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PRIMARY HEALTH SERVICES CENTER, INC.
MONROE, LOUISIANA

FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2005

WITH SUMMARIZED COMPARATIVE INFORMATION
FOR 2004

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 8-9-06

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- Accounting & Auditing
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 - Corporate & Fiduciary
- Bookkeeping & Payroll Services

June 5, 2006

INDEPENDENT AUDITORS' REPORT

Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

We have audited the accompanying statements of financial position of Primary Health Services Center, Inc. (PHSC) as of December 31, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of PHSC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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 Primary Health Services Center, Inc. as of December 31, 2005, 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*, we have also issued a report dated June 5, 2006 on our consideration of PHSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and

grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of PHSC taken as a whole. The accompanying financial information on pages 14 through 23 is presented for additional analysis, and are not required parts of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2005 WITH SUMMARIZED COMPARATIVE TOTALS FOR 2004

	<u>ASSETS</u>	(Memo Only)
	<u>2005</u>	<u>2004</u>
<u>CURRENT ASSETS</u>		
Cash	237,467	50,764
Accounts Receivable, Net	433,720	243,356
Prepaid Assets	<u>14,004</u>	<u>43,475</u>
<u>TOTAL CURRENT ASSETS</u>	<u>685,191</u>	<u>337,595</u>
<u>FIXED ASSETS</u>		
Property and Equipment, Net	<u>642,866</u>	<u>429,440</u>
<u>NET FIXED ASSETS</u>	<u>642,866</u>	<u>429,440</u>
<u>OTHER ASSETS</u>		
Deposits	5,640	5,640
Loan Costs, Net	5,855	4,166
Reserves	<u>6,908</u>	<u>55,189</u>
<u>TOTAL OTHER ASSETS</u>	<u>18,403</u>	<u>64,995</u>
<u>TOTAL ASSETS</u>	<u>1,346,460</u>	<u>832,030</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	54,762	51,708
Payroll Taxes Due	604	2,852
Mortgage Payable - Short-Term	26,075	13,440
Note Payable - Mobile Unit	<u>22,000</u>	<u>-</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>103,441</u>	<u>68,000</u>
<u>LONG-TERM LIABILITIES</u>		
Mortgages Payable - Long-Term	<u>442,957</u>	<u>269,313</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>442,957</u>	<u>269,313</u>
<u>TOTAL LIABILITIES</u>	<u>546,398</u>	<u>337,313</u>
<u>NET ASSETS</u>		
Unrestricted	610,016	359,252
Temporarily Restricted	<u>190,046</u>	<u>135,465</u>
<u>TOTAL NET ASSETS</u>	<u>800,062</u>	<u>494,717</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>1,346,460</u>	<u>832,030</u>

The accompanying notes are an integral part of these financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
 STATEMENTS OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2005 AND WITH SUMMARIZED
 COMPARATIVE TOTALS FOR YEAR 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted Fixed Assets</u>	<u>2005 Totals</u>	<u>(Memo Only) 2004 Totals</u>
<u>REVENUE AND SUPPORT</u>				
Federal Grants				
Public Housing	677,529	-	677,529	342,196
Rural health Outreach	-	-	-	53,131
Louisiana Dept. of Health and Hospitals	75,359	-	75,359	44,641
Medicaid/Medicare/Patient Donations	1,596,960	-	1,596,960	1,714,470
Rental Income	142,145	-	142,145	185,229
Other	19,866	-	19,866	
Other	1,290	-	1,290	463
Net Assets Released from Restriction	135,465	(135,465)	-	-
Temporarily Restricted Revenue	-	190,046	190,046	-
<u>TOTAL REVENUE AND SUPPORT</u>	<u>2,648,614</u>	<u>54,581</u>	<u>2,703,195</u>	<u>2,340,130</u>
<u>EXPENSES</u>				
Program Expenses	1,893,173	-	1,893,173	1,845,489
Management and General	504,677	-	504,677	498,489
Fund Raising	-	-	-	-
<u>TOTAL EXPENSES</u>	<u>2,397,850</u>	<u>-0-</u>	<u>2,397,850</u>	<u>2,343,978</u>
<u>CHANGE IN NET ASSETS</u>	250,764	54,581	305,345	(3,848)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>359,252</u>	<u>135,465</u>	<u>494,717</u>	<u>498,565</u>
<u>NET ASSETS - END OF YEAR</u>	<u>610,016</u>	<u>190,046</u>	<u>800,062</u>	<u>494,717</u>

The accompanying notes are an integral part of these financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
 STATEMENTS OF FUNCTIONAL EXPENSE
 FOR THE YEAR ENDED DECEMBER 31, 2005 AND WITH SUMMARIZED
 COMPARATIVE TOTALS FOR YEAR 2004

<u>ITEM</u>	Public Health <u>Service</u>	Management & General	Fund <u>Raising</u>	2005 <u>Totals</u>	(Memo Only) 2004 <u>Totals</u>
Personnel	1,244,324	218,695	-	1,463,019	1,435,857
Fringe Benefits/ Insurance	163,459	23,994	-	187,453	160,636
Educational & Dues	-	27,656	-	27,656	31,383
Telephone	32,797	5,788	-	38,585	38,733
Interest	16,563	2,923	-	19,486	7,992
Office	21,088	31,632	-	52,720	62,646
Bad Debts	66,384	-	-	66,384	37,607
Professional Fees	12,679	19,018	-	31,697	19,043
Supplies & Services - Medical	77,425	-	-	77,425	59,306
Travel	-	15,538	-	15,538	18,101
Technical Assistance	-	62,203	-	62,203	24,977
Occupancy Cost	169,649	29,938	-	199,587	285,493
Other Costs	35,728	57,614	-	93,342	107,035
Depreciation	53,077	9,367	-	62,444	55,000
Amortization	-	311	-	311	169
 <u>TOTALS</u>	 <u>1,893,173</u>	 <u>504,677</u>	 <u>-0-</u>	 <u>2,397,850</u>	 <u>2,343,978</u>

The accompanying notes are an integral part of these financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>2005</u>	(Memo Only) <u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Changes in Net Assets	305,345	(3,848)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	62,444	55,169
(Increase) Decrease in Accounts Receivable	(190,364)	41,725
(Increase) Decrease in Prepaid Expenses	29,471	(30,964)
(Increase) Decrease in Other Assets	46,592	(58,785)
Increase (Decrease) in Accounts Payable	3,054	(657)
Increase (Decrease) in Accrued Payroll and Related Expenses	(2,248)	2,596
Net Cash Provided (Used) by Operating Activities	<u>254,294</u>	<u>5,236</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Acquisition of Capital Items	(275,870)	(326,768)
Net Cash Provided (Used) by Investing Activities	(275,870)	(326,768)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Decrease in Notes Payable - Principal Payments	(13,721)	(6,247)
Proceeds from Loans	200,000	289,000
Increase in Notes Payable - Mobile Unit	22,000	-
Net Cash Provided (Used) by Financing Activities	<u>208,279</u>	<u>282,753</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	186,703	(38,779)
<u>CASH AT BEGINNING OF YEAR</u>	<u>50,764</u>	<u>89,543</u>
<u>CASH AT END OF YEAR</u>	<u>237,467</u>	<u>50,764</u>
Supplemental Information		
Interest Paid	19,486	7,992
Income Taxes Paid	-0-	-0-

The accompanying notes are an integral part of these financial statements.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - ORGANIZATION:

Primary Health Services Center, Inc. (PHSC) was incorporated in the State of Louisiana as a community-based health program, primarily composed of adult and children medical treatment service in Monroe, Louisiana and north Louisiana.

PHSC is organized to provide efficient and effective health care through the operation of a health delivery system designed to meet the medical needs of the community, i.e., early detection and diagnosis, and treatment of illnesses and injuries; to facilitate an understanding of the desirability of initiating a program of preventive medicine; and to generally improve and promote the improvement of the community, civilly and socially. PHSC provides comprehensive primary health care to area residents, with particular care for the economically disadvantaged. The services are provided through an outpatient clinic with a referral program and health education.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Accounting Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Major Funding Source

PHSC receives funds from the United States Department of Health and Human Services (HHS) under Section 330 of the Public Health Service Act (42 U.S.C. 254c). In accordance with HHS policies, all funds disbursed must be in compliance with the specific terms of the grant agreement. HHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of noncompliance by the Corporation with the terms of the grant. In addition, if PHSC terminates its HHS grant activities, all unexpended funds must be returned to the Department of Health and Human Services. Loss of these funds would have a material adverse effect on operations.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Property and Equipment

Property and equipment are recorded at acquisition cost or fair market value if donated. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. A summary of property and equipment is contained in Note 5.

Repairs and maintenance are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations.

Income Taxes

PHSC is a non-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state codes. Accordingly, no provision for federal and state income taxes is included in the financial statements.

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 December 31, 2004, from which the summarized information was derived.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Cash and Cash Equivalents (Continued)

equivalents approximates fair value because of the short maturities of those financial instruments.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The organization has determined that fund raising costs are not material.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are 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. Restrictions that expire in the same period are recorded as unrestricted income in the current period.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS:

At December 31, 2005, temporarily restricted net assets of \$190,046 represent amounts awarded, but not received from a federal grant. Amounts were received January through April 2006.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 4 - ACCOUNTS RECEIVABLE:

The Corporation extends credit to patients, as well as third-party intermediaries responsible for medical services provided to patients. In most cases, the amount collected is less than the amount billed. Therefore, the receivable balance has been reduced to the amount considered collectible. The reserve for bad debts is \$212,882. A summary of accounts receivable is presented below:

<u>Source</u>	<u>2005</u>
Medicare	61,012
Medicaid	240,963
Private Third Party Insurance	96,190
Dept. of Health & Human Services	190,046
Homeless	290
Self Pay - Patients	58,101
Less: Reserve for Bad Debts	<u>(212,882)</u>
<u>Total</u>	<u>433,720</u>

NOTE 5 - PROPERTY AND EQUIPMENT:

Property and certain equipment acquired with federal or state government funds are considered to be owned by PHSC while used in the program or in future authorized programs. However, the federal or state government retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale or disposal. Accordingly, PHSC may not transfer, mortgage, assign, lease, or in any other manner encumber these restricted items without prior approval of the federal government.

Major categories of property and equipment are as follows:

Land	2005 54,500
Building	400,346
Computers	189,138
Office Fixtures/Equipment	205,373
Vehicle	<u>3,955</u>
Total	853,312
Less: Accumulated Depreciation	<u>(210,446)</u>
Net Property and Equipment	<u>642,866</u>

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 6 - RELATED PARTY TRANSACTIONS:

PHSC occupied a building owned by an employee of the corporation. The employee donated the space and equipment as an in-kind contribution. As of early 2005, PHSC no longer occupies the building.

NOTE 7 - DONATIONS:

Donations include the following:

In-Kind Rent	66,521
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The expenditures of the donations are included in the appropriate category on the financial statements.

NOTE 8 - LEASES:

The Corporation has entered into a lease with St. Francis Medical Center for space to provide medical services and administration at S. D. Hill Clinic. Amounts due for the next five years are as follows:

2006	56,012
2007	-
2008	-
2009	-
2010	-

The lease expires December 1, 2006 and is expected to be renewed with similar terms. These amounts will be paid by an in-kind donation by St. Francis Medical Center.

NOTE 9 - CONCENTRATION OF CREDIT RISK:

The Corporation's bank account balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 by each bank. At various times during the year the bank account balances exceeded \$100,000.

NOTE 10 - LOAN COSTS:

Loan cost consists of a commitment fee of 1.5% of the Desiard Street mortgage loan amount (\$4,335) and 1% of the

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 10 - LOAN COSTS: (Continued)

Betin Street mortgage loan amount (\$2,000). This will be amortized over a 15-year period. Amortization expense for 2005 is \$311.

NOTE 11 - RESERVES:

Reserves consist of an account at Hope Credit Union in the amount of \$6908, which is pledged to the payment of the mortgage loan and may only be withdrawn or disbursed with the written authorization of the mortgage company. A reserve in the amount of \$48,333 was set up in escrow to be used for remodeling of the facility. This amount was paid from escrow in March and May 2005 for this purpose.

NOTE 12 - NOTES PAYABLE:

Long-term debt consists of a Desiard Street mortgage note that was refinanced November 22, 2005 in the amount of \$271,828 payable to Enterprise Corporation of the Delta over a 12-year period. The mortgage is payable in monthly installments of \$2,702, including interest at 7.75%, and adjusted quarterly for flexible interest rate. The interest rate on this note will not exceed 8.5%. The facility is pledged as collateral on the note. The current portion of the mortgage payable represents the amount of the principle which will be repaid during the next year.

Long-term debt consists of a Betin Street mortgage note in the original amount of \$200,000 payable to Enterprise Corporation of the Delta over a 10-year period. The mortgage is payable in monthly installments of \$2,348, including interest at 7.25%, and adjusted quarterly for flexible interest rate. The interest rate on this note will not exceed 9.0%. The facility is pledged as collateral on the note. The current portion of the mortgage payable represents the amount of the principle which will be repaid during the next year.

The following is a schedule of the principle amounts maturing during the next five years.

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2005

NOTE 12 - NOTES PAYABLE: (Continued)

	2005	
<u>Year Ended</u> <u>December 31</u>	Desiard Street Principle <u>Maturing</u>	Betin Street Principle <u>Maturing</u>
2006	11,764	14,311
2007	12,709	15,384
2008	13,730	16,537
2009	14,833	17,777
2010	16,024	19,109

SUPPLEMENTAL DATA

PRIMARY HEALTH SERVICES CENTER, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>EXPENDITURES</u>
U.S. Department of Health and Human Services <u>Bureau of Primary Health Care</u>			
Community Health Centers*	93.224	1HIB 05 00075-01	677,529
<u>Total Expenditures of Federal Awards</u>			677,529

* Major Program

The accompanying notes are an integral part of this schedule.

- 14 -

PRIMARY HEALTH SERVICES CENTER, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Primary Health Services Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE B SUBRECIPIENTS

During 2005, the Corporation did not have any subrecipients.

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June 5, 2006

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

We have audited the financial statements of Primary Health Services Center, Inc. as of and for the year ended December 31, 2005, and have issued our thereon dated June 5, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining assurance about whether PHSC's financial statements are free of material misstatement, we 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 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*.

Internal Control Over Financial Reporting

In planning and performing an audit, we considered PHSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider

to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PHSC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2. As of June 5, 2006 management had implemented corrective actions for these findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.



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June 5, 2006

AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors
Primary Health Services Center, Inc.
Monroe, Louisiana

Compliance

We have audited the compliance of Primary Health Services Center, Inc. (PHSC) 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 December 31, 2005. PHSC'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 PHSC's management. Our responsibility is to express an opinion on PHSC'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 PHSC'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 PHSC's compliance with those requirements.

In our opinion, PHSC 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 December 31, 2005.

Internal Control over Compliance

The management of PHSC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered PHSC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect PHSC's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-01 and 2005-02. As of June 5, 2006, management had implemented corrective actions for these findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana R.S. 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

PRIMARY HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- * Material weakness (es) identified? yes no
- * Reportable condition (s) identified that
are not considered to be yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- * Material weakness (es) identified? yes no
- * Reportable condition (s) identified that are not
considered to be material weaknesses? yes 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
Circular A-133? yes no

Identification of major programs:

CFDA Number (s) Name of Federal Program or Cluster
93.927 Public Housing Community Health Center

Dollar threshold used to distinguish
Between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

PRIMARY HEALTH SERVICES CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

SECTION II - FINDINGS AND RECOMMENDATIONS

2005-1

Condition: There were instances where invoices and time cards were not properly approved prior to payment.

Criteria: All invoices and time cards should be reviewed and approved by management prior to payment.

Effect: This finding has no material effect on the financial statements.

Recommendation: We recommend that all invoices and time cards be reviewed and approved at an appropriate level prior to payment.

Management Response: Management agrees with this finding.

Auditors' Comments: Management agrees to review and approve at an appropriate level all invoices and time cards prior to payment.

2005-2

Condition: Compensation for a taxable fringe benefit was inadvertently classified as a tax-free fringe benefit.

Criteria: Internal Revenue Service requires taxable fringe benefits to be included as wages on employees W-2.

Effect: This finding has no material effect on the financial statements.

Recommendation: We recommend that corrected compensation reports be filed with the Internal Revenue Service.

Management Response: Management agrees with this finding.

Auditors' Comments: Management agrees to issue a corrected compensation report.

PRIMARY HEALTH SERVICES CENTER, INC.
PRIOR YEAR FINDINGS-CORRECTIVE ACTION
FOR THE YEAR ENDED DECEMBER 31, 2005

2004-1

Condition: Employee time cards are not always approved by the employee supervisor.

Recommendation: We recommend that all time cards be reviewed and approved by the employee's supervisor prior to payment of wages.

Result: Employee time cards are not always approved by the supervisor prior to payment of wages.

2004-2

Condition: Accounts receivable detail did not agree with the general ledger account balances.

Recommendation: We recommend that management implement procedures that ensure detail of accounts.

Result: Account receivable detail agrees with the general ledger account balances.

2004-3

Condition: The agency does not have a policy that addresses nepotism.

Recommendation: We recommend that management develop a policy that addresses nepotism.

Result: Management has developed a policy that addresses nepotism.