

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

**Financial and Compliance Report
May 31, 2012 and 2011**

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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, 2012, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the organization's May 31, 2011 financial statements, and in my report dated October 18, 2011, I expressed an unqualified opinion on those financial statements.

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. 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 audit provides 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, 2012, and the changes in its net assets, its functional expenses 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*, I have also issued my report dated August 23, 2012, 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
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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. DeRouen & Associates

Lake Charles, Louisiana
August 23, 2012

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Statements of Financial Position
As of May 31, 2012
With Summarized Comparative Totals as of May 31, 2011

Assets	2012	2011
Current Assets		
Cash and cash equivalents	\$ 2,904,811	\$ 2,546,639
Cash and cash equivalents - designated for construction	229,732	1,158,199
Certificate of deposit	-	108,299
Patient accounts receivable, net	701,831	363,137
Supplies inventory	137,890	103,376
Prepaid expenses	113,143	63,797
Deposits	23,279	34,556
Total Current Assets	4,110,686	4,378,003
Property, Plant and Equipment		
Furniture and equipment	3,818,446	3,119,984
Building and improvements	12,153,179	7,240,906
Automobiles	64,280	64,280
	16,035,905	10,425,170
Less accumulated depreciation	(3,395,948)	(2,652,666)
	12,639,957	7,772,504
Land	535,864	518,654
Construction in progress	175,080	4,776,737
Net Property, Plant and Equipment	13,350,901	13,067,895
Other Assets		
Investment - LA Partnership for Choice and Access, LLC	207,175	240,236
Total Other Assets	207,175	240,236
Total Assets	\$ 17,668,762	\$ 17,686,134

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Statements of Financial Position (Continued)
As of May 31, 2012
With Summarized Comparative Totals as of May 31, 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 271,194	\$ 631,278
Accrued vacation and payroll	432,222	437,021
Payroll taxes payable	3,398	3,029
Sales tax payable	638	313
Accrued interest payable	7,860	2,638
Deferred income	-	50,000
Loan payable to LPCA	125,000	125,000
Current portion of notes payable	-	77,266
	840,312	1,326,545
Long Term Liabilities		
Notes payable - net of current portion	-	59,735
	840,312	1,386,280
Net Assets		
Unrestricted net assets	16,828,450	16,299,854
Total Net Assets	16,828,450	16,299,854
Total Liabilities and Net Assets	\$ 17,668,762	\$ 17,686,134

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Statements of Activities
For the Year Ended May 31, 2012
With Summarized Comparative Totals for the Year Ended May 31, 2011

	<u>2012</u>	<u>2011</u>
Revenue and Support - Unrestricted		
Revenue:		
Net patient service revenue	\$ 6,196,889	\$ 5,443,413
Support and other income:		
Grant awards	3,785,565	8,163,264
Contributions	58,076	19,747
Investment income (loss)	(18,023)	8,840
Other income	473,355	60,757
Total Support	<u>4,298,973</u>	<u>8,252,608</u>
Total Revenue and Support - Unrestricted	<u>10,495,862</u>	<u>13,696,021</u>
Expenses		
Program Services:		
Medical	5,470,739	5,058,253
Ancillary	203,584	197,349
Enabling services	728,818	826,239
WIC program	99,396	94,266
Total Program Services	<u>6,502,537</u>	<u>6,176,107</u>
Support Services:		
General and administrative	<u>3,464,729</u>	<u>3,541,103</u>
Total Expenses	<u>9,967,266</u>	<u>9,717,210</u>
Change in Net Assets - Unrestricted	<u>528,596</u>	<u>3,978,811</u>
Unrestricted Net Assets - Beginning of Year	<u>16,299,854</u>	<u>12,321,043</u>
Unrestricted Net Assets - End of Year	<u>\$ 16,828,450</u>	<u>\$ 16,299,854</u>

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Statements of Cash Flows
For the Year Ended May 31, 2012
With Summarized Comparative Totals for the Year Ended May 31, 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 528,596	\$ 3,978,811
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	776,226	632,063
Change in allowance for doubtful accounts	116,048	6,687
(Increase) decrease in accounts receivable	(454,742)	184,730
(Increase) decrease in grant receivable	-	25,000
(Increase) decrease in supplies inventory	(34,514)	18,604
(Increase) decrease in prepaid expenses	(49,346)	(1,644)
(Increase) decrease in deposits	11,277	(24,285)
Increase (decrease) in accounts payable	(360,084)	(142,981)
Increase (decrease) in accrued vacation and payroll	(4,799)	65,799
Increase (decrease) in other payables	(44,084)	50,000
	484,578	4,792,784
Net Cash Provided (Used) by Operating Activities		
Cash Flows From Investing Activities		
(Purchase) redemption of certificate of deposits	108,299	-
(Purchase) redemption of investments	33,061	109,762
Fixed asset acquisitions	(1,059,232)	(4,452,020)
	(917,872)	(4,342,258)
Net Cash Provided (Used) by Investing Activities		
Cash Flows From Financing Activities		
Proceeds from loans	-	125,000
Principal payments on loans	(137,001)	(187,913)
	(137,001)	(62,913)
Net Cash Provided (Used) by Financing Activities		
Net Increase in Cash and Cash Equivalents	(570,295)	387,613
Cash and Cash Equivalents - Beginning of Year	3,704,838	3,317,225
Cash and Cash Equivalents - End of Year	\$ 3,134,543	\$ 3,704,838
Cash and Cash Equivalents:		
Cash - unrestricted	2,904,811	2,546,639
Cash - designated	229,732	1,158,199
	\$ 3,134,543	\$ 3,704,838
Supplemental Disclosure:		
Interest paid	\$ 7,423	\$ 17,337

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Schedule of Functional Expenses
For the Year Ended May 31, 2012
With Summarized Comparative Totals for the Year Ended May 31, 2011

	Program Services				Supporting	Total	
	Medical	Ancillary	Enabling Services	WIC Program	General and Administrative	2012	2011
Salaries	\$ 2,971,866	\$ 94,458	\$ 435,629	\$ 75,532	\$ 1,279,527	\$ 4,857,012	\$ 4,792,637
Fringe benefits	322,516	9,248	45,318	10,910	166,988	554,980	480,231
Payroll taxes	208,170	6,949	32,605	5,303	94,064	347,091	355,642
Consultants and contractual services	775,164	72,691	24,961	207	621,170	1,494,193	1,576,135
Supplies	478,864	11,340	27,145	2,199	60,522	580,070	432,028
Dues and subscriptions/printing	29,520	2,735	2,043	62	27,879	62,239	112,070
Maintenance and repairs	14,705	978	5,338	848	53,898	75,767	76,543
Telephone	43,020	1,036	6,898	898	50,301	102,153	111,999
Postage	8,045	30	341	-	3,042	11,458	13,629
Insurance	23,966	2,161	9,576	1,873	38,370	75,946	60,831
Travel, seminars and education	50,042	-	39,060	-	38,308	127,410	250,869
Taxes and licenses	6,510	65	600	-	165	7,340	853
Utilities	34,103	1,741	43,668	1,564	123,900	204,976	157,408
Interest	7,362	-	-	-	5,283	12,645	17,337
Legal and professional	36	-	194	-	140,749	140,979	66,144
Rent	40,125	-	-	-	62,140	102,265	112,419
Miscellaneous	-	-	25,424	-	26,087	51,511	26,836
Service charges	9,089	152	1,599	-	911	11,751	9,477
Vehicle expense	-	-	-	-	8,865	8,865	11,908
Recruitment cost	3,230	-	464	-	2,087	5,781	67,407
Total expenses before depreciation, bad debts and loss on disposal of equipment	5,026,333	203,584	700,863	99,396	2,804,256	8,834,432	8,732,403
Depreciation and amortization	87,798	-	27,955	-	660,473	776,226	632,064
Bad debt expense	356,608	-	-	-	-	356,608	352,743
Total expenses	\$ 5,470,739	\$ 203,584	\$ 728,818	\$ 99,396	\$ 3,464,729	\$ 9,967,266	\$ 9,717,210

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements
May 31, 2012 and 2011

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. The Organization is a federally qualified health center (FQHC).

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:

	<u>Years</u>
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, 2012 and 2011

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 as of May 31, 2012 and 2011, do 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, prepaid expenses, deposits, accounts payable, and accrued expenses 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, 2012 and 2011

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

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters.

Major Funding Source

The Organization receives funds from DHHS, under section 330 of the Public Health Service Act (42 U.S.C. 254c). In accordance with DHHS policies, all funds disbursed should be in compliance with the specific terms of the grant agreements. DHHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of non-compliance by the Organization with the terms of the grants. In addition, if the Organization terminates its DHHS grant activities, all unexpended federal funds are to be returned to DHHS.

Investments

The Organization reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities.

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

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

	2012	2011
Medicare	\$ 56,500	\$ 43,198
Medicaid	368,101	149,608
Private	682,849	459,902
	1,107,450	652,708
Less allowance for doubtful accounts	405,619	289,571
	\$ 701,831	\$ 363,137

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.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2012 and 2011

NOTE 4 - 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.	\$ 137,001
Total debt	137,001
Less current portion	<u>(125,000)</u>
Long-term debt	<u><u>\$ 59,735</u></u>

Maturities of debt are as follows:

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

NOTE 5 - 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, 2012 and 2011, accrued vacation totaled \$210,966 and \$232,789, respectively.

NOTE 6 - ECONOMIC DEPENDENCY

The Organization receives a substantial portion of its total support and revenues from the federal government. During the years ended May 31, 2012 and 2011, SWLA Center for Health Services recorded \$3,446,492 and \$6,259,956 respectively, in grant support from the Department of Health and Human Services. This represents 32.8% and 45.7% of total support and revenues for the years ended May 31, 2012 and 2011, respectively.

NOTE 7 - PRIOR YEAR BALANCES

Certain prior year amounts may have been reclassified to conform to current year presentation.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2012 and 2011

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. Amounts held in financial institutions occasionally are in excess of Federal Deposit Insurance Corporation limits. The Organization deposits its cash with high quality financial institutions, and management believes the organization is not exposed to significant credit risk on those amounts.

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>2012</u>	<u>2011</u>
Medicare	8 %	12 %
Medicaid	52	42
Other	40	46
	<u>100 %</u>	<u>100 %</u>

The mix of net patient revenues was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	10 %	9 %
Medicaid	58	61
Other	32	30
	<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 disclosure purposes should be measured by costs, including direct and indirect costs. Management has calculated the costs associated with providing charity care utilizing the cost to charge ratio obtained from the Medicare cost report data. The amount of costs associated with charity care for the fiscal years ending May 31, 2012 and 2011 was \$1,895,387 and \$1,640,172, respectively.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2012 and 2011

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 \$103,005 and \$93,894 for the years ended May 31, 2012 and 2011, 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 Crowley center.

NOTE 13-DESIGNATED CASH

The Center escrowed funds totaling \$229,732 and \$1,158,199 as of May 31, 2012 and 2011, respectively, which is to be expended for the Lafayette and Crowley site construction projects.

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 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. The LLC's management projects future capital requirements which may be funded through investor capital calls and/or investor loans.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2012 and 2011

NOTE 14-INVESTMENTS (CONTINUED)

As of May 31, 2012, The Organization's investments measured on a recurring basis consisted of a member's interest in a limited liability company with fair market value (Level 3) and costs bases as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
La. Partnership for Choice and Access, LLC (250 units) (Level 3 Cost Basis)	\$ 240,236	\$ 207,175	\$ 33,061

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

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
La. Partnership for Choice and Access, LLC (250 units) (Level 3 Cost Basis)	\$ 250,000	\$ 240,236	\$ 9,764

During the fiscal year ended May 31, 2012, the combined investment loss totaled \$18,023 which consisted of \$15,038 in interest income and a \$33,061 unrealized loss on the LA Partnership for Choice and Access, LLC investment.

NOTE 15-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 years ended May 31, 2012 and 2011 totaled \$57,641 and \$51,840, respectively.

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 years ended May 31, 2012 and 2011 totaled \$14,400 and \$13,200, respectively.

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, 2012 totaled \$18,000. The future minimum lease payments for the next five years May 31, 2017 total \$18,000 annually.

NOTE 16-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
Notes to Financial Statements (Continued)
May 31, 2012 and 2011

NOTE 17-PRIOR-YEAR SUMMARIZED INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended May 31, 2011, from which the summarized information was derived.

NOTE 18-SUBSEQUENT EVENT

The Organization evaluated its May 31, 2012 financial statements for subsequent events through August 23, 2012, 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.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2012

<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 *	6/1/11 - 5/31/12	\$ 2,612,226	\$ 2,612,226
Substance Abuse Treatment	93.243	1H79TI020828 *	9/30/10 - 9/30/11	300,000	300,000
Affordable Care Act Capital Development	93.526	C8ACS21317 *	10/01/10 - 09/30/12	534,266	534,266
U. S. Department of Agriculture Passed through: Louisiana Department of Health and Hospitals: Office of Public Health					
	10.572		10/1/11 - 9/30/12	<u>106,007</u>	<u>106,007</u>
Total federal assistance				<u>\$ 3,552,499</u>	<u>\$ 3,552,499</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 & ASSOCIATES

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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, 2012, and have issued my report thereon dated August 23, 2012. 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

Management of SWLA Center for Health Services is responsible for establishing and maintaining effective 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 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 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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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 tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of SWLA Center for Health Services, in a separate letter dated August 23, 2012.

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.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
August 23, 2012

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

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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 SWLA Center for Health Services' 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 SWLA Center for Health Services' major federal programs for the year ended May 31, 2012. 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of SWLA Center for Health Services' compliance with those requirements.

In my opinion, SWLA Center for Health Services 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 May 31, 2012.

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 to determine the auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of SWLA Center for Health Services' 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 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.

My 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
August 23, 2012

SWLA CENTER FOR HEALTH SERVICES

Schedule of Findings and Questioned Cost
Year Ended May 31, 2012

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 No
Type of auditor’s report issued on compliance
for major programs: Unqualified
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
93.526	Affordable Care Act Capital Development
93.243	Substance Abuse

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

None

SECTION III – Prior Year Findings and Questioned Costs

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.

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August 23, 2012

Board of Directors
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, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered plan'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 plan'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 August 23, 2012, 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

Steven M. DeRouen, CPA

Current Year Management Letter Points (FYE May 31, 2012)

During our audit of the financial statements of SWLA Center for Health Services, we encountered problems with the “accuracy” of recorded accounts payable as of May 31, 2012. The problems primarily related to two specific areas.

1. Errors were made by the accounts payable clerk while entering invoice information, specifically, the “posting” date. These errors resulted in numerous expenditures recorded in the wrong reporting period. These errors were subsequently discovered by the accounting department.
2. Not all invoices are submitted timely to the accounts payable department. This could result in certain expenditures not recorded in the proper reporting period.

We will continue to work with management and accounting personnel to resolve these issues.

Management Corrective Action Plan

To ensure the completeness and accuracy of the accounts payable register that corresponds to the financial statements, the following corrective actions will be implemented:

- Subsequent to the close of each month, beginning with September 2012, the accounts payable register will be generated and analyzed to ensure accuracy. Any detected errors in the accounts payable register will be corrected. This process will continue monthly to ensure the accounts payable register is complete and accurate prior to the preparation and issuance of the May 31, 2013 financial statements.
- Accounts payable processing training will be provided to appropriate staff to enhance their abilities to perform their assigned responsibilities and minimize the possibility of errors reaching the accounts payable register and financial statements. This training will take place in October 2012 and will be repeated if considered necessary.
- All invoices received by the Organization will first be submitted to the Accounting Department for accounts payable processing. This reinforcement of the existing financial policy will begin in October 2012 and will be repeated if considered necessary.

Mrs. Nora Wang, Chief Financial Officer, will be responsible for implementation of the corrective action plan noted above.