

SOUTHEAST COMMUNITY HEALTH SYSTEMS
FINANCIAL STATEMENTS
FOR THE PERIOD ENDING OCTOBER 31, 2012

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DAIGREPONT & BRIAN

A Professional Accounting Corporation

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southeast Community Health Systems
Zachary, Louisiana

We have audited the accompanying statements of financial position of Southeast Community Health Systems (a non-profit organization), as of October 31, 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 Southeast Community Health Systems as of October 31, 2012, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013, on our consideration of Southeast Community Health Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting or other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Baton Rouge, Louisiana
May 15, 2013

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

STATEMENT OF FINANCIAL POSITION
OCTOBER 31, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 434,057
Patient receivables (net of allowances of \$599,559)	652,897
Grants receivable	69,339
Other receivable	851,393
Inventory	50,966
Prepaid expenses	40,194
Deposits	15,619
Restricted cash	<u>363,257</u>

Total Current Assets 2,477,722

Property and Equipment, net 6,749,730

Other Assets

Goodwill	114,000
Loan origination costs, net	<u>82,242</u>

Total Other Assets 196,242

Total Assets \$ 9,423,694

LIABILITIES AND NET ASSETS

Current Liabilities

Current portion of notes payable	\$ 145,802
Accounts payable	146,038
Accrued expenses	<u>226,430</u>

Total Current Liabilities 518,270

Long-term Debt

Notes payable	<u>3,352,834</u>
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Total Liabilities 3,871,104

Net Assets

Unrestricted	5,552,590
Temporarily restricted	<u>-</u>

Total Net Assets 5,552,590

Total Liabilities and Net Assets \$ 9,423,694

The accompanying notes are an integral part of this statement.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
 ZACHARY, LOUISIANA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED OCTOBER 31, 2012

CHANGES IN NET ASSETS

	Unrestricted	Temporarily Restricted	Total
<u>Revenues</u>			
Net patient revenue	\$ 2,893,388	\$ -	\$ 2,893,388
Federal grants	2,807,979	-	2,807,979
Other grant income	237,671	434,585	672,256
Interest income from non- federal grant monies	291	-	291
Other income	22,827	-	22,827
Gain on sale of investment	701,393	-	701,393
Released from restrictions	<u>434,585</u>	<u>(434,585)</u>	<u>-</u>
Total revenues	<u>7,098,134</u>	<u>-</u>	<u>7,098,134</u>
<u>Expenses</u>			
Program services	3,747,092	-	3,747,092
Management and general	<u>1,315,134</u>	<u>-</u>	<u>1,315,134</u>
Total expenses	<u>5,062,226</u>	<u>-</u>	<u>5,062,226</u>
Increase in net assets	<u>2,035,908</u>	<u>-</u>	<u>2,035,908</u>
Net assets - beginning of year	<u>3,516,682</u>	<u>-</u>	<u>3,516,682</u>
Net assets - end of year	<u>\$ 5,552,590</u>	<u>\$ -</u>	<u>\$ 5,552,590</u>

The accompanying notes are an integral part of this statement.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and related expenses			
Salaries	\$ 2,286,376	\$ 540,718	\$ 2,827,094
Employee fringe benefits	62,311	38,737	101,048
Payroll taxes	<u>167,874</u>	<u>46,754</u>	<u>214,628</u>
Total salaries and related expenses	<u>2,516,561</u>	<u>626,209</u>	<u>3,142,770</u>
General expenses			
Advertising and marketing	92,627	1,535	94,162
Amortization	3,951	-	3,951
Bad debt	68,045	52,112	120,157
Bank charges	21,086	65	21,151
Conferences and meetings	29	6,735	6,764
Contracted services	18,680	2,460	21,140
Depreciation	164,363	37,334	201,697
Dues and subscriptions	4,588	17,628	22,216
Insurance	37,002	6,780	43,782
Interest	79,823	23,046	102,869
Miscellaneous	4,076	2,043	6,119
Postage	18	2,357	2,375
Professional fees	347,220	299,452	646,672
Rent	11,117	108,152	119,269
Repairs and maintenance	145,327	23,007	168,334
Staff training	3,515	7,193	10,708
Supplies	144,041	21,815	165,856
Taxes and licenses	7,207	20,267	27,474
Telephone	35,858	28,534	64,392
Travel	3,787	17,838	21,625
Utilities	<u>38,171</u>	<u>10,572</u>	<u>48,743</u>
Total general expenses	<u>1,230,531</u>	<u>688,925</u>	<u>1,919,456</u>
Total expenses	<u>\$ 3,747,092</u>	<u>\$ 1,315,134</u>	<u>\$ 5,062,226</u>

The accompanying notes are an integral part of this statement.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2012

Cash Flows From Operating Activities

Changes in net assets	\$ 2,035,908
<u>Adjustments to reconcile change in net assets to net cash provided by operating activities:</u>	
Depreciation and amortization	205,648
Bad debts	120,157
(Gain) loss on sale of investment	(701,393)
Increase in patient receivables	(232,892)
Decrease in grants receivable	122,847
Increase in prepaid expenses	(33,306)
Increase in other assets	(2,150)
Decrease in restricted cash	1,023,742
Decrease in accounts payable	(27,954)
Increase in accrued expenses	41,780
Decrease in other current liabilities	(5,786)
Total adjustments	<u>510,693</u>
Net cash provided by operating activities	<u>2,546,601</u>

Cash Flows From Investing Activities

Purchase of property and equipment	(1,672,029)
Payments on construction in progress	<u>(603,006)</u>
Net cash used by investing activities	<u>(2,275,035)</u>

Cash Flows From Financing Activities

Principal reduction of long-term debt	<u>(152,114)</u>
Net cash used by financing activities	<u>(152,114)</u>

Increase in Cash and Cash Equivalents	119,452
Cash and Cash Equivalents, Beginning of Year	<u>314,605</u>
Cash and Cash Equivalents, End of Year	<u>\$ 434,057</u>

Supplemental Disclosures

Interest paid	<u>\$ 102,869</u>
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The accompanying notes are an integral part of this statement.

1. Summary of Significant Accounting Policies

(a) Organization

The Southeast Community Health Systems, formerly known as St. Helena Community Health Center, is a Federally Qualified Health Center that serves the needs of patients in East Baton Rouge and St. Helena Parishes and surrounding areas including facilities in Zachary, Kentwood, Albany and Greensburg, Louisiana. The purpose of Southeast Community Health Systems (hereinafter referred to as the Center) is to provide health care at a reasonable cost to those who cannot afford it financially.

The accompanying financial statements include the accounts of the Southeast Community Health Systems (the Center), a nonprofit corporation.

(b) Basis of Accounting and Net Assets

The financial statements of the Center have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of contributor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are for general use with no restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets can be expended currently, but only for a specified purpose designated by the grantor. Funds are maintained in a separate account that has been restricted to pay for the expansion and renovation of community health centers, as well as, administrative costs for oversight. Once expended for their restricted purpose, these temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently Restricted Net Assets

Net assets permanently restricted for future use by the grantor or the board of directors. There are no permanently restricted net assets as of October 31, 2012.

(c) Cash and Cash Equivalents

The Center considers all highly liquid investments, including certificates of deposit with an initial maturity of three months or less, to be cash equivalents.

(d) Patient Receivables and Allowance for Uncollectible Accounts

The Center extends credit to patients, as well as third party intermediaries. Patient receivables are generally carried at the original billed amount less contractual adjustments and the allowance for uncollectible accounts. This allowance is based on management's estimates, historical experience and a review of all outstanding amounts on an ongoing basis. Patient receivables are written-off when deemed uncollectible and recoveries, if any, are recorded when received.

1. Summary of Significant Accounting Policies – Continued

(e) Inventories of Supplies

Inventories of medical supplies and drugs are stated at the lower of cost or market.

(f) Property and Equipment

Property and equipment is presented in the financial statements at cost less allowances for depreciation. Depreciation is computed using the straight-line method and is provided over the estimated useful lives of the assets which ranges from 5 to 39 years.

The Center receives funding under Section 330 of the Public Health Services Act with various restrictions placed on items obtained with these funds. According to the Public Health Service grants Policy Statement, title to real and tangible property shall rest in the grantee upon acquisition, subject to the accountability requirements and the Public Health Service's right to transfer title.

(g) Goodwill

Goodwill represents the excess of the cost of the purchased Kentwood Medical Clinic over the fair value of the net assets at the date of acquisition. In accordance with generally accepted accounting principles goodwill having indefinite lives will no longer be amortized. Instead, goodwill is tested annually for impairment. There was no change in the carrying amount of goodwill during the year ended October 31, 2012.

(h) Revenues

The Center receives the majority of its revenues from Federal and State agencies. The Center recognizes contract revenue (up to contract ceiling) from its contracts either on a pro-rata basis over the contract life or to the extent of expenses. Revenue recognition depends on the contract. Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by the Center with the terms of the grant/contract.

Federal funds come from the United States Department of Health and Human Services (DHHS) through the Health Resources and Services Administration as part of the Consolidated Health Centers program (CHCP). Compliance is required based on the terms and agreements of the grant agreements, and DHHS may, at its discretion, request reimbursement for expense or the return of funds not expended, or both, based on non-compliance with these terms.

Net Patient Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers (including Medicare and Medicaid), and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that these estimates could change in the near term.

The Center has a sliding fee plan for patients without any third party payers and whose income level fall within the sliding fee guidelines. The minimum payment is \$15.00 for a visit.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

1. Summary of Significant Accounting Policies – Continued

(i) Income Tax

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. During the year, the Center adopted provisions of FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management believes it has no material uncertain tax positions and, accordingly has not recognized a liability for any unrecognized tax benefits.

(j) Advertising Costs

The Center expenses its advertising costs as they are incurred. Total advertising costs for the year ended October 31, 2012 was \$94,161.

(k) Use of Estimates

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

(l) Functional Expenses

The Center allocates its expenses on a functional basis among its various programs. Expenses that can be identified with a specific program are allocated directly according to their natural expense classification.

(m) Subsequent Events

The Center has evaluated subsequent events through May 15, 2013, the date the financial statements were available to be issued, for recording and disclosure.

2. Property and Equipment

The following is a summary of property and equipment at October 31, 2012:

Land	\$ 771,065
Buildings	4,293,740
Furniture and fixtures	147,642
Office equipment	502,344
Medical equipment	779,614
Construction in progress	<u>1,036,058</u>
	7,530,463
Less: Accumulated depreciation	<u>(780,732)</u>
	<u>\$ 6,749,731</u>

Depreciation expense was \$201,697 for 2012.

3. Tax Status

The Center files Form 990 in the U.S. federal jurisdiction. The Center is no longer subject to examination from the U.S. federal jurisdiction for fiscal tax years before October 31, 2010.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

4. **Economic Dependency**

The Center receives the majority of its revenue from funds provided by the U.S. Department of Health and Human Services Community Health Center Program. All funds received under the grant are federal funds and are appropriated each year by the federal government. If significant budget cuts are made at the federal level, the amount of funds received by the Center could be reduced by an amount that could adversely impact its operations. Management is not aware of any actions that have been taken or are proposed to be taken by the federal government that will adversely impact the Center's grant for the coming fiscal year.

5. **Notes Payable**

Long-term debt consists of the following:

A note dated December 2010, with an original balance of \$3,650,750 due in 120 monthly installments. The principal portion is amortized over 20 years. Each installment, beginning December 2011, includes a principal portion of \$15,212 plus monthly interest at a variable rate. At October 31, 2012 the rate was Libor plus 5.04%. Payments from December 2010 through November 2011 were interest only. The note is secured by buildings, land and all deposit accounts.

\$ 3,498,635

Less: current installments

(145,802)

Long-term debt

\$ 3,352,833

Long-term debt obligations mature in years ended October 31 as follows:

2013	\$ 145,802
2014	150,050
2015	153,844
2016	157,735
2017	161,723
Thereafter	<u>2,729,481</u>
	<u>\$ 3,498,635</u>

Total interest charged to expense for the year ended October 31, 2012 was \$102,869. Total interest capitalized for the year ended October 31, 2012 was \$92,183.

6. **Loan Origination costs**

Loan origination costs in the amount of \$86,193 were incurred in connection with the note payable above (note 5). These costs are being amortized over the life of the loan. Amortization expense for the year ended October 31, 2012 was \$3,951.

7. **Line of Credit**

The Center has a line of credit at Regions Bank with an outstanding balance of \$0 at October 31, 2012. The entire amount of \$350,222 is available at year end. Interest on the outstanding balance is calculated at the bank's index rate plus 2%, which was 5.25% at October 31, 2012. The line is secured by any deposits of account with Regions Bank and is due on demand.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

8. **Retirement Plan**

The Center sponsors a 403 (b) tax-sheltered annuity plan, which covers substantially all of its employees who meet eligibility requirements. Eligible employees are allowed to contribute, on a tax-deferred basis, a portion of their compensation, up to federally designated limits. The Center matches 100% of employee contributions up to a maximum of 5% of the employee's annual salary. Employees are vested in the plan at 25% after one year, 50% after two years, 75% after three years and 100% after four years. The Center's contributions to the plan for the year ended October 31, 2012 amounted to \$41,199.

9. **Concentrations of Credit Risk**

The Center receives approximately 49% of its operating income from Federal and State agencies (in the form of grants) and performs substantially all of its activities in the state of Louisiana. Approximately 41% of the Center's revenues are generated from providing patient services. The Center grants credit without collateral to its patients, most of who are local residents that may or may not be insured by a third-party payer. Revenue and receivables from patients and third-party payers was as follows:

	<u>Revenue</u>	<u>Receivables</u>
Medicare	7%	6%
Medicaid	78%	86%
Third party insurance	5%	8%
Private pay/sliding fee	<u>10%</u>	<u>0%</u>
	<u>100%</u>	<u>100%</u>

Financial instruments, which potentially subject the Center to concentrations of credit risk, consist principally of cash accounts, savings accounts and certificates of deposit. Cash accounts are insured by the Federal Deposit Insurance Corporation for up to \$250,000. As of October 31, 2012, the Center had \$871,335 above the insured limit. The Center places its cash and certificates of deposits with high-credit, quality financial institutions and does not believe that it is exposed to any significant credit risk on uninsured amounts.

10. **Commitments and Contingencies**

Funding

The Center receives federal and state grants for specific purposes that are subject to audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. It is the opinion of the Center's management that its compliance with the terms of the grant will result in negligible, if any, disallowed costs and no provision has been recorded in the accompanying financial statements for such contingencies.

Legal proceedings

The Center is involved in various claims and legal actions in the normal course of business. After consultation with legal counsel, management estimates that any pending legal matters will be resolved without material adverse effect on the Center's financial position.

11. **Leases**

The Center rents space, facilities or equipment under several operating leases as follows:

The Center entered into a lease agreement for a facility in Albany, Louisiana that began on October 18, 2007 and ended on October 31, 2010. The Center exercised their one three year renewal option, effective November 1, 2010 and ending October 31, 2013. The monthly rental was \$7,835 for the twelve months ending October 31, 2012.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

11. **Leases – Continued**

The Center leased space in Zachary, Louisiana for a temporary administrative office space on a month-to-month basis at \$1,750 per month through June 2012. The Center also leased space at the Chaneyville Community Center on a month-to-month basis at \$250 per month through August 2012. The center also rents various office and medical equipment on a month-to-month basis and incurred storage facility costs as well.

Total rent expense for the year ended October 31, 2012 was \$115,589.

Future lease payments that have initial or remaining terms in excess of one year as of October 31, 2012 are as follows:

Year ending October 31, 2013	\$ 96,371
	<u>\$ 96,371</u>

12. **Compensated Absences**

The Center's employees had \$44,725 vested in accrued vacation pay at October 31, 2012.

13. **Investments**

During a prior year, the Center invested \$150,000 in Louisiana Partnership for Choice and Access, LLC (LPC&A) in exchange for 150 Company Units or 7.74% ownership. The LLC investors owned 49% of Louisiana Healthcare Connection, Inc, a Louisiana Corporation which functioned as a managed care network for Louisiana's Medicaid population.

In October 2012, this investment was sold for \$851,393 resulting in a receivable of \$851,393 and a gain of \$701,393 as of October 31, 2012. The receivable was collected subsequent to year end.

14. **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following specific program services as follows:

Temporarily restricted net assets at October 31, 2011	\$ -
Contributions received from grants	434,585
Amounts released from restriction during current periods	<u>(434,585)</u>
Temporarily restricted net assets at October 31, 2012	<u>\$ -</u>

15. **Board of Directors Compensation**

The Board of Directors is a voluntary board; therefore, no compensation or per diem has been paid to any Director.

16. **Restricted Cash**

During the year the Center received funding under a project agreement with Louisiana Primary Care Association (through a State Cooperative Endeavor for capital improvements and facility expansion). In addition to this state funding, the Center obtained a loan for \$3,650,750 (see note 5) for the purpose of retiring prior debt and facilitating capital expansion. Once the existing loans were paid, the balance of the new loan proceeds was placed into an escrow account (deposit account) with Regions Bank. As of October 31, 2012 the escrow account had a balance of \$363,257. These monies are to be used for future project costs as construction was still in progress at year end.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
ZACHARY, LOUISIANA

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

17. Medical Malpractice Claims

The Center's medical malpractice insurance is covered by the Federal Tort Claims Act.

18. Federal Support and Grants

During the year ended October 31, 2012 the Center received unrestricted grant revenues to help support the Center's goal of providing high quality primary health care. These funds originated at the federal, state and local level.

Federal support

U.S. Department of Health and Human Services	
Consolidated Health Centers	\$ 2,218,954
SBHC Capital Expenditures	550,565
Prevention and Treatment of Substance Abuse	<u>38,460</u>
	2,807,979

State support

Cooperative Endeavor Agreement	434,586
Adolescent School Health Program	<u>212,388</u>
	646,974

Total Federal Support and Grant Income \$ 3,454,953

SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED OCTOBER 31, 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Department of Health and Human Services direct programs:			
Consolidated Health Centers	93.224		\$ 2,218,954
ACA – SBHC Capital Expenditures	93.501		<u>550,565</u>
Subtotal Department of Health and Human Services direct programs			<u>2,769,519</u>
Pass-through programs from:			
Florida Parishes Human Services Authority Addictive Disorders Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	693146	<u>38,460</u>
Subtotal Department of Health and Human Services pass-through programs			<u>38,460</u>
Total Department of Health and Human Services			<u>2,807,979</u>
Total expenditures of federal awards			<u>\$ 2,807,979</u>

The accompanying notes are an integral part of this statement.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED OCTOBER 31, 2012

1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Southeast Community Health Systems under programs of the federal government for the year ended October 31, 2012. 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*. Because the Schedule presents only a selected portion of the operations of Southeast Community Health Systems, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southeast Community Health Systems.

2. **Summary of Significant Accounting Policies**

- (a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (b) Pass-through entity identifying numbers are presented where available.

DAIGREPONT & BRIAN

A Professional Accounting Corporation

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
Southeast Community Health Systems
Zachary, Louisiana

We have audited the financial statements of Southeast Community Health Systems, (a non-profit organization) as of October 31, 2012, and for the year then ended, and have issued our report thereon dated May 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Southeast Community Health Systems is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Southeast Community Health Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Community Health Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Community Health Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the 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.

Daigrepont & Brian APAC

Baton Rouge, Louisiana
May 15, 2013

DAIGREPONT & BRIAN

A Professional Accounting Corporation

Certified Public Accountants

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

Board of Directors
Southeast Community Health Systems
Zachary, Louisiana

Compliance

We have audited Southeast Community Health Systems' (a non-profit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended October 31, 2012. Southeast Community Health Systems' 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 Southeast Community Health Systems' management. Our responsibility is to express an opinion on Southeast Community Health Systems' 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 Southeast Community Health Systems' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Southeast Community Health Systems' compliance with those requirements.

In our opinion, Southeast Community Health Systems complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2012.

Internal Control Over Compliance

Management of Southeast Community Health Systems 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 Southeast Community Health Systems' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over compliance.

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

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

This report is intended solely for the information and use of the 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.

Daigreport of Brian APAC

Baton Rouge, Louisiana
May 15, 2013

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED OCTOBER 31, 2012**

We have audited the financial statements of Southeast Community Health Systems, as of October 31, 2012, and for the year then ended, and have issued our report thereon dated May 15, 2013. 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 and the provisions of OMB Circular A133. Our audit of the financial statements as of October 31, 2012 resulted in an unqualified opinion.

Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Significant Deficiencies Yes No

Compliance

Compliance Material to Financial Statements Yes No

b. Federal Awards

Internal Control

Material Weaknesses Yes No Significant Deficiencies Yes No

Type of Opinion On Compliance Unqualified Qualified

For Major Programs Disclaimer Adverse

Are their findings required to be reported in accordance with Circular A-133, Section 510(a) Yes No

Was a management letter issued? Yes No

c. Identification of Major Programs:

CFDA Number (s)	Name of Federal Program (or Cluster)
93.224	Consolidated Health Centers
93.501	Affordable Care Act Grants for School-Based Health Center Capital Expenditures

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

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133? Yes No

Questioned Costs

There are no questioned costs for the year ended October 31, 2012.

Finding – Financial Statement Audit

There are no findings for the year ended October 31, 2012.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED OCTOBER 31, 2012**

Summary of Prior Audit Findings

There were no prior year audit findings.