Increase) decrease in grant receivable	25,000	
(Increase) decrease in supplies inventory	18,604	(17,755)
(Increase) decrease in prepaid expenses	(1,644)	(43,315)
(Increase) decrease in deposits	(24,285)	2,202
Increase (decrease) in accounts payable	(142,981)	(55,500)
Increase (decrease) in accrued vacation and payroll	65,799	105,860
Increase (decrease) in other payables	50,000	739
	<u>4,792,784</u>	<u>1,274,987</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows From Investing Activities		
(Purchase) redemption of certificate of deposits	-	909,079
(Purchase) redemption of investments	109,762	(349,998)
Fixed asset acquisitions	(4,452,020)	(870,542)
	<u>(4,342,258)</u>	<u>(311,461)</u>
Net Cash Provided (Used) by Investing Activities		
Cash Flows From Financing Activities		
Proceeds from loans	125,000	114,099
Principal payments on loans	(187,913)	(171,914)
	<u>(62,913)</u>	<u>(57,815)</u>
Net Cash Provided (Used) by Financing Activities		
Net Increase in Cash and Cash Equivalents	387,613	905,711
Cash and Cash Equivalents - Beginning of Year	3,317,225	2,411,514
Cash and Cash Equivalents - End of Year	<u>\$ 3,704,838</u>	<u>\$ 3,317,225</u>
Cash and Cash Equivalents:		
Cash - unrestricted	2,546,639	2,462,464
Cash - designated	1,158,199	854,761
	<u>\$ 3,704,838</u>	<u>\$ 3,317,225</u>
Supplemental Disclosure:		
Interest paid	<u>\$ 17,337</u>	<u>\$ 18,111</u>

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Schedule of Functional Expenses
For the Year Ended May 31, 2011

	Program Services				Supporting	Total	
	Medical	Ancillary	Enabling Services	WIC Program	General and Administrative	2011	As restated 2010
Salaries	\$ 2,658,672	\$ 133,090	\$ 484,652	\$ 74,814	\$ 1,441,409	\$ 4,792,637	\$ 4,134,578
Fringe benefits	295,125	9,807	39,389	7,958	127,952	480,231	447,354
Payroll taxes	207,373	9,502	35,784	5,261	97,722	355,642	282,351
Consultants and contractual services	1,052,810	14,424	58,929	434	449,538	1,576,135	1,737,114
Supplies	315,084	25,170	22,427	1,195	68,152	432,028	426,065
Dues and subscriptions/printing	51,150	797	17,529	-	42,594	112,070	81,002
Maintenance and repairs	8,016	185	955	161	67,226	76,543	82,542
Telephone	45,501	826	4,329	716	60,627	111,999	92,076
Postage	10,776	-	185	-	2,668	13,629	13,415
Insurance	23,259	1,350	6,068	1,257	28,897	60,831	58,070
Travel, seminars and education	57,723	389	63,185	902	128,670	250,869	272,228
Taxes and licenses	-	-	700	-	153	853	2,168
Utilities	63,855	1,809	55,439	1,568	34,737	157,408	160,928
Interest	14,358	-	-	-	2,979	17,337	18,111
Legal and professional	604	-	40	-	65,500	66,144	76,100
Rent	73,600	-	-	-	38,819	112,419	112,023
Miscellaneous	-	-	-	-	26,836	26,836	49,581
Service charges	7,951	-	1,526	-	-	9,477	11,282
Vehicle expense	-	-	-	-	11,908	11,908	8,419
Recruitment cost	62,234	-	2,918	-	2,255	67,407	169,000
Total expenses before depreciation, bad debts and loss on disposal of equipment	4,948,091	197,349	794,055	94,266	2,698,642	8,732,403	8,234,407
Depreciation and amortization	110,162	-	32,184	-	489,718	632,064	585,710
Bad debt expense	-	-	-	-	352,743	352,743	131,772
Total expenses	\$ 5,058,253	\$ 197,349	\$ 826,239	\$ 94,266	\$ 3,541,103	\$ 9,717,210	\$ 8,951,889

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements
May 31, 2011 and 2010

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

SWLA Center for Health Services (a nonprofit corporation) was incorporated May 1, 1978 to provide comprehensive health care to area residents, with particular emphasis on the socio-economically disadvantaged.

Income Taxes

The Organization is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes is included in the financial statements.

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is stated at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$600. Depreciation of property and equipment is computed principally by the straight-line method over the following estimated useful lives:

	Years
Building	30
Equipment, furniture and fixtures	3 - 20
Vehicles	5

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2011 and 2010

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Accounts Receivable

The Organization records accounts receivable at the time of service according to fees developed from cost data of this and similar organizations. These amounts are often reduced because of the patients' inability to pay or because of disallowances and reductions from third party payors. Management provides for probable uncollectible amounts through a provision for bad expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable.

Inventory

Supply inventories are stated at lower of cost, determined by the FIFO method, or market.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Grants and Contributions

Grants and contributions are recognized as income when received. The Board reports grants as temporarily restricted support if they are received with stipulations that limit the use of the funds. When grantor restrictions expire, temporary restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All other support is recognized when earned.

Fair Values of Financial Instruments

The Organization has a number of financial instruments, none of which is held for trading purposes. The Organization estimates that the fair value of all financial instruments at May 31, 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the agency could realize in a current market exchange. The recorded values of cash and cash equivalents, certificate of deposits, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The recorded values of notes payable approximate their fair value, as interest is insignificant.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2011 and 2010

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable are comprised of the following for the years ending May 31,:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 43,198	46,081
Medicaid	149,608	113,838
Private	<u>459,902</u>	<u>690,988</u>
	652,708	850,907
Less allowance for doubtful accounts	<u>289,571</u>	<u>282,884</u>
	<u>\$ 363,137</u>	<u>\$ 568,023</u>

NOTE 3 - COST REPORT RECEIVABLE

The Organization participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Organization participates in the Medicaid program as a federally qualified health center. Final settlements will be made upon completion of audits by program representatives.

NOTE 4 - ACCRUED VACATION

The Organization allows employees to carry over unused vacation hours, with written permission from the executive director. The accrual is calculated based on the employee's pay rate at the end of the year. At May 31, 2011 and 2010, accrued vacation totaled \$232,789 and \$202,750, respectively.

NOTE 5 - ECONOMIC DEPENDENCY

The Organization receives a substantial portion of its total support and revenues from the federal government. During the years ended May 31, 2011 and 2010, SWLA Center for Health Services recorded \$2,340,184 and \$3,552,526 respectively, in grant support from the Department of Health and Human Services. This represents 37.9% and 28.5% of total support and revenues for the years ended May 31, 2011 and 2010, respectively.

NOTE 6 - PRIOR PERIOD ADJUSTMENT

Net assets for the year ending May 31, 2009 were decreased \$33,718 to correct an error. A land lease entered into in 2007 and the accrued payable for the lease was not recorded until fiscal year May 31, 2011. Expenses and accounts payable for fiscal year May 31, 2010 were increased by \$18,391.

The May 31, 2010 statement of financial position and statement of activities were adjusted to reflect a previously unrecognized grant receivable and related grant revenue of \$25,000. These Substance Abuse Treatment grant proceeds were awarded during the fiscal year May 31, 2010, but not received until the following fiscal year.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2011 and 2010

NOTE 7 - NOTES PAYABLE

Notes payable for the twelve months ended May 31, 2011 consisted of the following:

Bank note payable, due in 86 equal monthly installments of \$6,964.62, final payment to be paid February 27, 2013, including interest at 6.014%, collateralized by real estate with a carrying value of \$741,886.	<u>\$ 137,001</u>
Total debt	137,001
Less current portion	<u>(77,266)</u>
Long-term debt	<u>\$ 59,735</u>

Maturities of debt are as follows:

May 31,	Amount
2012	\$ 77,266
2013	<u>59,735</u>
Total	<u>\$137,001</u>

Notes payable for the twelve months ended May 31, 2010 consisted of the following:

Bank note payable, due in 86 equal monthly installments of \$6,964.62, final payment to be paid February 27, 2013, including interest at 6.014%, collateralized by real estate with a carrying value of \$741,886.	<u>\$ 210,815</u>
Total debt	210,815
Less current portion	<u>(73,807)</u>
Long-term debt	<u>\$ 137,008</u>

Maturities of debt are as follows:

May 31,	Amount
2011	\$ 73,807
2012	77,266
2013	<u>59,742</u>
Total	<u>\$210,815</u>

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2011 and 2010

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains several bank accounts at various banks. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC), based on balances and interest rate terms. The Organization had deposit balances that exceeded federally insured limits by \$671,882 and \$1,662,821 as of May 31, 2011 and 2010, respectively. The Organization also had \$253,452 invested in a money market account, as of May 31, 2010, which is not insured against market risk.

The majority of the Organization's patients are located in Southwest Louisiana. The Organization grants credit without collateral to its patients. The mix of receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	12 %	8 %
Medicaid	42	20
Other	46	72
	<u>100 %</u>	<u>100 %</u>

The mix of net patient revenues was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	9 %	10 %
Medicaid	61	64
Other	30	26
	<u>100 %</u>	<u>100 %</u>

NOTE 9 - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses were allocated in the accompanying financial statements to program and supporting service functional expense groups. The methods of allocation were based on several factors such as utilization of office space as well as the Organization's estimates of the relative proportion of various staff members' time and effort between program and administrative functions.

NOTE 10 - CHARITY CARE

The Organization provides care to patients who qualify under federal guidelines and other policies of the Organization at fees less than its established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for the years ended May 31, 2011 and 2010 was \$1,691,185 and \$1,735,114, respectively.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2011 and 2010

NOTE 11 – 401(k) PLAN

The Organization sponsors a 401 (k) Plan covering substantially all of its employees. The employees may elect to make contributions pursuant to a salary reduction agreement upon meeting eligibility requirements. The Organization made matching contributions of \$93,894 and \$82,850 for the years ended May 31, 2011 and 2010, respectively.

NOTE 12 – LOAN PAYABLE TO LPCA

Louisiana Primary Care Association, Inc. (LPCA) loaned \$125,000 to the Center as an advance against a grant awarded by LPCA for the construction of the Lafayette center.

NOTE 13 – DESIGNATED CASH

The Center escrowed funds totaling \$1,158,199 and \$854,761 as of May 31, 2011 and 2010, respectively, which is to be expended for the Lafayette site construction project.

NOTE 14 – INVESTMENTS

The Organization applies GAAP for fair value measurements of financial assets that are recognized at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair market hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs are inputs (other than quoted prices included in Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available).

The Organization's investments consisted as of May 31, 2011, a member's interest in a limited liability company with fair market value (Level 3) and costs bases as follows:

	Amortized Cost	Fair Value	Unrealized Gain
La. Partnership for Choice and Access, LLC (250 units) (Level 3 Cost Basis)	\$ 240,236	\$ 240,236	\$ -0-

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2011 and 2010

NOTE 14 – INVESTMENTS (continued)

The Organization invested \$250,000 in the Louisiana Partnership for Choice and Access, LLC. The LLC investors are limited to Federally Qualified Health Centers (FQHC) or FQHC look-alike organizations. The LLC investors will own 49% (directly or indirectly) of Healthy Louisiana Choice, Inc. a Louisiana Corporation. The corporation will function as a Medicaid managed care organization servicing Louisiana Medicaid beneficiaries.

NOTE 15 – SUBSEQUENT EVENT

The Organization evaluated its May 31, 2011 financial statements for subsequent events through October 18, 2011, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 16 – LEASES

The Organization had originally entered into an 18 month building lease starting May 1, 2009 at \$4,320 per month. The lease was renewed on a month to month basis. The lease expense for the fiscal year ended May 31, 2011 totaled \$51,840.

The Organization entered into a 24 month land lease starting June 1, 2009 at \$1,200 per month. The lease was renewed on a month to month basis. The lease expense for the fiscal year ended May 31, 2011 totaled \$13,200.

The Organization entered into a 50 year land lease starting August 1, 2007 at \$1,500 per month. The lease expense for the fiscal year ended May 31, 2011 totaled \$18,000.

NOTE 17 – CONSTRUCTION IN PROGRESS

The Organization had construction in progress as of May 31, 2011 totaling \$4,776,737, for various projects. The Lafayette, Louisiana center is projected to be completed during fiscal year end May 31, 2012 at an estimated cost of \$4,376,000.

NOTE 18 – LITIGATION

The Organization is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the organization's future financial position or results from operations.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2011

<u>Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Year</u>	<u>Program Receipts</u>	<u>Program Expenses</u>
U. S. Department of Health and Human Services					
Direct Programs:					
Community Health Center Section 330	93.224	H80CS00558 *	6/1/10 - 5/31/11	\$ 2,065,184	\$ 2,065,184
Substance Abuse Treatment	93.243	1H79T1020828 *	9/30/09 - 9/30/10	275,000	275,000
Recovery Act. Capital Improvement Program	93.703	C81CS13807 *	6/29/09 - 6/29/11	343,329	343,329
Affordable Care Act Capital Development	93.526	C8AC21317 *	10/01/10 - 09/30/12	3,576,443	3,576,443
U. S. Department of Agriculture					
Passed through:					
Louisiana Department of Health and Hospitals: Office of Public Health	10.572		10/1/10 - 9/30/11	<u>75,896</u>	<u>75,896</u>
Total federal assistance				<u>\$ 6,335,852</u>	<u>\$ 6,335,852</u>

* Denotes major program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of SWLA Center for Health Services, and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Certain costs have been allocated to the federal program in accordance with OMB Circular A-122, Cost Principles of Non-Profit Organizations. The amounts presented in this schedule do not differ from the amounts presented in, or used in the preparation of the financial statements.

STEVEN M. DEROUEN, CPA

P.O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE | (337) 513-4737 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

Certified Public Accountants

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

Board of Directors
SWLA Center for Health Services
Lake Charles, Louisiana

I have audited the financial statements of SWLA Center for Health Services (a nonprofit organization) as of and for the year ended May 31, 2011, and have issued my report thereon dated October 18, 2011. I conducted my 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 my audit, I considered SWLA Center for Health Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWLA Center for Health Services' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Southwest Louisiana Center for Health Services' 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 on a timely basis.

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

Board of Directors
SWLA Center for Health Services
Lake Charles, Louisiana
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SWLA Center for Health Services' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 my audit, and accordingly, I do not express such an opinion. The results of my test 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 of the audit committee, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Steve M. DeRouen, CPA

Lake Charles, Louisiana
October 18, 2011

STEVEN M. DEROUEN, CPA

P.O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE | (337) 513-4737 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
SWLA Center for Health Services
Lake Charles, Louisiana

Compliance

I have audited the compliance of SWLA Center for Health Services, with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*" that are applicable to each of its major federal programs for the year ended May 31, 2011. SWLA Center for Health Services' 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 SWLA Center for Health Services' management. My responsibility is to express an opinion on SWLA Center for Health Services' compliance based on my audit.

I conducted my 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 SWLA Center for Health Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. I believe that our audit provides a reasonable basis for our opinion. My audit does not provide a legal determination of SWLA Center for Health Services' compliance with those requirements.

As described in item 2011-01, in the accompanying schedule of findings and questioned costs, SWLA Center for Health Services, did not comply with requirements regarding Eligibility that are applicable to its Community Health Center Section 330 grant program. Compliance with such requirements is necessary, in my opinion, for SWLA Center for Health Services to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, SWLA Center for Health Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2011.

Internal Control Over Compliance

Management of SWLA Center for Health Services 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 my audit, I considered SWLA Center for Health Services' 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 my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of SWLA Center for Health Services' internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified certain deficiencies that I consider to be a significant weakness.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-01 to be a significant deficiency.

SWLA Center for Health Services' response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit SWLA Center for Health Services' response, and accordingly, I express no opinion on the response.

This report is intended solely for the information of the audit committee, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

James M. DeRouen, CPA

SWLA CENTER FOR HEALTH SERVICES

**Schedule of Findings and Questioned Cost
Year Ended May 31, 2011**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued Unqualified
Internal control over financial reporting:
Material weaknesses identified? Yes No
Significant deficiencies identified not considered to
be material weaknesses? Yes None reported
Noncompliance material to financial statements
noted? Yes No

Federal Awards

Internal control over major programs:
Material weaknesses identified? Yes No
Significant deficiencies identified not considered to
be material weaknesses? Yes
Type of auditor's report issued on compliance
for major programs: Qualified
Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510 (a)? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	US Department of Health and Human Services, Community Health Center Section 330
93.703	US Department of Health and Human Services, ARRA

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

Auditee qualified as low-risk auditee? Yes No

Separate Management Letter Issued

SWLA CENTER FOR HEALTH SERVICES

**Schedule of Findings and Questioned Cost
Year Ended May 31, 2011**

SECTION II – FINDINGS

2011-01 Eligibility Documentation

Finding: Several patient files that I tested for a sliding fee discount were incorrectly applied. Several application files were not located..

Criteria: Grant requires that fees charged to patients be based on patient's ability to pay. The discount is determined on the basis of the official poverty guidelines.

Cause: Similar findings existed in the prior year.

Management's Response: The Organization has revised policies to improve the accuracy of verifying and assigning the correct discounts per the poverty guidelines. This will be reinforced through regular in-service training on a quarterly basis.

SECTION III – Prior Year Findings and Questioned Costs

2010-01 Eligibility Documentation

Finding: Two applications that I tested for a sliding fee discount were incorrectly prepared. One of the two applications in question indicated the wrong discount to be applied, based on poverty guidelines.

STEVEN M. DEROUEN, CPA

P.O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE | (337) 513-4737 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

Certified Public Accountants

October 18, 2011

Board of Directors and Management
SWLA Center for Health Services
Lake Charles, Louisiana

In planning and performing my audit of the financial statements of SWLA Center for Health Services, as of and for the year ended May 31, 2011, in accordance with auditing standards generally accepted in the United States of America, I considered Center's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, I do not express an opinion on the effectiveness of the Center's internal control.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated October 18, 2011, on the financial statements of SWLA Center for Health Services.

I will review the status of these comments during my next audit engagement. I have already discussed these comments and suggestions with the Center's personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Steven M. DeRouen, CPA

Current Year Management Letter Points (FYE May 31, 2011)

Prepare a Budget

In view of the Center's increased growth, we believe management could benefit by preparing budgets and comparing budget information with actual results of operations. A budget is a plan for the future operations of a business. It is based on past experience and management's intentions or expectations of future conditions that will affect the Center. It allows management to plan the actions necessary for achieving desired or anticipated results and may also be an incentive for employee performance or a means for measuring performance. We recommend that budgets be prepared for each significant area or department of operations, with input by personnel who will be responsible for meeting them, that budget information be compared to actual results of operations, and that the cause of significant variations be determined so that corrective action can be taken if necessary.

It is our understanding that the CFO of the Center is in the process of preparing such budget.

Management Response

The CFO of the Center has prepared an operating budget by department for the current fiscal year. Management, the finance committee and the Board will review this information on an interim basis.

Fitness Center Support

Due to the current status of production of patient medical services, the Center could find itself in a situation in the future where non federal funds would not be sufficient to support the fitness center. I recommend that internal financial reporting should support the fact that non federal funds are available to support the operations of the fitness center. Also, strategic planning should be implemented to develop methods to acquire additional sources of funding for the fitness center.

Management Response

The accounting department has generated internal financial reporting to document the support of the fitness center. Additionally, the Board is reviewing alternative methods to develop funding for the fitness center.

Vacation Policy

I recommend that the personnel policy be reviewed as it relates to the "carry over" of unused vacation time. The current policy states that a total of five days can be carried over to the next year. In the past, the CEO of the Center has allowed more than the forty hours to be carried over. I have no problem with that policy, however, if so adopted the actual personnel policy needs to reflect that action.

Management Response

The Center's personnel policy has been revised to document the current status of unused employee vacation hours.

Annual Inventory Count

For fiscal year May 31, 2011, the Center contracted a company to perform inventory counts for the year end. Regarding these counts, specifically the pharmacy department, detail listings were not provided by the inventory service company. For future inventory documentation, I recommend that detail listings be provided or maintained by each department responsible for the inventory.

Management Response

All applicable departments will maintain detailed listings of annual physical inventory counts.

Scope of Services

It is my understanding that Podiatry services are not currently listed as part of additional services provided by the Center. The Center should work with the proper authorities to reflect the change in scope of services of SWLA Center for Health Services.

Management Response

The Center is working with the proper authorities to implement any changes in scope of services.