



SOUTHWEST **CARE** CENTER
Health Care Every Person Deserves

(A non Profit Corporation)

**Consolidated Financial Statements
With Independent Auditor's Report Thereon**

June 30, 2014

SOUTHWEST CARE CENTER, INC.
Consolidated Financial Statements

June 30, 2014

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SOUTHWEST CARE CENTER, INC.
Consolidated Financial Statements

Official Roster

June 30, 2014

Board Members

David Ginsberg	President
Ethel Hess	Vice-President
Jim Colombo	Secretary / Treasurer
Roxanne Apple	Member
Keith Romero	Member
Will Halm	Member
Richard Martinez	Member
Alicia Miller	Member
Mary Ann Sheaning, Ph.D.	Member
Sarah Steadman	Member
Jill Cooper Udall	Member
Michael Willms	Member

Administration

Jeff Thomas	Chief Executive Officer
Trevor Hawkins, MD	Chief Medical Officer
Wenoah Veikley	Chief Operating Officer
Greg Wilson	Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Southwest CARE Center, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southwest CARE Center, Inc. (a nonprofit organization) and its affiliate, Southwest CARE Holding Company, Inc. which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest CARE Center, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 17 and 18 and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2015, on our consideration of Southwest CARE 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* in considering Southwest CARE Center, Inc.'s internal control over financial reporting and compliance.

Zlotnick, Laws & Sandoval, PC
January 14, 2015 January 14, 2015

SOUTHWEST CARE CENTER, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS

Cash and cash equivalents	\$	931,944
Accounts receivable, net		1,135,012
Grants receivable		147,827
Research & other receivable		125,921
Employee advances		1,000
Inventory		245,117
Prepaid expenses		117,941
Long-term investments		2,308,690
Property & equipment, net		5,093,430
Deposits		7,002
Total Assets	\$	10,113,884

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$	446,811
Accrued payroll		145,144
Other liabilities		4,000
Accrued compensated absences		294,787
Long-term debt		1,138,823
Total liabilities		2,029,565
Net Assets		
Unrestricted		7,825,211
Temporarily restricted		259,108
Total net assets		8,084,319
Total liabilities & Net Assets	\$	10,113,884

See Notes to Financial Statements and Independent Auditor's Report.

SOUTHWEST CARE CENTER, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support			
Sales, net of discounts and allowance of \$534,077	\$ 15,062,651	\$ -	\$ 15,062,651
Less: cost of goods sold	(7,975,165)	-	(7,975,165)
Net profit	<u>7,087,486</u>	-	<u>7,087,486</u>
Service income, net of insurance adjustments and allowance of \$1,634,424	1,927,875	-	1,927,875
Research income	623,002	-	623,002
Government grants	2,047,118	-	2,047,118
Private grants	40,379	150,000	190,379
Contributions	7,524	119,600	127,124
Noncash contributions, net of auctions proceeds of \$32,728	36	-	36
In-kind contributions	48,366	-	48,366
Special events, net	(5,534)	-	(5,534)
Other income	68,213	-	68,213
Investment income, net	340,271	-	340,271
Net assets released from restrictions	35,435	(35,435)	-
Total revenue and other support	<u>12,220,171</u>	<u>234,165</u>	<u>12,454,336</u>
Expenses and losses			
Healthcare services	7,885,242	-	7,885,242
Management and general	2,228,160	-	2,228,160
Fund raising expenses	287,160	-	287,160
Total expenses	<u>10,400,562</u>	<u>-</u>	<u>10,400,562</u>
Change in Net Assets	1,819,609	234,165	2,053,774
Net assets, beginning of year	<u>6,005,602</u>	<u>24,943</u>	<u>6,030,545</u>
Net assets, end of year	<u>\$ 7,825,211</u>	<u>\$ 259,108</u>	<u>\$ 8,084,319</u>

See Notes to Financial Statements and Independent Auditor's Report.

SOUTHWEST CARE CENTER, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014

	Healthcare Services	Management & General	Fundraising	Total
Salaries and wages	\$ 4,625,844	\$ 1,074,978	\$ 150,534	\$ 5,851,356
Employee benefits	320,147	77,018	17,549	414,714
Retirement plan	75,635	21,547	3,283	100,465
Payroll taxes	354,864	84,669	11,949	451,482
Personnel expenses	100,062	66,439	100	166,601
Total wages and benefits	<u>5,476,552</u>	<u>1,324,651</u>	<u>183,415</u>	<u>6,984,618</u>
A&C and client expenses	522,415	-	-	522,415
Accounting and audit	8,632	132,534	-	141,166
Advertising and promotion	134,809	20,786	21,944	177,539
Bank charges	17,015	8,890	641	26,546
Board development	-	3,273	-	3,273
Condo fees	20,964	24,445	298	45,707
Continuing education	31,139	22,958	-	54,097
Contract services	62,454	79,448	1,916	143,818
Depreciation and amortization	257,092	40,556	6,633	304,281
Donations and sponsorship	500	3,733	4,250	8,483
Dues and subscriptions	11,766	7,057	-	18,823
Insurance	111,463	53,123	-	164,586
Interest expense	-	67,578	-	67,578
Janitorial supplies	15,476	2,441	399	18,316
Legal fees	460	52,576	-	53,036
License and fees	25,254	3,767	175	29,196
Meals and entertainment	13,896	8,121	520	22,537
Medical supplies	412,572	-	-	412,572
Miscellaneous expense	2,498	2,325	358	5,181
Network support	164,566	25,960	4,246	194,772
Office supplies	42,015	66,601	3,782	112,398
Postage and delivery	15,400	16,859	18,099	50,358
Printing and production	16,194	9,846	2,520	28,560
Property tax	22,786	-	-	22,786
Rent	143,707	75,404	20,203	239,314
Repairs and maintenance	15,044	15,904	-	30,948
Security	5,235	826	135	6,196
Software support	189,152	-	-	189,152
Telephone and internet	20,210	92,637	2,023	114,870
Travel	79,681	22,995	251	102,927
Utilities	46,295	7,402	2,450	56,147
In-Kind Expenses	-	35,464	12,902	48,366
Total Expenses	<u>\$ 7,885,242</u>	<u>\$ 2,228,160</u>	<u>\$ 287,160</u>	<u>\$ 10,400,562</u>

See Notes to Financial Statements and Independent Auditor's Report.

SOUTHWEST CARE CENTER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2014

Cash Flows From Operating Activities

Cash received from pharmacy and services	\$ 16,554,758
Cash received from grants and research and others	3,144,957
Cash received from contributions and events	121,626
Cash payments to vendors and contractors	(3,060,165)
Cash payments for pharmacy and programs	(7,959,247)
Cash payments for wages and benefits	(6,944,654)
Interest paid	(67,578)
Interest and dividends, net of fees collected	15,680
Net cash provided by operating activities	1,805,377

Cash Flows From Investing Activities

Purchase of Investments	(715,602)
Proceeds from sale of investments	399,937
Purchase of fixed assets	(538,024)
Net cash used by investing activities	(853,689)

Cash Flows From Financing Activities

New loans	1,500,000
Principal payments on notes	(1,880,538)
Net cash used by financing activities	(380,538)

Net increase (decrease) in cash 571,150

Cash at beginning of year 360,794

Cash at end of year \$ 931,944

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	\$ 2,053,774
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	304,281
Realized and unrealized (gains) and losses	(324,591)
Changes in assets and liabilities	
Accounts Receivable	(435,768)
Grants, research and other receivable	216,245
Inventory	15,918
Prepaid and deposits	(5,710)
Accounts payable and other liabilities	(58,736)
Accrued payroll and compensated absences	39,964
Net cash provided by operating activities	\$ 1,805,377

See Notes to Financial Statements and Independent Auditor's Report.

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(1) Summary of Significant Accounting Policies

Organization and Nature of Activities

Southwest CARE Center, Inc. (Center), a non-profit organization, was established in August 1990 to provide a compassionate, patient-centered environment where everyone can feel comfortable and respected while receiving the highest quality health care available. The Center mission is to improve the health of people living in the culturally diverse communities of New Mexico through access to the highest quality health care, education, research and advocacy.

The consolidated financial statements include the accounts of Southwest CARE Holding Company, Inc. (SCHC), a 100 percent owned affiliate of the Center. SCHC was created on July 30, 2008 and is organized as a Title Holding Corporation under Internal Revenue Service Code Section 501(c)(2). SCHC owns and manages the buildings of the Center which it uses for office space, program administration and program operations. SCHC is governed by a board of directors appointed by the Center's Board of Directors. Net income of SCHC is distributed annually to the Center and all material inter-company transactions have been eliminated in these financial statements.

During the year, the Center transferred the remaining real estate on Harkle Road, Suite B with a net book value of \$209,070 to the SCHC. Also, the Center transferred \$250,000 to SCHC for an additional principal payment of Wells Fargo note.

Basis of Accounting

The consolidated financial statements of the Center have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Under this method, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Basis of Financial Statement Presentation

The Center presents its consolidated financial statements in accordance with the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958, Financial Statements for Not-For-Profit Organizations. 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 based on the existence or absence of donor-imposed restrictions on the use of net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments with an initial maturity of three months or less are considered to be cash equivalents. Restricted cash and cash equivalents are limited in use to payment of HCV tests, women's health services and the AID and Comfort program. Cash and short-term investments held in the money market account are reported as investments instead of cash because the Center holds those funds as long-term investments.

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(1) Summary of Significant Accounting Policies (continued)

Receivables and Allowance

Accounts receivable consist of pharmacy sales and patient services, which are reduced by insurance adjustments to determine collectability. The Center uses aged receivables to estimate its allowance for doubtful accounts.

The Center also has other receivables from research, government grants and other reimbursements that are deemed fully collectible.

Investments

The Center's investments are composed of equity, mutual funds and money market accounts carried at fair value as determined by quoted market prices. Gains and losses on investments are reported as changes in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Fair Value Measurements

Assets and liabilities measured at fair value are categorized into one of three different levels depending on the observability of the inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are market-observable inputs for measuring the asset or liability other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs for measuring the asset or liability reflecting significant modifications to observable related market data or the Center's assumptions about pricing by market participants.

Property and Equipment, Depreciation and Amortization

Property and equipment are depreciated over their estimated useful lives ranging from three to thirty-nine years using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvement. It is the Center's policy to capitalize all property and equipment purchases greater than \$500. Contributed property and equipment is recorded at fair value at the date of donation.

Support and Revenue Recognition

The Center receives contract and support primarily from the New Mexico State Department of Health and Human Services, as well as other private donors. The other major components of revenue are service fees, pharmacy sales and special event income.

Patient services are recognized on the basis of contractual rates with third party payors for services rendered. Pharmacy sales are recognized when third party payors authorize the prescription claims form. Sales and services are reported net of insurance adjustments, AID & Comfort drug discounts and the provision for bad debt.

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(1) Summary of Significant Accounting Policies (continued)

Support and Revenue Recognition (Continued)

Contributions and support received and unconditional promises to give are reported as an increase in net assets. The Center reports contributions of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of donated assets, if they are designated as support for future periods, or if the date of payment is beyond the current year. When a donor restriction expires, that is when a stipulated time restriction ends or its purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

Donated services are recognized as revenue at their estimated values only if the services received:

- a) create or enhance non financial assets, or
- b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A number of volunteers have given significant amounts of their time to the Center's programs. However, those services do not meet the criteria described above; and therefore, no amounts have been recorded for donated services.

Paid Time Off

The Center uses paid time off (PTO) in lieu of vacation, sick and personal time. PTO is accrued as follows:

- 200 hrs/year for full-time employee with services of less than 6 years.
- 240 hrs/year for full-time employee with services between 6 – 9 years.
- 280 hrs/year for full-time employee with service greater than 9 years.

PTO balances can be carried forward with the maximum based on two times the employee annual accrual.

401(k) Retirement Plan

The Center provides a 401(k) plan to eligible employees. Employees who have been with the Center for six months or more are eligible to participate. The Center matches up to four percent (4%) of the employee contribution. For the year ended June 30, 2014, the Center contributed \$100,465 to the 401(K) plan.

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(1) Summary of Significant Accounting Policies (continued)

Tax Status

The Center is a non-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Therefore, no provision for income taxes is necessary. The Center has been classified by the Internal Revenue Service as an organization that is not a private foundation as defined in Code Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1) of the Internal Revenue Code.

SCHC is exempt from income tax under Section 501(c)(2) of the U.S. Internal Revenue Code. Therefore, no provision for income taxes is necessary.

Uncertain Tax Provision

Although exempt from Federal income tax, the Center is subject to tax on income from any unrelated business activities. The Center does not conduct activities subject to tax on unrelated business income. The Center applies recognition requirements for uncertain income tax positions as required by generally accepted accounting principles.

The Center informational return (Form 990) is subject to potential examination for a three year period following the date of filing. This would include returns for the years ending June 30, 2011 through June 30, 2013.

Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the financial statements. Actual results could differ, either positively or negatively, from those estimates.

Functional Allocation of Expenses

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

(2) Cash and Cash Equivalents

Cash and cash equivalents at year end are as follows:

Cash in banks:	
Restricted for programs	\$ 246,748
Operating	666,112
SCHC	17,984
Petty cash	1,100
Total	<u>\$ 931,944</u>

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(3) Concentrations of Credit Risk

The Center maintains its cash insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) in four separate financial institutions. At June 30th, only Wells Fargo account balances exceeded the FDIC limits by \$233,658.

(4) Accounts Receivable

As of June 30, 2014, accounts receivable and allowance for doubtful accounts are as follows:

Pharmacy	\$1,021,900
Less: allowance	<u>(9,420)</u>
Subtotal	<u>1,012,480</u>
Medical Services	560,129
Less insurance adjustments and allowance	<u>(437,597)</u>
Subtotal	<u>122,532</u>
Accounts receivable, net	<u><u>\$1,135,012</u></u>

(5) Inventory

Inventory consists of medications to be sold through the pharmacy department. They are stated at current cost. When new shipments of the medications arrive, the Center updates its inventory based on purchase price; as a result, some medications could be stated above cost. The goal of the pharmacy department is to maintain adequate quantities on hand to meet client needs. As of June 30, 2014, pharmacy inventory was \$203,738.

The Center also received noncash contributions for artworks and other items to be sold at auctions during the AID and Comfort gala and other special events. Unsold items are either returned to the donors or retained by the Center. At year end, the value of unsold items was \$41,379, measured at fair value at the time donated.

(6) Investments in Securities

Investments are carried at fair value and consist of the following:

Money market	\$ 426,076	<u>Hierarchy</u>
Mutual funds	308,969	Level 1
Real estate investment trust	25,068	Level 1
Equity securities	<u>1,548,577</u>	Level 1
Total	<u><u>\$2,308,690</u></u>	

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(6) Investments in Securities (Continued)

The composition of unrestricted investment return for the year ended June 30, 2014 is as follows:

Interest and dividends	\$ 35,371
Investment fees and taxes	(19,691)
Realized and unrealized gains, net	<u>324,591</u>
Total	<u>\$ 340,271</u>

(7) Property and Equipment

Property and equipment consist of the following:

Land and buildings	\$ 3,286,671
Furniture & fixtures	343,583
Computers and equipment	562,569
Software	360,668
Leasehold improvements	1,941,171
Other depreciable property	<u>28,316</u>
Subtotal	6,522,978
Loan fees	21,220
Less: Accumulated depreciation & amortization	<u>(1,450,768)</u>
Total	<u>\$ 5,093,430</u>

Depreciation and amortization expenses for the year ended were \$301,134 and \$3,147, respectively.

(8) Notes Payable

The Center consolidated its LANB notes to Wells Fargo bank on August 6, 2013. The amount refinanced was \$1.5 million, bearing interest rate of 4.25% with monthly payment of \$6,250. During the year, the Center made additional principal payments of \$353,000. The note matures on February 6, 2019. The note is secured by the Center real estate holdings. The future minimum loan payments are as follows:

2015	\$ 27,928
2016	28,393
2017	29,623
2018	30,907
2019	<u>1,021,972</u>
Total	<u>\$ 1,138,823</u>

Interest expense for the year ended was \$67,578.

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

Women's health services	\$ 39,353
AID and Comfort program	58,695
HCV testing	<u>161,060</u>
Total	<u>\$ 259,108</u>

Net assets were released during the fiscal year by incurring expenses satisfying the time restrictions specified by donors and grantors as follows:

Gilead and McCune grants – HCV testing	\$ 22,853
NM Dept of Health – HCV testing	<u>12,582</u>
Total	<u>\$ 35,435</u>

(10) Pharmacy Sales and Patient Services

Sales and services for the year ended consist of the following:

	<u>Pharmacy</u>	<u>Medical</u>
Sales/Services	\$15,596,452	\$3,561,187
Insurance adjustments	(249,230)	(1,434,978)
A&C discounts	<u>(271,926)</u>	<u>(82,107)</u>
Sales/Services, net of insurance adjustments and discounts	15,075,296	2,044,102
Provision for bad debt	<u>(12,645)</u>	<u>(116,227)</u>
Sales/Services, net	<u>\$15,062,651</u>	<u>\$1,927,875</u>

(11) In-Kind Contributions

The Center has recorded the estimated value of contributed goods and services received as both in-kind revenues and expenses. The following is a summary of classification of the in-kind contributions during the year:

Advertising	\$ 11,562
Parking	1,800
Supplies	1,619
Equipment usage	<u>33,385</u>
Total in-kind revenue	<u>\$ 48,366</u>

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(12) Equipment Grant

The majority of the equipment used at Women's Health Services was funded by the New Mexico Legislature, the City of Santa Fe and Santa Fe County. The equipment is the property of Santa Fe County and included in its financial statements. The total cost of those capital assets were \$365,377. At year end, the Center has recognized the related depreciation of \$33,385 as part of the in-kind contributions.

(13) Special Events

The Center has two special events during the year, Closet Ball and AID and Comfort Gala. Revenue and expenses for the events are as follows:

Ticket sales	\$60,564
Amount reclassified as contributions	(27,903)
Expenses, less in-kind contributions	<u>(38,195)</u>
Net income from special events	<u>\$ (5,534)</u>

(14) Operating Lease Commitments

The Center has operating lease agreements for office space and equipment. The Center also leases office space from Southwest CARE Holding Company, Inc, an affiliated corporation, with monthly rental payment of \$13,000. These amounts were eliminated in the consolidation of the Center and SCHC financial statements. Rent expense for the year was \$239,314 for office space and \$40,063 for equipment.

The future minimum payments required under the lease agreements are as follows:

June 30:	<u>Office</u>	<u>Equipment</u>
2015	\$ 63,828	\$ 21,808
2016	35,442	17,922
2017	-0-	15,854
2018	-0-	11,724
2019	<u>-0-</u>	<u>3,769</u>
Total	<u>\$ 99,270</u>	<u>\$ 71,077</u>

(15) Commitments

The Center's Alameda campus is owned by the Santa Fe County (County). The Center pays the County an annual base rent of \$148,710.00, plus \$500.00 per month for a separate common area maintenance charge.

SOUTHWEST CARE CENTER, INC.
Notes to the Consolidated Financial Statements
June 30, 2014

(15) Commitments (Continued)

Under the lease agreement, the Center may pay all or part of the annual rental agreement in cash or the equivalent in form of services provided to sick and indigent residents of Santa Fe County that are not otherwise paid for with County money. The services are to be valued at no more than the maximum cost per encounter for each type of services as contained in the most current report issued by the New Mexico Department of Health pursuant to the Rural Primary Healthcare Act.

The Center is required to provide the County with a quarterly written report that indicates the services provided to County indigent residents. In the event that the provided services are in excess of the quarterly rental amount, the excess amount may be carried forward. Management believes that services provided under this agreement will exceed the rental amount due in future years. Therefore, it is not anticipated that cash will be required to meet rental payments. As of year end, the Center has accumulated \$2,531,240 in excess of services provided over rental expense. The excess carryover amount is not reflected in the accompanying financial statements since the assets can only be used in exchange for rent per agreement with Santa Fe County.

(16) Subsequent Events

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2014 through January 22, 2015, the date the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SOUTHWEST CARE CENTER, INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

	<u>SCC</u>	<u>SCHC</u>	<u>Elimination Entries</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 913,960	\$ 17,984	\$ -	\$ 931,944
receivables, net	1,533,265	-	(123,505)	1,409,760
Inventory	245,117	-	-	245,117
Prepaid expenses and others	124,943	-	-	124,943
Long-term investments	2,308,690	-	-	2,308,690
Property & equipment, net	2,271,046	2,822,384	-	5,093,430
	<u>7,397,021</u>	<u>2,840,368</u>		<u>10,113,884</u>
Total Assets				
Liabilities and Net Assets				
Accounts payable and other liabilities	591,955	127,505	(123,505)	595,955
Accrued compensated absences	294,787	-	-	294,787
Long-term debt	-	1,138,823	-	1,138,823
Net assets	6,510,279	1,574,040	-	8,084,319
	<u>7,397,021</u>	<u>2,840,368</u>		<u>10,113,884</u>
Total				
Statement of Activities				
Revenues and support	12,454,336	266,820	(266,820)	12,454,336
Expenses and losses	(10,470,675)	(196,707)	266,820	(10,400,562)
Change in Net Assets	\$ 1,983,661	\$ 70,113		\$ 2,053,774
Net assets, beginning of year	4,985,688	1,044,857		6,030,545
Transfers	(459,070)	459,070		-
	<u>6,510,279</u>	<u>1,574,040</u>		<u>8,084,319</u>
Net assets, end of year				

See Independent Auditor's Report.

SOUTHWEST CARE CENTER, INC.
CONSOLIDATED SCHEDULE OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
Cash and cash equivalents	\$ 931,944	\$ 360,794.0
Accounts receivable, net	1,135,012	699,244
Grants receivable	147,827	235,806
Research & other receivable	125,921	253,587
Employee advances	1,000	1,600
Inventory	245,117	261,035
Prepaid expenses	117,941	112,255
Long-term investments	2,308,690	1,668,434
Property & equipment, net	5,093,430	4,859,687
Deposits	7,002	6,978
Total Assets	\$ 10,113,884	\$ 8,459,420.0
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable	\$ 446,811	\$ 499,292.0
Accrued payroll	145,144	119,736
Other liabilities	4,000	6,255
Line of credit	-	375,601
Accrued compensated absences	294,787	284,231
Long-term debt	1,138,823	1,143,760
Total liabilities	2,029,565	2,428,875
Net Assets		
Unrestricted	7,825,211	6,005,602
Temporarily restricted	259,108	24,943
Total net assets	8,084,319	6,030,545
Total liabilities & Net Assets	\$ 10,113,884	\$ 8,459,420.0

See Independent Auditor's Report.

SOUTHWEST CARE CENTER, INC.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Agency/Program	CFDA	Grantor's Number	Expenditures
US Department of Health & Human Services			
Ryan White HIV/AIDS Part C	93.918	H76HA00612	\$ 374,359
Pass-through from NM Department of Health:			
* Ryan White HIV/AIDS Part B	93.917	#141DBHIV0109	<u>288,214</u>
Total US Dept of Health & Human Services			<u>662,573</u>
US Department of Housing and Urban Development			
Pass-through from NM Mortgage Finance Authority			
Housing Opportunities for Persons with AIDS	14.241	13-03-SWC-HOP-001	<u>116,844</u>
Total Expenditures			<u><u>\$ 779,417</u></u>

* Denotes Major Program

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards has been prepared on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

Note 2: Outstanding Loans and Subrecipients

The Center does not receive insurance, non-cash assistance, or have outstanding loans or provide federal awards to subrecipients.

See Independent Auditor's Report.

INDEPENDENT AUDITOR'S 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

To the Board of Trustees of
Southwest CARE Center, Inc.

We have audited, in accordance with the 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, the consolidated financial statements of Southwest CARE Center, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Southwest CARE Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest CARE Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest CARE Center, Inc.'s internal control.

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. 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2014-001 and 2013-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest CARE Center, Inc.'s consolidated financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2010-004.

Southwest CARE Center, Inc.'s Response to Findings

Southwest CARE Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Southwest CARE Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zlotnick, Laws & Sandoval, P.C.
January 14, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Board of Trustees of
Southwest CARE Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Southwest CARE 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 Southwest CARE Center, Inc.'s major federal programs for the year ended June 30, 2014. Southwest CARE 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southwest CARE Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 Southwest CARE 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Southwest CARE Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Southwest CARE Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Southwest CARE Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southwest CARE Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Southwest CARE Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Zlotnick, Laws & Sandoval, P.C.
January 14, 2015

SOUTHWEST CARE CENTER, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unmodified Opinion

Internal control over financial reporting:

A. Material weaknesses identified _____ Yes X No

B. Significant deficiencies identified that are not considered to be material weaknesses? X Yes _____ No

Noncompliance material to the financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

A. Material weaknesses identified? _____ Yes X No

B. Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X No

Type of auditors' report issued on compliance for major programs: Unmodified Opinion

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

Identification of major programs:

CFDA Numbers

93.917

Name of Federal Program or Cluster

HIV Care Formula Grants (Ryan White Part B)

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

Auditee qualified as low-risk auditee? X Yes _____ No

SOUTHWEST CARE CENTER, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II – Financial statement Findings

2014-001
Pharmacy Inventory

Condition:

The annual physical inventory counts of the pharmacy department reveal significant variances in quantities, a projected error rate of 17%, between the inventory system and physical counts. These variances created a \$20,015 overstatement in the inventory system, before the count. A majority of the variances occur with the flu vaccine, where the inventory system showed an amount on hand of \$21,306, but the actual amount on hand was zero since all of the flu vaccines as of year end had been dispensed or distributed to other clinics.

Criteria:

Inventory control is an ongoing daily activity to ensure quantities on hand agree with the inventory system.

Cause:

Inadequate record keeping of flu vaccines.

Effect:

Financial statement balances are overstated resulting in inaccurate reporting of financial activity to management.

Recommendation:

The Center needs to ensure proper controls are in place to adequately safeguard its inventory.

Response:

The end of fiscal year 14 physical inventory revealed some theoretical discrepancies in actual versus electronic records. Upon further inspection, we uncovered two reasons for the discrepancies. One of the issues uncovered was that there were a number of items that had been returned prior to the physical inventory day but had not been successfully removed from the electronic inventory. The second reason for the discrepancy was related to dispensing of the influenza vaccine. FY14 was the first year that SCC pharmacists were involved with administering flu vaccine directly to patients. This was a successful program, in that pharmacists administered many vaccines, however, the stock was not adequately removed from inventory in real time to reflect an accurate level.

Procedural changes

In light of the discrepancies in inventory, SCC Pharmacy staff have made changes in our procedures to ensure a more accurate reflection of inventory management for the future. All staff has been trained on the procedure to return product including how to correctly remove the product from inventory. We have also implemented a tracking system for the influenza vaccine so the electronic and physical inventories match. We are continuously making improvements to ensure high quality patient care, bookkeeping, and documentation.

SOUTHWEST CARE CENTER, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II – Financial statement Findings

2013-001

Cash Disbursements (Revised and Repeated)

Condition:

We examined 52 cash disbursements and three months of credit card statements and found the following:

- During the fiscal year, there were seventeen (17) individual credit card holders; we found forty-one (41) missing credit card receipts totaling \$4,152.72 from ten card holders.

Criteria:

The Center's financial policies and procedures require proper documentation of all expenditures.

Cause:

Employees are not adhering to the financial policies and procedures to ensure all charges are supported by adequate documentation.

Effect:

Account classifications could be materially misstated on the financial statements and expenses may not be allowable without supporting documentation.

Recommendation:

We recommend that personnel follow established policies and procedures to ensure all credit card receipts are accounted for and care is taken when posting transactions to proper accounts.

Response:

Cardholders will attend a retraining on proper use, reconciliation procedures and supporting document retention. All cardholders will review cardholder procedures and resign the Cardholder Use Agreement annually.

Cardholders reconcile their transactions monthly at the close of the statement period upon receipt of a notification email generated by the Wells Fargo Cardholder services website. All transactions require a narrative description or explanation of the business purpose of the transaction be entered in the web-portal by the cardholder. Once the cardholder reconciliation is complete an electronic version is forwarded to the cardholder's supervisor for review and electronic approval.

The cardholder is required to print the statement from the Wells Fargo Cardholder services website monthly and attach original or duplicated receipts for all transactions. The printed cardholder statement and receipts are reviewed by the Accounts Payable Clerk and/or Accounting Manager for accuracy before transactions to general ledger accounts are posted.

We have implemented the attestation form for any employees to complete for any discrepancies in transactions, missing receipts or un-reconciled transactions. Once employees complete the form, it is sent to the CFO or CEO for approval and signature.

SOUTHWEST CARE CENTER, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II – Financial statement Findings

2014-002
Quality Management

Condition:

The Center performed an internal review of client charts on an annual basis rather than semi-annually. The last review was done on November 1, 2012 thru August 30, 2013. There were no reviews of case files after August 2013.

Criteria:

The Center is required to perform internal quality reviews of a minimum of twenty percent (20%) of client charts semi-annually to assess compliance with U.S. Public Health Services Guidelines.

Cause:

The quality control manager is responsible for overseeing the compliance with grant agreements, as well as clinical quality management for the Center. The quality control manager resigned in December 2013 and the Center has had trouble finding qualified individuals to fill the position.

Effect:

Non-compliance with the provider agreement as it relates to quality management. The noncompliance could affect the provider agreement funding.

Recommendation:

The Center should have a system in place to cross train and designate alternative personnel to oversee grants and their compliance.

Response:

A quality management committee will be convened under the direction of the Ryan White Program Coordinator who will conduct semi-annual chart reviews and compliance audits of at least 20% of the active client files for patients served by the program.

The quality management committee will be comprised of individuals with direct knowledge of the program and patient care but not limited to staff providing direct services to those patients. The committee will utilize the most recently published New Mexico Department of Health HIV Services Program Quality Management Plan and Assessment Tools to conduct its internal assessments and to develop procedural recommendations to insure that SCC's program is administration is congruent with statewide CQM goals and initiatives.

The Ryan White Program Coordinator or her designee will attend all monthly and annual CQM workshops and meetings offered by the New Mexico Department of Health. Information along with any procedural or policy changes that result will be disseminated internally at least quarterly to all staff who provide services funded by the NMDOH HIV Services program.

SOUTHWEST CARE CENTER, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II – Financial statement Findings

Results of the semi-annual chart reviews along with any committee recommendations will be communicated in written form to the Senior Executive Team in the absence of Quality and Compliance managers.

SOUTHWEST CARE CENTER, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II – Financial statement Findings

2010-004

Client Records (Revised & Repeated)

Condition:

We reviewed forty (40) client files for eligibility and other requirements under the grant agreement with the NM Department of Health and found two files were missing signed acknowledgement forms; two files were missing annual medical care plans and one file was missing the annual assessment and acuity evaluation.

Criteria:

The Center is required to maintain sufficient documentation of client records to include:

- History/physical, psychosocial assessment, acuity evaluation and Medical Care Plan (based on acuity assessment including clinical goals and objectives) within thirty (30) days of enrollment, annually;
- Acknowledgement by client of receipt of rights and responsibilities and grievance procedure.

Cause:

Unknown.

Effect:

Non-compliance with the provider agreement as it relates to client records. The noncompliance could affect the provider agreement funding.

Recommendation:

We recommend the Center continue to review client files to ensure the required documentation is maintained in the file as required by the provider agreement.

Response:

Southwest CARE Center's (SCC) Ryan White case management staff are provided ongoing training to ensure full compliance with the New Mexico Department of Health grant agreement. Furthermore, the SCC Ryan White Program Coordinator has initiated biannual client file audits to monitor compliance and completion of individual client documentation requirements including acknowledgment forms, history/physical and psychosocial assessments, medical care plans, acuity evaluation and all necessary client signatures. SCC will continue to increase training opportunities for Ryan White case managers and increase the frequency of client file audits.

SOUTHWEST CARE CENTER, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section III – Federal Awards Findings

No matters noted.

SOUTHWEST CARE CENTER, INC.

Summary Schedule of Prior Year Audit Findings

June 30, 2014

2013-001	Cash Disbursements	Revised & Repeated
2013-002	Payroll Test	Resolved
2010-004	Client Records	Revised & Repeated

SOUTHWEST CARE CENTER, INC.

Exit Conference

June 30, 2014

The contents of this report were discussed with the Finance Committee at a scheduled meeting on January 22, 2015.