

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

**Financial and Compliance Report
May 31, 2010 and 2009**

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 11/10/10

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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, 2010, and the related statements of activities, 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 financial statements of SWLA Center for Health Services as of May 31, 2009, were audited by other auditors whose report dated October 26, 2009, expressed an unqualified opinion on those 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 19, 2010, 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 schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements of SWLA Center for Health Services. 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 also not a required part of the financial statements of SWLA Center for Health Services. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Steven M. DeRouen, CPA

Lake Charles, Louisiana
October 19, 2010

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

| Assets | 2010 | 2009 |
|---|----------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 2,462,464 | \$ 2,411,514 |
| Cash and cash equivalents - designated for construction | 854,761 | - |
| Certificate of deposit | 107,592 | 1,016,671 |
| Patient accounts receivable, net | 568,023 | 815,974 |
| Supplies inventory | 121,980 | 104,225 |
| Prepaid expenses | 62,153 | 18,838 |
| Deposits | 10,271 | 12,473 |
| Total Current Assets | 4,187,244 | 4,379,695 |
| Property, Plant and Equipment | | |
| Furniture and equipment | 2,924,401 | 2,472,089 |
| Building and improvements | 7,240,906 | 7,180,380 |
| Automobiles | 64,280 | 64,280 |
| | 10,229,587 | 9,716,749 |
| Less accumulated depreciation | (2,046,158) | (1,486,225) |
| | 8,183,429 | 8,230,524 |
| Land | 380,369 | 203,426 |
| Construction in progress | 299,809 | - |
| Net Property, Plant and Equipment | 8,863,607 | 8,433,950 |
| Other Assets | | |
| Investments | 349,998 | - |
| Total Assets | \$ 13,400,849 | \$ 12,813,645 |

See accompanying notes to financial statements.

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

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 350,579 | \$ 254,644 |
| Accrued vacation and payroll | 373,927 | 268,067 |
| Payroll taxes payable | 1,810 | 1,094 |
| Sales tax payable | 854 | 832 |
| Accrued interest payable | 613 | 613 |
| Loan payable to LPCA | 114,099 | - |
| Current portion of notes payable | <u>73,807</u> | <u>171,807</u> |
| Total Current liabilities | <u>915,689</u> | <u>697,057</u> |
| Long Term Liabilities | | |
| Notes payable - net of current portion | <u>137,008</u> | <u>210,922</u> |
| Total Liabilities | <u>1,052,697</u> | <u>907,979</u> |
| Net Assets | | |
| Unrestricted net assets | <u>12,348,152</u> | <u>11,905,666</u> |
| Total Net Assets | <u>12,348,152</u> | <u>11,905,666</u> |
| Total Liabilities and Net Assets | <u>\$ 13,400,849</u> | <u>\$ 12,813,645</u> |

See accompanying notes to financial statements.

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

| | <u>2010</u> | <u>2009</u> |
|--|---------------|---------------|
| Revenue and Support - Unrestricted | | |
| Revenue: | | |
| Net patient service revenue | \$ 5,469,974 | \$ 4,871,058 |
| Support and other income: | | |
| Grant awards | 3,625,853 | 2,023,380 |
| Contributions | 163,697 | 71,855 |
| Investment income (loss) | 25,017 | 53,254 |
| Other income | 91,443 | 69,437 |
| Total Support | 3,906,010 | 2,217,926 |
| Total Revenue and Support - Unrestricted | 9,375,984 | 7,088,984 |
| Expenses | | |
| Program Services: | | |
| Medical | 4,072,308 | 2,607,935 |
| Ancillary | 200,862 | 229,957 |
| Enabling services | 587,116 | 301,350 |
| Pharmacy | 424,307 | 390,507 |
| WIC program | 96,468 | 97,074 |
| Total Program Services | 5,381,061 | 3,626,823 |
| Support Services: | | |
| General and administrative | 3,552,437 | 3,292,985 |
| Total Expenses | 8,933,498 | 6,919,808 |
| Net Assets Released from Restrictions | - | 1,944,913 |
| Change in Net Assets - Unrestricted | 442,486 | 2,114,089 |
| Temporarily Restricted Net Assets | | |
| Support: | | |
| Interest income | - | 5,290 |
| Net assets released from restrictions | - | (1,944,913) |
| Increase (Decrease) in Temporarily Restricted Net Assets | - | (1,939,623) |
| Increase in Net Assets | 442,486 | 174,466 |
| Net Assets - Beginning of Year | 11,905,666 | 11,731,200 |
| Net Assets - End of Year | \$ 12,348,152 | \$ 11,905,666 |

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES

Lake Charles, Louisiana

Statements of Cash Flows

For the Year Ended May 31,

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 442,486 | \$ 169,176 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 585,710 | 377,714 |
| Change in allowance for doubtful accounts | (415,241) | 302,848 |
| (Increase) decrease in accounts receivable | 663,192 | (519,965) |
| (Increase) decrease in supplies inventory | (17,755) | (62,293) |
| (Increase) decrease in prepaid expenses | (43,315) | (9,304) |
| (Increase) decrease in deposits | 2,202 | (12,474) |
| Increase (decrease) in accounts payable | (48,891) | (421,646) |
| Increase (decrease) in accrued vacation and payroll | 105,860 | 39,819 |
| Increase (decrease) in other payables | 739 | 350 |
| Net Cash Provided (Used) by Operating Activities | <u>1,274,987</u> | <u>(135,775)</u> |
| Cash Flows From Investing Activities | | |
| (Purchase) redemption of certificate of deposits | 909,079 | (159,025) |
| (Purchase) redemption of investments | (349,998) | - |
| Fixed asset acquisitions | <u>(870,542)</u> | <u>(2,479,084)</u> |
| Net Cash Provided (Used) by Investing Activities | <u>(311,461)</u> | <u>(2,638,109)</u> |
| Cash Flows From Financing Activities | | |
| Proceeds from loans | 114,099 | - |
| Principal payments on bank loans | (171,914) | (192,231) |
| Interest income temporarily restricted | <u>-</u> | <u>5,290</u> |
| Net Cash Provided (Used) by Financing Activities | <u>(57,815)</u> | <u>(186,941)</u> |
| Net Increase in Cash and Cash Equivalents | 905,711 | (2,960,825) |
| Cash and Cash Equivalents - Beginning of Year | <u>2,411,514</u> | <u>5,372,339</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 3,317,225</u> | <u>\$ 2,411,514</u> |
| Cash and Cash Equivalents: | | |
| Cash - unrestricted | 2,462,464 | 2,411,514 |
| Cash - designated | 854,761 | - |
| | <u>\$ 3,317,225</u> | <u>\$ 2,411,514</u> |
| Supplemental Disclosure: | | |
| Interest paid | <u>\$ 18,111</u> | <u>\$ 29,748</u> |

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Schedule of Functional Expenses
For the Year Ended May 31, 2010

| | Program Services | | | | | Supporting Services | Total | |
|---|------------------|------------|-------------------|------------|-------------|----------------------------|--------------|--------------|
| | Medical | Ancillary | Enabling Services | Pharmacy | WIC Program | General and Administrative | 2010 | 2009 |
| Salaries | \$ 2,066,125 | \$ 138,744 | \$ 353,671 | \$ 146,595 | \$ 77,725 | \$ 1,351,718 | \$ 4,134,578 | \$ 3,109,193 |
| Fringe benefits | 157,653 | 10,118 | 21,030 | 12,907 | 8,168 | 237,478 | 447,354 | 345,223 |
| Payroll taxes | 136,290 | 9,971 | 30,048 | 10,189 | 5,121 | 90,732 | 282,351 | 201,364 |
| Consultants and contractual services | 1,162,927 | 14,912 | 16,960 | 81,728 | 380 | 322,656 | 1,599,563 | 1,015,029 |
| Supplies | 150,115 | 21,613 | 19,096 | 165,904 | 661 | 68,676 | 426,065 | 347,845 |
| Dues and subscriptions/printing | 17,770 | 255 | 2,092 | 489 | 154 | 60,242 | 81,002 | 63,640 |
| Maintenance and repairs | 5,148 | 335 | 2,110 | 279 | 291 | 74,379 | 82,542 | 101,766 |
| Telephone | 33,152 | 1,314 | 2,802 | 1,095 | 1,139 | 52,574 | 92,076 | 69,055 |
| Postage | 30 | - | - | 74 | - | 13,311 | 13,415 | 33,450 |
| Insurance | 20,055 | 1,338 | 3,524 | 871 | 1,279 | 31,003 | 58,070 | 42,859 |
| Travel and seminars | 36,337 | 531 | 53,756 | 1,187 | - | 180,417 | 272,228 | 202,977 |
| Taxes and licenses | - | - | 855 | - | - | 1,313 | 2,168 | 1,808 |
| Utilities | 53,097 | 1,727 | 41,626 | 1,229 | 1,550 | 61,699 | 160,928 | 106,740 |
| Interest | - | - | - | - | - | 18,111 | 18,111 | 29,748 |
| Legal and professional | 21,820 | - | 520 | - | - | 191,311 | 213,651 | 219,583 |
| Rent - equipment and storage | 5,640 | - | 414 | - | - | 87,578 | 93,632 | 20,743 |
| Miscellaneous | 1,352 | - | 9,610 | - | - | 38,619 | 49,581 | 45,166 |
| Service charges | 146 | 4 | 893 | 1,760 | - | 8,479 | 11,282 | 10,527 |
| Fuel cost | - | - | - | - | - | 8,419 | 8,419 | 9,541 |
| Recruitment cost | 156,574 | - | 154 | - | - | 12,272 | 169,000 | 58,789 |
| Total expenses before depreciation, bad debts and loss on disposal of equipment | 4,024,231 | 200,862 | 559,161 | 424,307 | 96,468 | 2,910,987 | 8,216,016 | 6,035,046 |
| Depreciation and amortization | 48,077 | - | 27,955 | - | - | 509,678 | 585,710 | 377,714 |
| Bad debt expense | - | - | - | - | - | 131,772 | 131,772 | 507,048 |
| Total expenses | \$ 4,072,308 | \$ 200,862 | \$ 587,116 | \$ 424,307 | \$ 96,468 | \$ 3,552,437 | \$ 8,933,498 | \$ 6,919,808 |

See accompanying notes to financial statements.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements
May 31, 2010 and 2009

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

Nature of Activities

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

Income Taxes

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

Method of Accounting

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

Accounting Estimates

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

Cash and Cash Equivalents

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

Property and Equipment

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

| | <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, 2010 and 2009

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

Accounts Receivable

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

Inventory

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

Net Patient Service Revenue

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

Grants and Contributions

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

Fair Values of Financial Instruments

The Organization has a number of financial instruments, none of which is held for trading purposes. The Organization estimates that the fair value of all financial instruments at May 31, 2010 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the agency could realize in a current market exchange. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The recorded values of notes payable approximate their fair value, as interest is insignificant.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2010 and 2009

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

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

| | 2010 | 2009 |
|--------------------------------------|-------------------|-------------------|
| Medicare | \$ 46,081 | 150,631 |
| Medicaid | 113,838 | 445,953 |
| Private | 690,988 | 917,515 |
| | <u>850,907</u> | <u>1,514,099</u> |
| Less allowance for doubtful accounts | 282,884 | 698,125 |
| | <u>\$ 568,023</u> | <u>\$ 815,974</u> |

NOTE 3 - COST REPORT RECEIVABLE

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

NOTE 4 - ACCRUED VACATION

The Organization allows employees to carry over unused vacation hours, with written permission from the executive director. The accrual is calculated based on the employee's pay rate at the end of the year. At May 31, 2010 and 2009, accrued vacation totaled \$202,750 and \$158,632, respectively.

NOTE 5 - ECONOMIC DEPENDENCY

The Organization receives a substantial portion of its total support and revenues from the federal government. During the years ended May 31, 2010 and 2009, SWLA Center for Health Services recorded \$3,552,526 and \$2,023,380 respectively, in grant support from the Department of Health and Human Services. This represents 37.9% and 28.5% of total support and revenues for the years ended May 31, 2010 and 2009, respectively.

SWLA LOUISIANA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2010 and 2009

NOTE 6 - NOTES PAYABLE

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

Bank note payable, due in 86 equal monthly installments of \$6,964.62, final payment to be paid February 27, 2013, including interest at 6.014%, collateralized by real estate with a carrying value of \$741,886. \$ 210,815

| | |
|----------------------|------------|
| Total debt | 210,815 |
| Less current portion | (73,807) |
| Long-term debt | \$ 137,008 |

Maturities of debt are as follows:

| May 31, | Amount |
|---------|-----------|
| 2011 | \$ 73,807 |
| 2011 | 77,266 |
| 2012 | 59,742 |
| Total | \$210,815 |

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2010 and 2009

NOTE 7 - 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) up to \$250,000. The Organization had deposit balances that exceeded federally insured limits by \$1,662,821 and \$434,855 as of May 31, 2010 and 2009, respectively. The Organization also had \$253,452 invested in a money market account which is not insured against market risk.

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

| | <u>2010</u> | <u>2009</u> |
|----------|--------------|--------------|
| Medicare | 8 % | 18 % |
| Medicaid | 20 | 55 |
| Other | 72 | 27 |
| | <u>100 %</u> | <u>100 %</u> |

The mix of net patient revenues was as follows:

| | <u>2010</u> | <u>2009</u> |
|----------|--------------|--------------|
| Medicare | 10 % | 9 % |
| Medicaid | 64 | 64 |
| Other | 26 | 27 |
| | <u>100 %</u> | <u>100 %</u> |

NOTE 8 - 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 9 - CHARITY CARE

The Organization provides care to patients who qualify under federal guidelines and other policies of the Organization at fees less than its established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for the years ended May 31, 2010 and 2009 were \$1,735,114 and \$1,032,833, respectively.

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2010 and 2009

NOTE 10 – 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 \$82,850 and \$72,148 for the years ended May 31, 2010 and 2009, respectively.

NOTE 11 – LOAN PAYABLE TO LPCA

Louisiana Primary Care Association, Inc. (LPCA) loaned \$114,099 to the Center as an advance against a grant awarded by LPCA for the construction of the Lafayette center. The loan was repaid in June 2010.

NOTE 12 – LINE OF CREDIT

\$3,500,000 construction loan line of credit to Business First Bank dated May 27, 2010 at 6.1% interest. No draws on line of credit as of May 31, 2010.

NOTE 13 – DESIGNATED CASH

As of May 31, 2010, \$854,761 was escrowed by the Center to be expended for construction on the Lafayette center.

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).

SWLA CENTER FOR HEALTH SERVICES
Lake Charles, Louisiana
Notes to Financial Statements (Continued)
May 31, 2010 and 2009

NOTE 14 – INVESTMENTS (continued)

The Organization's investments consisted of a certificate of deposit (maturing March 2030) with fair market value (quoted prices in active market – Level 1) and a member's interest in a limited liability company with fair market value (Level 3) and costs bases as follows:

| | Amortized Cost | Fair Value | Unrealized Gain |
|---|-------------------|---------------|--------------------|
| Certificate of deposit (Level 1 In Active Markets) | \$ 99,998 | \$ 99,998 | \$ -0- |
| La. Partnership for Choice and Access, LLC (250 units) (Level 3 Cost Basis) | \$ 250,000 | \$ 250,000 | \$ -0- |

During 2009, the Organization invested \$250,000 in the Louisiana Partnership for Choice and Access, LLC (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. Earnings or losses for the year are not material.

NOTE 15 – SUBSEQUENT EVENT

The Organization evaluated its May 31, 2010 financial statements for subsequent events through October 19, 2010, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 16 – LEASES

The Organization has entered into an 18 month building lease starting May 1, 2009 at \$4,320 per month. The lease expense for fiscal year 2010 was \$51,840.

The Organization entered into a 24 month land lease starting June 1, 2009 at \$1,200 per month. The lease expense for fiscal year 2010 was \$13,200.

NOTE 17 – CONSTRUCTION IN PROGRESS

The Organization had construction in progress as of May 31, 2010 totaling \$299,809. The estimated date of completion of the expansion of the Lafayette, Louisiana center is May 2011 at an estimated cost of \$4,376,000.

SWLA CENTER FOR HEALTH SERVICES

**Schedule of Expenditures of Federal Awards
Year Ended May 31, 2010**

| <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 | 6/1/09 - 5/31/10 | \$ 1,860,775 | \$ 1,860,775 |
| Recovery Act Health Ctr. | 93.703 | H8ACS11406 | 3/1/09 - 2/28/10 | 1,137,499 | 1,137,499 |
| Recovery Act Health Ctr. | 93.703 | H8BCS12532 | 3/27/09 - 3/26/10 | 169,254 | 169,254 |
| Recovery Act. Capital Improvement Program | 93.703 | C81CS13807 | 6/29/09 - 6/29/10 | 210,000 | 210,000 |
| Substance Abuse Treatment | 93.243 | 1H79TI020828 | 9/30/09 - 9/30/10 | 175,000 | 175,000 |
| U. S. Department of Agriculture Passed through: Louisiana Department of Health and Hospitals: Office of Public Health | 10.572 | | 10/1/09 - 9/30/10 | <u>73,325</u> | <u>73,325</u> |
| Total federal assistance | | | | <u>\$ 3,625,853</u> | <u>\$ 3,625,853</u> |

Basis of Presentation

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

STEVEN M. DEROUEN, CPA

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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, 2010, and have issued my report thereon dated October 19, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered SWLA Center for Health Services' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWLA Center for Health Services' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Southwest Louisiana Center for Health Services' internal control over financial reporting.

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

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

Board of Directors
SWLA Center for Health Services
Lake Charles, Louisiana
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Compliance and Other Matters

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

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

Steven M. DeRover, CPA

Lake Charles, Louisiana
October 19, 2010

STEVEN M. DEROUEN, CPA

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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 the compliance of SWLA Center for Health Services, with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*" that are applicable to each of its major federal programs for the year ended May 31, 2010. SWLA Center for Health Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of SWLA Center for Health Services' management. My responsibility is to express an opinion on SWLA Center for Health Services' compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SWLA Center for Health Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. I believe that our audit provides a reasonable basis for our opinion. My audit does not provide a legal determination of SWLA Center for Health Services' compliance with those requirements.

As described in item 2010-01, in the accompanying schedule of findings and questioned costs, SWLA Center for Health Services, did not comply with requirements regarding Eligibility that are applicable to its Community Health Center Section 330 grant program. Compliance with such requirements is necessary, in my opinion, for SWLA Center for Health Services to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, SWLA Center for Health Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2010.

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

Internal Control Over Compliance

Management of SWLA Center for Health Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered SWLA Center for Health Services' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of SWLA Center for Health Services' internal control over compliance.

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

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-01 to be a significant deficiency.

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

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



Lake Charles, Louisiana
October 19, 2010

SWLA CENTER FOR HEALTH SERVICES

Schedule of Findings and Questioned Cost
Year Ended May 31, 2010

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:
Material weaknesses identified? ___ Yes x No
Significant deficiencies identified not considered to
be material weaknesses? x Yes ___ None reported
Type of auditor's report issued on compliance
for major programs: Qualified
Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510 (a)? x 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 |

Dollar threshold used to distinguish between

Type A and Type B programs: \$500,000

Auditee qualified as low-risk auditee? ___ Yes x No

No Separate Management Letter Issued

Prior Year Findings and Questioned Costs

NONE

SWLA CENTER FOR HEALTH SERVICES

**Schedule of Findings and Questioned Cost
Year Ended May 31, 2010**

SECTION II – FINDINGS

2010-01 Eligibility Documentation

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

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 guideline.

Cause: The applications were not checked by the appropriate supervisory personnel.

Management's Response: The Organization will have sliding fee applications reviewed by the appropriate personnel, to include the Accounts Receivable manager, the CFO and/or the Compliance Officer.