Innis Community Health Center, Inc.
Batchelor, Louisiana
October 31, 2012

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February 9, 2013

Independent Auditor's Report

Board of Directors
Innis Community Health Center, Inc.
Batchelor, Louisiana

We have audited the accompanying statements of financial position of

Innis Community Health Center, Inc.
(A Non-profit Organization)

as of October 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Innis Community Health Center, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide 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 Innis Community Health Center, Inc. as of October 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 9, 2013, on our consideration of Innis Community Health Center, Inc.'s internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 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 and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

Innis Community Health Center, Inc.
Statements of Financial Position
October 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	$ 107,504	$ 213,514
Certificate of deposit	60,000	60,000
Patient accounts receivable, less allowance for doubtful accounts of $313,096 for 2012 and $207,731 for 2011	194,582	278,096
Grant funds receivable	35,898	101,196
Prepaid expenses	6,959	6,438
Total current assets	404,943	659,244
Property and Equipment, net of accumulated depreciation	820,442	779,834
Total assets	$1,225,385	$1,439,078

Liabilities and Net Assets

Current Liabilities		
Line of credit	$ 35,000	$ –
Accounts payable	110,633	91,562
Payroll liabilities	3,107	2,131
Accrued salaries	23,389	95,501
Compensated absences payable	41,969	45,218
Due to related party	17,600	6,400
Deferred grant revenue	97,893	95,257
Total current liabilities	329,591	336,069
Net Assets		
Unrestricted	895,794	1,103,009
Total liabilities and net assets	$1,225,385	$1,439,078

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

Innis Community Health Center, Inc.
Statements of Activities
Years Ended October 31, 2012 and 2011

	Unrestricted	
	2012	**2011**
Revenues and Gains		
Net patient service revenue	$1,461,569	$1,458,819
Community care case management fees	7,153	18,173
Patient settlement revenue	3,657	25,569
Pharmacy revenue	7,822	8,073
Wellcare revenue	900	–
Other revenue	2,920	2,170
Federal grants	1,491,799	1,422,607
State and other grants	161,785	247,237
Rental income - gym	6,700	8,325
Investment income	451	2,092
Total revenues and gains	3,144,756	3,193,065
Expenses		
Program services		
Medical	1,589,728	1,544,926
Dental	472,972	467,984
Supporting services		
Management and general	1,066,177	1,036,424
Total expenses	3,128,877	3,049,334
Bad debt expense	223,094	185,306
Total expenses and losses	3,351,971	3,234,640
Change in Net Assets, as restated in 2011	(207,215)	(41,575)
Net Assets, beginning of year	1,103,009	1,144,584
Net Assets, end of year	$ 895,794	$1,103,009

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

Innis Community Health Center, Inc.
Statements of Functional Expenses
Years Ended October 31, 2012 and 2011

	Program Services		Supporting Services	
	Medical	Dental	Management and General	2012 Total
October 31, 2012				
Employee compensation and benefits	$1,362,532	$316,276	$ 719,270	$2,398,078
Occupancy and rents	46,776	25,187	66,611	138,574
Billing and information systems	–	–	115,564	115,564
Purchased services	40,811	20,394	29,025	90,230
Supplies	92,716	53,747	37,020	183,483
Depreciation	29,225	51,513	24,896	105,634
Insurance	11,480	5,855	5,625	22,960
Travel, education and training	6,188	–	10,994	17,182
Licenses and fees	–	–	15,565	15,565
Dues and subscriptions	–	–	16,975	16,975
Meeting expenses	–	–	11,474	11,474
Medical records	–	–	9,836	9,836
Other	–	–	3,322	3,322
Total expenses	$1,589,728	$472,972	$1,066,177	$3,128,877

	Program Services		Supporting Services	
	Medical	Dental	Management and General	2011 Total
October 31, 2011				
Employee compensation and benefits	$1,294,713	$300,534	$ 683,469	$2,278,716
Occupancy and rents	46,883	25,245	66,763	138,891
Billing and information systems	–	–	97,936	97,936
Purchased services	62,924	31,444	44,752	139,120
Supplies	86,588	50,195	34,573	171,356
Depreciation	30,056	52,978	25,604	108,638
Insurance	14,878	7,588	7,290	29,756
Travel, education and training	8,884	–	15,783	24,667
Licenses and fees	–	–	15,371	15,371
Dues and subscriptions	–	–	11,695	11,695
Meeting expenses	–	–	15,981	15,981
Medical records	–	–	14,456	14,456
Other	–	–	2,751	2,751
Total expenses	$1,544,926	$467,984	$1,036,424	$3,049,334

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

Innis Community Health Center, Inc.
Statements of Cash Flows
Years Ended October 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Cash received from patients and third party payors	$ 1,351,141	$ 1,508,454
Cash received from grants and contributions	1,721,518	1,753,060
Cash received from earnings on short-term investments	451	2,092
Cash payments to employees	(2,472,464)	(2,255,102)
Cash payments to suppliers	(595,415)	(704,398)
Net cash provided by operating activities	5,231	304,106
Cash Flows From Investing Activities		
Purchase of property and equipment	(146,241)	(217,907)
Net cash used in investing activities	(146,241)	(217,907)
Cash Flows From Financing Activities		
Increase in line of credit	35,000	–
Net cash provided by financing activities	35,000	–
Net Increase (Decrease) in Cash and Cash Equivalents	(106,010)	86,199
Cash and Cash Equivalents, beginning of year	213,514	127,315
Cash and Cash Equivalents, end of year	$ 107,504	$ 213,514
Reconciliation of Change in Net Assets to Net Cash Flows From Operating Activities:		
Change in net assets	$ (207,215)	$ (41,575)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	105,633	108,638
Bad debt expense	223,094	185,306
(Increase) Decrease in assets:		
Patient accounts receivable	(139,580)	(135,671)
Grant funds receivable	65,298	(12,043)
Prepaid expenses	(521)	22,240
Increase (Decrease) in liabilities:		
Accounts payable	19,071	59,341
Payroll liabilities	976	535
Accrued salaries	(72,112)	23,193
Compensated absences payable	(3,249)	(115)
Accrued expenses	–	(1,000)
Due to related party	11,200	–
Deferred grant revenue	2,636	95,257
Net cash provided by operating activities	$ 5,231	$ 304,106

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

Note 1-Nature of Operations

Innis Community Health Center, Inc. (the "Center") is incorporated as a Louisiana nonprofit corporation located in the northern part of Pointe Coupee Parish in the Village of Innis, Louisiana with a satellite clinic in Livonia, Louisiana.

The Center is a Federally Qualified Health Center that provides primary healthcare services to area communities in need of preventative, coordinated, and affordable healthcare in a prudent and efficient manner. The vision of the Center is, through community collaboration and partnership, to develop and promote supportive healthcare services to all people who are medically underserved, in order that they may experience all the rights, privileges, and responsibilities as members of the community.

Note 2-Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation

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

The Center reports 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. Unrestricted net assets include those net assets whose use by the Center is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those assets whose use by the Center has been limited by donors to (a) later periods of time or other specific dates, or (b) specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions limiting the Center's use of the asset. At October 31, 2012 and 2011, the Center had no temporarily or permanently restricted net assets.

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant item on the statements of financial position that involves a greater degree of accounting estimates subject to changes in the near future is the assessment of the allowance for doubtful accounts. As additional information becomes available (or actual amounts are determinable), the recorded estimates are revised and reflected in operating results of the period they are determined.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Center considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Note 2-Summary of Significant Accounting Policies (Continued)

D. Patient Accounts Receivable

Patient accounts receivable are generally carried at the original billed amount less contractual adjustments and the allowance for doubtful accounts. The allowance is based on management's estimates, historical experience, and a review of all outstanding amounts on an ongoing basis. Patient accounts receivable are written-off when deemed uncollectible, and recoveries, if any, are recorded when received.

E. Property and Equipment

Property and equipment are carried at cost. Donated property and equipment are carried at approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years for equipment and furniture and fixtures and 15 to 30 years for buildings and leasehold improvements.

All acquisitions of property and equipment in excess of $500 and all expenditures that materially increase values, change capabilities, or extend useful lives of assets are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged against operations.

F. Compensated Absences

The Center provides paid time off (PTO) for employees who meet hours worked per pay period criteria. Generally, PTO is earned on a per pay period (bi-weekly) basis ranging from 5.0 to 8.75 hours per pay period, depending on job classification and length of service. Unused PTO, up to a maximum of 300 hours at the end of the fiscal year, may be carried forward. Any unused PTO in excess of 300 hours will be forfeited if not used by September 30, of the subsequent year for all employees, unless otherwise approved by the Board.

G. Funding Source

The Center receives funds from the United States Department of Health and Human Services (DHHS) through the Health Resources and Services Administration. In accordance with DHHS policies, all funds disbursed should be in compliance with the specific terms of the grant agreements. DHHS may, at its discretion, request reimbursement for expenses or return of the unexpended funds, or both, as a result of non-compliance by the Center with the terms of the grants. In addition, if the Center terminates the activities of the grants, all unexpended federal funds are to be returned to DHHS. The grant agreement requires the Center to provide primary healthcare to all requesting individuals; however, the amount an individual actually pays is based on the individual's personal income.

H. Net Patient Services Revenue

The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, and discounted charges. Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payers, 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.

Note 2-Summary of Significant Accounting Policies (Continued)

H. Net Patient Services Revenue (Continued)

The Center has a sliding fee plan for patients whose income levels fall within the sliding fee guidelines and who do not have coverage with a third-party payer.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

I. Functional Allocation

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

J. Income Tax Status

The Center has been recognized by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes. The Center is not classified as a private foundation. Accordingly, no provision has been made for income taxes.

The Center follows FASB ASC 740, *Income Taxes*, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Center recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Center evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. With few exceptions, the periods that remain subject to examination by taxing authorities are the fiscal years ended October 31, 2011, 2010, and 2009.

K. Other Revenue

Other revenue is derived from services other than providing healthcare services to patients. These primarily include Medicaid community care fees, fees for providing medical records, and Medicaid and Medicare adjustments.

L. Advertising

Advertising costs are expensed as incurred. There were no advertising costs for the years ended October 31, 2012 and 2011.

Note 3-Certificate of Deposit

At October 31, 2012 and 2011, the Center held investments in a certificate of deposit in the amount of $60,000. The certificate of deposit had an interest rate of 1.01% at October 31, 2012 and 2011, and a term of seven months, with penalties for early withdrawal. The investment is carried at cost, which approximates fair market value. This certificate of deposit serves as collateral on the Center's line of credit as described in Note 5.

Note 4-Property and Equipment

Property and equipment activity is summarized as follows as of October 31, 2012:

	November 1, 2011	Additions	Retirements	October 31, 2012
Innis Clinic				
Office equipment	$ 46,155	$ 92,566	$ –	$ 138,721
Furniture and fixtures	12,188	–	–	12,188
Medical equipment	33,019	–	–	33,019
Dental equipment	125,885	1,543	–	127,428
Vehicles	38,105	–	–	38,105
Mobile dental van	181,740	–	–	181,740
Office building	41,408	–	–	41,408
Dental building	234,938	–	–	234,938
Helipad	32,027	–	–	32,027
Leasehold improvements	117,282	6,700	–	123,982
Total Innis Clinic	862,747	100,809	–	963,556
Livonia Clinic				
Land	75,935	–	–	75,935
Office equipment	22,632	16,190	–	38,822
Medical equipment	48,761	–	–	48,761
Dental equipment - mobile van	7,831	–	–	7,831
Office building	50,525	–	–	50,525
Leasehold improvements	73,322	–	–	73,322
Construction in progress	65,082	13,571	–	78,653
Total Livonia Clinic	344,088	29,761	–	373,849
School Based Health Clinic				
Office equipment	16,878	9,181	–	26,059
Medical equipment	26,626	–	–	26,626
Total school based health clinic	43,504	9,181	–	52,685
Electronic Medical Records Equipment	27,251	6,490	–	33,741
Total property and equipment	1,277,590	146,241	–	1,423,831
Less: accumulated depreciation	(497,756)	(105,633)	–	(603,389)
Total property and equipment, net	$ 779,834	$ 40,608	$ –	$ 820,442

Note 4-Property and Equipment (Continued)

Property and equipment activity is summarized as follows as of October 31, 2011:

	November 1, 2010	Additions	Retire-ments	October 31, 2011
Innis Clinic				
Office equipment	$ 42,230	$ 3,925	$ –	$ 46,155
Furniture and fixtures	12,188	–	–	12,188
Medical equipment	33,019	–	–	33,019
Dental equipment	74,878	51,007	–	125,885
Vehicles	18,603	19,502	–	38,105
Mobile dental van	181,740	–	–	181,740
Office building	40,302	1,106	–	41,408
Dental building	234,938	–	–	234,938
Helipad	32,027	–	–	32,027
Leasehold improvements	108,825	8,457	–	117,282
Total Innis Clinic	778,750	83,997	–	862,747
Livonia Clinic				
Land	–	75,935	–	75,935
Office equipment	22,632	–	–	22,632
Medical equipment	48,761	–	–	48,761
Dental equipment - mobile van	7,831	–	–	7,831
Office building	50,525	–	–	50,525
Leasehold improvements	73,322	–	–	73,322
Construction in progress	7,107	57,975	–	65,082
Total Livonia Clinic	210,178	133,910		344,088
School Based Health Clinic				
Office equipment	16,878	–	–	16,878
Medical equipment	26,626	–	–	26,626
Total school based health clinic	43,504	–	–	43,504
Electronic Medical Records Equipment	27,251	–	–	27,251
Total property and equipment	1,059,683	217,907	–	1,277,590
Less: accumulated depreciation	(389,118)	$ (108,638)	–	(497,756)
Total property and equipment, net	$ 670,565	$ 109,269	$ –	$ 779,834

Note 5-Line of Credit

The Center has a $60,000 line of credit, of which $35,000 was drawn as of October 31, 2012. Interest is fixed at 2.73% at October 31, 2012. The line of credit is secured by a certificate of deposit as referenced in Note 3, and matures on June 13, 2013.

Note 6-Due to Related Party

Pointe Coupee General Hospital, an entity related through common Board members, rents facilities to the Center. As of October 31, 2012 and 2011, the amount due to the Pointe Coupee General Hospital for rent was $17,600 and $6,400, respectively.

The Center paid rent to Pointe Coupee General Hospital in the amount of $12,800 and $15,622 for the years ended October 31, 2012 and 2011, respectively.

Note 7-Deferred Grant Revenue

Deferred grant revenue consists of grant funds received in the current year, which will be used in the following year.

Note 8-Commitments, Concentrations, and Contingencies

Innis Community Health Center, Inc. leases equipment and facilities under operating leases. Total rental expense in 2012 and 2011 was $29,867 and $29,051, respectively.

The Center has a lease agreement with Pointe Coupee Health Service District #1 for the rental of facility space in Innis, Louisiana, with payments of $1,000 per month for a term of 15 years, beginning June 30, 2009 and ending June 30, 2024.

The Center has a lease agreement with Pointe Coupee Health Service District #1 for the rental of facility space located in Livonia, Louisiana, with payments of $600 per month for an indefinite lease term. Either party may terminate the lease in writing, voiding the lease within 120 days.

The Center leases four copy machines and other office equipment with monthly base payments of $655 with varying monthly cost per copy charges depending on usage.

Future minimum lease payments on non-cancelable leases for the next five years are as follows:

Fiscal Year	Amount
2012 - 2013	$12,000
2013 - 2014	12,000
2014 - 2015	12,000
2015 - 2016	12,000
2016 - 2017	12,000
	$60,000

Note 8-Commitments, Concentrations, and Contingencies (Continued)

Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. Revenues from patients and third-party payers as of October 31, 2012 and 2011 were as follows:

	Percent	
Payer	**2012**	**2011**
Medicaid	35%	35%
Medicare	9%	8%
Sliding fee/ private pay	33%	35%
Third-party payers	23%	22%
Total	100%	100%

Additionally, 47% and 44% of the Center's total unrestricted revenue and support was provided by the U.S. Department of Health and Human Services during the fiscal years ended October 31, 2012 and 2011, respectively.

The Center has responsibility for expending grant funds in accordance with specific instructions from its funding sources. Any deficits resulting from over expenditures and/or questioned costs are the responsibility of the Center.

The Center periodically maintains cash in interest-bearing bank accounts in excess of federally insured limits. Management monitors the financial condition of the financial institution on a regular basis, along with their balances in cash and cash equivalents to minimize this potential risk.

Note 9-Tax Deferred Annuity Plan

The Center participates in a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. Employees may participate in the employee contribution plan when hired. This is a plan whereby employees make their own, pre-tax contributions to the plan, and can either increase, decrease, or stop their contributions at any time. Employees may contribute to the plan up to the maximum amount allowed by the Internal Revenue Code. There is no match by Innis Community Health Center, Inc. in the Section 403(b) tax deferred annuity plan. Employees may withdraw their contributions from the 403(b) tax deferred annuity plan upon resignation, termination, etc.

Innis Community Health Center, Inc. also participates in an employer contribution plan (pension plan). Employees hired after July 1, 2003 are entitled to participate in the employer contribution plan upon completion of one year of service working for the Center. Employees are vested after 3 years of employment, and may withdraw the employer's contributions to their account upon resignation, termination, etc. The Center contributes on behalf of employees at a rate of 2% to 3% of gross salary. Employees receive 3% contributions upon 5 full years of service for the Center. The Center's contribution for 2012 and 2011 was $25,806 and $8,270, respectively.

Note 10-Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Violations of these laws and regulations could result in exclusion from government healthcare program participation, the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Center is subject to regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Center's financial position.

Note 11-Board of Directors Compensation

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

Note 12-Prior Period Adjustment - Correction of an Error

The accompanying financial statements for 2011 have been restated to correct an error made in 2011. State and other grant revenue was overstated by $75,900, and deferred grant revenue was understated by the same amount. The effect of the restatement was to decrease change in net assets for 2011 by $75,900.

Note 13-Subsequent Events

Innis Community Health Center, Inc. has evaluated all subsequent events through February 9, 2013, the date the financial statements were available to be issued. As a result, the Center noted no subsequent events that required adjustment to, or disclosure in, these financial statements.

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

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February 9, 2013

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
Innis Community Health Center, Inc.
Batchelor, Louisiana

We have audited the financial statements of Innis Community Health Center, Inc. (a nonprofit organization) as of and for the year ended October 31, 2012, and have issued our report thereon dated February 9, 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 Innis Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Innis Community Health Center, Inc.'s 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 the Innis Community Health Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (2012-01). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Innis Community Health Center, Inc.'s 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.*

Innis Community Health Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of finding and questioned costs. We did not audit Innis Community Health Center, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, the Louisiana Legislative Auditor, and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

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February 9, 2013

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
Innis Community Health Center, Inc.
Batchelor, Louisiana

We have audited Innis Community Health Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2012. Innis Community Health Center, Inc.'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 Innis Community Health Center, Inc.'s management. Our responsibility is to express an opinion on Innis Community Health Center, Inc.'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 Innis Community Health Center, Inc.'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 Innis Community Health Center, Inc.'s compliance with those requirements.

In our opinion, Innis Community Health Center, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2012-02 and 2012-03.

Internal Control Over Compliance

Management of Innis Community Health Center, Inc. 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 Innis Community Health Center, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing 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 Innis Community Health Center, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* 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, 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 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-02 and 2012-03. 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.

Innis Community Health Center, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Innis Community Health Center, Inc.'s response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, the Louisiana Legislative Auditor, 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. Under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

Innis Community Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended October 31, 2012

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Consolidated Health Centers*	93.224	$1,190,990
Affordable Care Act (ACA) Grants for School Based Health Center Capital Expenditures	93.501	10,000
ARRA – Grants to Health Center Programs*	93.703	172,271
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	118,537
Total Expenditures of Federal Awards		$1,491,798

* Denotes major programs

The accompanying notes are an integral part of this schedule.

Innis Community Health Center, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended October 31, 2012

Note 1-Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Innis Community Health Center, Inc. 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 Innis Community Health Center, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Innis Community Health Center, Inc.

Note 2-Summary of Significant Accounting Principles

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following 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.

Note 3-Subrecipients

Innis Community Health Center, Inc. did not pass-through any of its federal awards to a subrecipient during the fiscal year ended October 31, 2012.

Note 4-Non-cash Assistance

No federal awards were expended in the form of non-cash assistance during the fiscal year ended October 31, 2012.

Innis Community Health Center, Inc.
Schedule of Current Year Audit Findings and Questioned Costs
Year Ended October 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's report:
Unqualified

Internal control over financial reporting
* Material weakness(es) identified:
_____ Yes ___X___ No
* Significant deficiencies identified that are not considered to be material weaknesses:
___X___ Yes _____ None reported

Noncompliance material to financial statements noted:
_____ Yes ___X___ No

Federal Awards

Internal control over major programs
* Material weakness(es) identified:
_____ Yes ___X___ No
* Significant deficiencies identified that are not considered to be material weaknesses:
___X___ Yes _____ None reported

Type of auditor's report issued on compliance for major programs:
Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133:
___X___ Yes _____ No

Identification of major programs:

CFDA Numbers	Federal Program or Cluster
93.703	ARRA - Grants to Health Center Programs
93.224	Consolidated Health Centers

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

Auditee qualified as low-risk auditee:
_____ Yes ___X___ No

Innis Community Health Center, Inc.
Schedule of Current Year Audit Findings and Questioned Costs
Year Ended October 31, 2012

Section II - Financial Statement Findings

Significant Deficiencies

Finding 2012-01: Dual Signatures on Checks

Condition:

In review of cash disbursements, noted five checks greater than $3,000 that only contained one signature.

Criteria:

The Center's accounting policies state that all checks that exceed $3,000 must be signed by the Executive Director and another authorized signer of the Center.

Effects:

Checks are being released that are not in accordance with the Center's policies and procedures.

Cause:

Inconsistent implementation of the cash disbursements policy.

Auditor's Recommendation:

The Center should adhere to its written policy regarding cash disbursements and have processes in place to ensure that all checks written in excess of $3,000 contain two authorized signatures.

Management's Response:

CEO reviewed policy and payment practices with accounts payable personnel as well as COO. Accounts Payable responsible party was unaware that the amount for 2 signatures was $3,000. Rule used prior to audit was checks over $3,500 would receive 2 signatures. CFO resignation in June 2012, as well as new CEO placement in May 2012 also contributed to the change in process without reflection to the policy.

Corrective Action:

Management has educated all parties on the policy and amount needing 2 signatures on checks. CEO will audit checks released in the amount of $3,000 through on-line banking, with check review for 2 signatures.

Innis Community Health Center, Inc.
Schedule of Current Year Audit Findings and Questioned Costs
Year Ended October 31, 2012

Section III – Federal Award Findings

Significant Deficiencies

Finding 2012-02: Cash Management
CFDA 93.703 – ARRA Grants to Health Center Programs

Condition:
The Center has not fully disbursed funds that were drawn down in 2011.

Criteria:
Based on the cash management internal control objective of the OMB Circular A-133 Compliance Supplement, draw-downs of Federal funds should only be used for immediate needs.

Effects:
By drawing down Federal funds without immediate disbursement, the Center is not in compliance with cash management procedures.

Cause:
A project was delayed and architect fees were not paid even though the funds had been drawn down.

Auditor's Recommendation:
Management should only draw down Federal funds as needed.

Management's Response:
New CEO was hired May 2012, funds drawn down prior to new CEO hire date. Architectural funds are in a non-interest bearing account, until project is completed. Architect invoice is on file and reflects amount drawn down, but payment check has not been released due to incomplete project.

Corrective Action:
New CEO will not draw down future funds until needed. Other invoices have been logged for services and equipment; payment is to be made when installation is complete.

Innis Community Health Center, Inc.
Schedule of Current Year Audit Findings and Questioned Costs
Year Ended October 31, 2012

Finding 2012-03: Proof of Income - Sliding Scale
CFDA 93.224 - Consolidated Health Centers

Condition:

Two patients that pay according to the sliding fee scale did not have updated proof of income on file. The most recent proof of income for both patients was from 2010.

Criteria:

Proof of income for sliding scale patients should be updated on an annual basis in order for the Center to charge the appropriate fees for their visits.

Effects:

The patients may be charged at a rate that is inconsistent with the rates of the sliding fee scale according to their respective annual incomes.

Cause:

Inconsistent application of the Center's policy for obtaining proper documentation for patient visits.

Auditor's Recommendation:

Prior to the patients appointments, front-desk personnel should notify patients if their proof of income is out of date and explain to them that they must provide current proof of income in order to be treated at the Center.

Management's Response:

Charts are checked prior to the date of service when appropriate. Patients are instructed by scheduling staff when appointment is made to bring proof of income to the scheduled appointment. Many appointments are made on date of service, and as walk-in, add-on appointments. On the day of the appointment, when the patient arrives, the proof of income is reviewed and updated by the check-in personnel. If the patient does not have the proof of income at the time of service, they are listed as full fee scale. The patient has one day to return the proof of income to remain on the discounted sliding scale. If the patient does not return to the clinic with the proof of income, they are placed on full fee scale.

Corrective Action:

Proof of income statements are audited monthly and compliance results are shared with front-line staff at Monthly Quality Meeting. Staffing adjustments and process improvement action plans are completed based on performance. Proof of Income Policy has been reassessed to ensure clarity of process. Staff has been re-educated in process expectations.

Innis Community Health Center, Inc.
Schedule of Prior Year Audit Findings and Questioned Costs
Year Ended October 31, 2012

Federal Award Findings

Finding 2011-1

Condition:
The Center has not disbursed funds that were drawn in February and March 2011.

Criteria:
According to the requirements described in the OMB Circular A-133 Compliance Supplement, Federal ARRA funds should be drawn down as needed and may not be placed in an interest bearing account.

Effect:
The Center drew down Federal ARRA money and deposited it into an interest bearing bank account.

Cause:
A project was delayed and architect fees were not paid even though the funds had been drawn down.

Auditor's Recommendation:
Management should only draw down Federal funds as needed.

Management's Response:
The drawdowns of ARRA funds were to cover the already incurred expense of Architectural Services rendered on the Livonia Community Health Center Project. The organization had every intent to issue the funds to the vendor when a situation occurred that halted the progress of the project focusing on the deliverables as promised by the architect on the facility drawings. The organization chose to hold the funds in escrow until the situation could be resolved in order to obtain the deliverables from the architect. In the meantime the architectural firm incurred several unplanned events that posed significant delay on the project such as the death of a family member and internal problems within the company that were of a legal nature. Time passed and the funds were not expended and continued to be held in this separate bank account designated for the construction project within the bank, which was discovered during audit to be of an interest bearing account. This has since been resolved with contact with the HRSA Grant Project manager giving guidance as to the process of payback of the interest, which has been paid back to the Payment Management System.

Status:
While the interest was paid back to the appropriate Federal agency, a portion of the funds that were drawn have yet to be disbursed as of October 31, 2012.

This repeats as current year finding 2012-02.