



SOUTHWEST
CARE
CENTER

(A non Profit Corporation)

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

June 30, 2012

With Summarized Comparative Financial Information for June 30, 2011

SOUTHWEST C.A.R.E. CENTER
Consolidated Financial Statements

June 30, 2012

Table of Contents

	Page
Official Roster	1
FINANCIAL SECTION	
Independent Auditor's Report	2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Financial Statements	7-14
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Award	15
OTHER REPORTS	
Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	16-17
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Controls over Compliance in Accordance with OMB Circular A-133	18-19
Schedule of Findings and Questioned Costs	20-28
Summary Schedule of Prior Year Audit Findings	29
Exit Conference	30

SOUTHWEST C.A.R.E. CENTER
Consolidated Financial Statements

Official Roster

June 30, 2012

Board Members

Al Lama	President
Keith Romero	Vice-President
Dru Sherrod	Secretary / Treasurer
Alicia Miller	Member
Tracy Conner	Member
David Ginsberg	Member
Will Halm	Member
Richard Martinez	Member
Roxanne Shaw-Apple	Member
Jill Cooper Udall	Member

Administration

Jeff Thomas	Chief Executive Officer
Trevor Hawkins, MD	Chief Medical Officer
Stephanie Roybal	CFO



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Southwest CARE Center

We have audited the accompanying consolidated statement of financial position of Southwest CARE Center (a nonprofit organization) and its affiliate as of June 30, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Southwest CARE Center's June 30, 2011 consolidated financial statements and, in our report dated January 20, 2012, we expressed an unqualified opinion on those consolidated financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest CARE Center as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of Southwest CARE Center'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 of Southwest CARE Center taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Zlotnick, Laws & Sandoval, PC
October 15, 2012

SOUTHWEST C.A.R.E. CENTER
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2012
With Summarized Comparative Totals for June 30, 2011

	2012	2011
<u>ASSETS</u>		
Cash and cash equivalents	\$ 375,918	\$ 909,109
Accounts receivable, net of allowance for doubtful accounts of \$181,615 and \$163,957	427,853	487,627
Grants receivable	25,757	103,976
Pledges receivable	10,000	0
Research and other receivable	98,992	118,139
Inventory	152,096	164,080
Prepaid expenses	44,045	35,653
Long-term investments	1,936,418	1,055,226
Property & equipment, net	3,671,516	2,297,484
Deposits	4,384	4,384
Loan fees, net of amortization of \$220 and 201	353	372
Total Assets	\$ 6,747,332	\$ 5,176,050
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payables	\$ 307,413	\$ 289,837
Accrued expenses	69,546	50,238
Deferred income	12,500	3,000
Rental deposit	6,250	-
Accrued compensated absences	172,792	99,434
Long-term debt	961,062	602,257
Total liabilities	1,529,563	1,044,766
Net Assets		
Unrestricted		
Operating	4,803,207	3,651,904
Southwest CARE Holding Company	414,562	453,889
Total unrestricted net assets	5,217,769	4,105,793
Temporarily restricted	-	25,491
Total net assets	5,217,769	4,131,284
Total liabilities & Net Assets	\$ 6,747,332	\$ 5,176,050

The Accompanying Notes Are an Integral Part of These Financial Statements.

SOUTHWEST C.A.R.E. CENTER
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2012
with Summarized Comparative Totals for June 30, 2011

	<u>2012</u>			<u>2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Revenue and other support				
Public grants	\$ 1,739,462	\$ -	\$ 1,739,462	\$ 1,720,492
Private grants	-	20,601	20,601	46,370
Contributions	35,414	-	35,414	57,990
In-kind contributions	36,185	-	36,185	50,237
Special events	163,406	-	163,406	138,431
Pharmacy revenue	9,245,347	-	9,245,347	8,546,708
Service income, net of charge adjustments of \$173,974 and \$112,325	408,425	-	408,425	386,831
Research revenue	474,708	-	474,708	281,115
Rental income	59,536	-	59,536	-
Other program revenue	8,932	-	8,932	28,262
Investment income, net	23,488	-	23,488	150,451
Net assets released from restriction	46,092	(46,092)	-	-
Total revenue and other support	<u>12,240,995</u>	<u>(25,491)</u>	<u>12,215,504</u>	<u>11,406,887</u>
Expenses and losses				
Medical services	4,770,751	-	4,770,751	4,163,896
Pharmacy activities	5,510,796	-	5,510,796	5,295,881
Management and general	503,978	-	503,978	344,622
Special events and fund raising expenses	339,184	-	339,184	362,419
Total expenses	<u>11,124,709</u>	<u>-</u>	<u>11,124,709</u>	<u>10,166,818</u>
Loss on disposal of fixed asset	<u>4,310</u>	<u>-</u>	<u>4,310</u>	<u>-</u>
Change in Net Assets	1,111,976	(25,491)	1,086,485	1,240,069
Net assets, beginning of year	<u>4,105,793</u>	<u>25,491</u>	<u>4,131,284</u>	<u>2,891,215</u>
Net assets, end of year	<u>\$ 5,217,769</u>	<u>\$ -</u>	<u>\$ 5,217,769</u>	<u>\$ 4,131,284</u>

The Accompanying Notes Are an Integral Part of These Financial Statements.

SOUTHWEST C.A.R.E. CENTER
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012
with Summarized Comparative Totals for June 30, 2011

	2012				2011	
	Program		Management & General	Special Events & Fundraising	Total	
	Med Services	Pharmacy			Total	Total
Salaries and wages	\$ 2,516,556	\$ 332,852	\$ 313,214	\$ 114,455	\$ 3,277,077	\$ 2,748,127
Employee benefits	285,070	36,962	32,756	13,002	367,790	213,167
Payroll taxes	192,241	25,073	21,958	8,621	247,893	194,504
Total wages and benefits	<u>2,993,867</u>	<u>394,887</u>	<u>367,928</u>	<u>136,078</u>	<u>3,892,760</u>	<u>3,155,798</u>
Cost of goods sold	-	4,929,427	-	-	4,929,427	4,848,087
A&C gala expenses	-	-	-	59,027	59,027	52,283
A&C program expenses	161,460	-	-	-	161,460	120,609
Accounting and audit	58,151	7,026	6,354	3,512	75,043	32,418
Advertising and promotion	42,211	40	6,247	509	49,007	49,254
Bad debt	26,599	5,069	-	-	31,668	22,977
Bank charges	-	-	5,627	-	5,627	2,535
Board development	-	-	770	-	770	1,438
Client expenses	315,066	-	-	-	315,066	460,534
In-kind expense	-	-	-	36,185	36,185	50,237
Condo fees	14,380	1,737	1,572	868	18,557	15,153
Conference and meetings	(750)	-	-	-	(750)	4,998
Continuing education	31,442	1,563	6,604	145	39,754	43,381
Contract services	206,575	34,058	9,236	2,414	252,283	277,514
Depreciation and amortization	92,592	11,186	10,118	5,594	119,490	87,229
Donations	-	-	-	10,997	10,997	5,707
Dues and subscriptions	36,429	4,401	3,980	2,201	47,011	15,913
Events and donation expense	-	-	-	45,084	45,084	88,237
Insurance	26,085	1,121	7,315	385	34,906	30,710
Interest expense	42,462	5,538	4,850	1,904	54,754	54,246
Janitorial service	14,630	1,768	1,598	884	18,880	23,329
Lab fees	19,553	-	-	-	19,553	12,359
Legal fees	-	-	13,199	-	13,199	6,081
Meals and entertainment	33,202	4,011	3,627	2,006	42,846	32,649
Medical supplies	63,409	-	-	-	63,409	49,193
Miscellaneous expense	39,307	-	22,275	-	61,582	31,000
Office supplies	61,810	7,468	6,755	3,734	79,767	86,608
Payroll Service Fee	37,880	4,940	4,327	1,699	48,846	27,597
Pharmacy Expense	-	72,913	-	-	72,913	74,875
Postage and delivery	6,129	741	670	370	7,910	11,676
Prevention	41,424	-	-	-	41,424	26,690
Printing and production	9,149	1,016	919	508	11,592	7,494
Property tax	10,166	-	393	544	11,103	11,115
Rent	73,336	1,015	918	9,316	84,585	69,020
Repairs and maintenance	40,125	4,849	4,383	2,424	51,781	49,973
Research	98,721	-	-	-	98,721	66,360
Security	7,715	932	843	466	9,956	16,233
Staff development	29,905	3,900	3,416	1,341	38,562	26,549
Telephone and internet	46,123	5,280	4,775	2,640	58,818	63,403
Travel	70,837	3,441	3,046	7,115	84,439	33,302
Utilities	20,761	2,469	2,233	1,234	26,697	22,054
Total Expenses	<u>\$ 4,770,751</u>	<u>\$ 5,510,796</u>	<u>\$ 503,978</u>	<u>\$ 339,184</u>	<u>\$ 11,124,709</u>	<u>\$ 10,166,818</u>

The Accompanying Notes Are an Integral Part of These Financial Statements.

SOUTHWEST C.A.R.E. CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2012
With Summarized Comparative Totals for June 30, 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Cash received from pharmacy and services	\$ 9,713,544	\$ 8,706,882
Cash received from grants and research and others	2,400,605	2,144,098
Cash received from contributions and events	198,320	190,701
Cash payments to vendors and contractors	(271,825)	(879,735)
Cash payments for pharmacy and programs	(6,777,031)	(5,866,002)
Cash payments for wages and benefits	(3,800,094)	(3,204,073)
Interest and dividends, net of fees	9,360	12,459
Net cash provided by operating activities	<u>1,472,879</u>	<u>1,104,330</u>
Cash Flows From Investing Activities		
Purchase of Investments	(1,216,734)	(358,562)
Proceeds from sale of investments	349,670	246,103
Purchase of fixed assets	(1,497,811)	(564,404)
Net cash (used) by investing activities	<u>(2,364,875)</u>	<u>(676,863)</u>
Cash Flows From Financing Activities		
New loans	840,000	-
Principal payments on notes and leases	(481,195)	(43,137)
Net cash provided (used) by financing activities	<u>358,805</u>	<u>(43,137)</u>
Net increase (decrease) in cash	(533,191)	384,330
Cash at beginning of year	<u>909,109</u>	<u>524,779</u>
Cash at end of year	<u>\$ 375,918</u>	<u>\$ 909,109</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 1,086,485	\$ 1,240,069
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	119,490	87,229
Net realized and unrealized gains and losses	(14,128)	(137,992)
Loss on disposal of property and equipment	4,310	-
Changes in assets and liabilities		
Accounts Receivable	59,772	(203,680)
Grants, research and other receivable	97,366	67,859
Pledges receivable	(10,000)	
Inventory	11,984	92,223
Prepays and deposits	(2,142)	(12,822)
Accounts payable	17,576	14,723
Accrued expenses	92,666	(41,529)
AID and Comfort deferred revenue	9,500	(1,750)
Net cash provided by operating activities	<u>\$ 1,472,879</u>	<u>\$ 1,104,330</u>
Supplemental data:		
Interest paid	\$ 54,754	\$ 54,246
Value of noncash contributions received during the year	\$ 115,785	\$ 86,447

The Accompanying Notes Are an Integral Part of These Financial Statements.

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(1) Summary of Significant Accounting Principles

Organization and Nature of Activities

Southwest C.A.R.E. Center (Center) was established in April 1996, to provide clinical and home-based treatment and therapies of HIV-related disease and related services, and to encourage, promote and support the development and administration of treatments and therapies by individuals and entities engaged in research, treatment and prevention of HIV-related disease.

The consolidated financial statements include the accounts of Southwest CARE Holding Company (SWHC), a 100 percent owned affiliate of the Center. SWHC was created on August 8, 2008 and is organized as a Title Holding Corporation under Internal Revenue Service Code Section 501(c)(2). SWHC owns and manages the buildings of the Center which it uses for office space, program administration and program operations. SWHC is governed by a board of directors appointed by the Center's Board of Directors. Net income of SWHC is distributed annually to the Center and all material inter-company transactions have been eliminated in these financial statements.

Basis of Accounting

The 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.

Receivables and Allowance

Accounts receivable consists of sales, services and reimbursements from clients and government agencies. The Center uses the percentage of sales allowance method to record bad debts and charge adjustments related to service income and pharmacy sales.

Investments

Investments are composed of equity, bond, and money market mutual funds carried at fair values as determined by quoted market prices. The Center segregates investments that are restricted for long-term purposes. Gains and losses on investments are reported as changes in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(1) Summary of Significant Accounting Principles (continued)

Property and Equipment, Depreciation and Amortization

Property and equipment are depreciated over their estimated useful lives 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 that are recorded when earned.

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.

Vacation Accruals

Full-time employees earn 160 hours of vacation time each year. Part-time employees accrue vacation time at varying rates based on the number of hours worked per week. Vacation time may be accrued from one year to the next for a maximum of 80 hours per year. The liability, calculated by applying the current year pay rate to the number of vacation hours accrued, is recognized in the financial statements.

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(1) Summary of Significant Accounting Principles (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.

SWHC 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.

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. Also, certain revenues and expenses pertaining to a particular special event have been allocated to the special event and are shown separately on the statement of activities.

(2) Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources with an original maturity date of three months or less when purchased.

	2012	2011
Cash in Banks:		
General	\$ 358,191	\$ 847,194
SWHC	17,727	61,915
Total	\$ 375,918	\$ 909,109

(3) Concentrations of Credit Risk

The Center maintains its cash insured by the Federal Deposit Insurance Corporation in four different accounts located in two separate financial institutions. The combined balances are insured by the FDIC up to \$250,000 per institution. At year end, the account balances at LANB exceed FDIC limits by \$192,461 in 2012 and \$633,539 in 2011.

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(4) Accounts and Contributions Receivable

As of June 30, 2012 and 2011, accounts receivable and allowance for doubtful accounts are as follows:

	2012	2011
Accounts receivable	\$ 609,468	\$ 651,584
Grants receivable	25,757	103,976
Research and others	98,992	118,139
Pledges receivable	10,000	-0-
Subtotal	<u>744,217</u>	<u>873,699</u>
Less allowance for doubtful accounts	<u>(181,615)</u>	<u>(163,957)</u>
Total	<u>\$ 562,602</u>	<u>\$ 709,742</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, SCC 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, 2012 and 2011, pharmacy inventory was \$134,296 and \$150,110, respectively.

The Center also received donated pieces of art and jewelry that were not sold at auction during the Aid & Comfort Galas. The value of the items at June 30, 2012 and 2011 was \$17,800 and \$13,970, respectively, measured at fair value at the time donated.

(6) Investments in Securities

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

	2012	2011
Cash and cash equivalents	\$ 456,402	\$ 170,852
Mutual funds	339,464	307,560
Equity securities	<u>1,140,552</u>	<u>576,814</u>
Total	<u>\$1,936,418</u>	<u>\$ 1,055,226</u>

The composition of unrestricted investment return for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Interest and dividends	\$ 26,039	\$ 23,165
Investment fees and taxes	(16,679)	(10,706)
Realized and unrealized gains, net	<u>14,128</u>	<u>137,992</u>
Total	<u>\$ 23,488</u>	<u>\$ 150,451</u>

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(7) Property and Equipment

Property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Land and buildings	3,073,186	1,892,759
Furniture & fixtures	144,545	139,231
Computers and equipment	269,269	176,296
Software	166,762	53,612
Leasehold improvements	789,332	694,912
Other depreciable property	2,078	2,078
	<u>4,445,172</u>	<u>2,958,888</u>
Less: Accumulated depreciation	<u>(773,656)</u>	<u>(661,404)</u>
Total	<u>\$ 3,671,516</u>	<u>\$2,297,484</u>

Depreciation of property and equipment was \$119,471 and \$87,210 in the years ended June 30, 2012 and 2011, respectively.

(8) Notes Payable

The Center's obligations under long-term debt consist of the following:

	<u>2012</u>	<u>2011</u>
SWHC:		
Note was refinanced from 8.25% to 5% on September 1, 2011 with monthly installments of \$4,039, including interest, through September 1, 2014, then converts to variable rate of Current Index plus 3%, and the rate will change every 12 months thereafter. The note is secured by a deed of Trust on the Center's building and land, Suite E.	\$ 315,927	\$ 602,257
5.5% note payable, due in monthly installments of \$5,158, including interest, through December 1, 2016, then converts to variable rate of Current Index plus 3%, and the rate will change every 12 months thereafter. The note is secured by a deed of Trust on the Center's building and land, Galisteo, Suite D.	645,135	-0-
Total	<u>\$ 961,062</u>	<u>\$ 602,257</u>

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(8) Notes Payable (Continued)

The future minimum loan payments are as follows:

	<u>2012</u>	<u>2011</u>
2012	-0-	16,273
2013	64,858	17,668
2014	63,995	19,182
2015	276,381	20,825
2016	32,132	22,610
Thereafter – Variable rate	<u>523,696</u>	<u>505,699</u>
Total	<u>\$ 961,062</u>	<u>\$ 602,257</u>

Interest expense at year end was \$54,754 in 2012 and \$54,246 in 2011. The Center made additional principal payments of \$482,312 during the current fiscal year.

(9) Temporarily Restricted Net Assets

As of June 30, 2012 and 2011, temporarily restricted net assets consisting of grants to be used in future periods totaled -0- and \$25,491, respectively.

(10) 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:

	<u>2012</u>	<u>2011</u>
Advertising	\$ 15,000	\$ 22,500
Props	11,735	15,000
Food	7,350	10,130
Printing and others	<u>2,100</u>	<u>2,607</u>
Total in-kind revenue	<u>\$ 36,185</u>	<u>\$ 50,237</u>

The art, jewelry and other auction items not sold at the event have been recorded as inventory and will be available for sale at future events. See Note 5.

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(11) Special Events

The Center has two special events each year, the gala and the Kentucky Derby. Revenue and expenses for the events are as follows:

	<u>2012</u>	<u>2011</u>
Revenues	\$148,821	\$ 139,449
Amount reclassified as contributions	-0-	(9,310)
Less: auction income	(111,955)	(49,513)
Expenses, less in-kind contributions	<u>(71,987)</u>	<u>(53,272)</u>
Net income from special events	<u>\$ (35,121)</u>	<u>\$ 27,354</u>

(12) Operating Lease Commitments

The Center has operating lease agreements for office space and a postage meter. The Center also leases two office spaces from Southwest CARE Holding Company, Inc, an affiliated corporation, with monthly rental payment of \$10,289 or \$123,468 a year. These amounts were eliminated in the consolidation of the Center and SWHC financial statements. Rent expense for fiscal year ending June 30, 2012 and 2011 was \$84,585 and \$69,020, respectively. The future minimum payments required under the lease agreements are as followed:

June 30:	<u>Office</u>	<u>Equipment</u>
2013	\$ 64,065	\$ 1,013
2014	64,065	1,013
2015	48,249	844
2016	24,125	-0-
2017	-0-	-0-
Total	<u>\$ 207,608</u>	<u>\$ 2,955</u>

(13) 403(b) Retirement Plan

All employees are immediately eligible upon hire to contribute to the Center's 403(b) retirement plan. The plan allows for employee elective deferrals only. The Center does not have a matching requirement. For the years ended June 30, 2012 and 2011, ***no contributions were made to the plan*** by the Center.

(14) Related Party Transactions

A former finance committee member and a board member provided accounting and legal services to the Center totaling \$38,290 and \$602, respectively.

SOUTHWEST C.A.R.E. CENTER
Notes to the Consolidated Financial Statements
June 30, 2012

With summarized Financial Information for the Year Ended June 30, 2011

(15) Equity Transfer

During the year, the Center transferred to its Holding Company the remaining value of the building at 1691 Galisteo, Suite D for \$219,972.

(16) Subsequent Events

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2012 through October 15, 2012, the date the financial statements were available to be issued.

On July 16, 2012, SWHC purchased a building at 1691 Galisteo St., Unit E for \$333,940 with amount financed of \$249,000 from LANB at 5.5% interest rate over 25 years.

(17) Summarized Comparative Totals – prior year

The financial statements and related footnotes include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Southwest CARE Center financial statements for the year ended June 30, 2011, from which the summarized information was derived.

In addition, there were material changes in classification in the schedule of functional expenses due to grouping of certain account balances.

SOUTHWEST C.A.R.E. CENTER
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Agency/Program	CFDA	Grantor's Number	Expenditures
US Department of Health & Human Services			
Ryan White HIV/AIDS Part C	93.918	H76HA00612	\$ 472,875
Pass-through from NM Department of Health: HIV Prevention Grant	93.918	13581	<u>90,634</u>
			563,509
HIV Care Formula Grants	93.917	#12IDBHIV0109	<u>398,808</u>
* Total US Dept of Health & Human Services			<u>962,317</u>
US Department of Housing and Urban Development			
Pass-through from NM Mortgage Finance Authority Housing Opportunities for Persons with AIDS	14.241	11-03-SWC-HOP-001	<u>104,146</u>
Total Expenditures			<u>\$ 1,066,463</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 basic financial statements.

Note 2: Outstanding Loans and Subrecipients

The Center does not receive any non-cash assistance, outstanding loans nor provides federal awards for subrecipients.

See Auditor's Report.

**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

We have audited the financial statements of Southwest CARE Center (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. 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 Southwest CARE Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Southwest CARE Center'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 Southwest CARE Center'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 as items 12-3 to 12-6. 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 Southwest CARE Center'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 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 10-4, 12-1 and 12-2.

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

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, 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.

A handwritten signature in blue ink, written in a cursive style, that reads "Zlotnick, Laws & Sandoval, PC".

Zlotnick, Laws & Sandoval, P.C.
October 15, 2012

**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**

To the Board of Trustees of
Southwest CARE Center

Compliance

We have audited Southwest CARE Center'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's major federal programs for the year ended June 30, 2012. Southwest CARE Center'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 Southwest CARE Center's management. Our responsibility is to express an opinion on Southwest CARE Center'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 Southwest CARE Center'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 Southwest CARE Center's compliance with those requirements.

In our opinion, Southwest CARE Center, 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 June 30, 2012. However, the results of our auditing procedures disclosed an instance 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 item 12-7

Internal Control Over Compliance

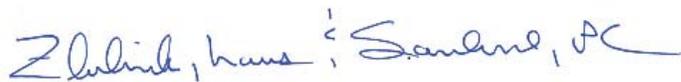
Management of Southwest CARE Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Southwest CARE Center's 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 Southwest CARE Center'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.

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.

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

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, 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.

A handwritten signature in blue ink that reads "Zlotnick, Laws & Sandoval, P.C." with a stylized flourish at the end.

Zlotnick, Laws & Sandoval, P.C.
October 15, 2012

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified 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? X Yes ___ No

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

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

Identification of major programs:

CFDA Numbers

93.917

93.918

Name of Federal Program or Cluster

HIV Care Formula Grants

Ryan White HIV/AIDS Part C

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

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

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial statement Findings

10-4

Client Records (Revised & Repeated)

Condition:

We reviewed forty (40) client files for compliance under the grant agreement with the NM Department of Health and found the following exceptions:

- 14 records were missing signed consent & release form.
- 2 records were missing signed grievance procedures.
- 1 record had no proof of residency.
- 1 record where the driver license was expired.
- 1 record where the scanned driver license was unreadable.
- 1 record was missing re-enrollment form.
- 1 record was missing access enrollment form

The NM Department of Health also performed an audit of client records on November 8, 2011 and a follow-up internal review by the Center case managers on April 11, 2012, and found improvements on eight out of nine criteria tested under the grant agreement. Two criteria tested did not improve or meet standards (A Patient Care Conference was completed within 4 to 7 months of the most recent ACCESS application; If client has received housing services funded under the HMA Provider agreement, an action plan and/or housing plan to manage these expenses through other sources including self- management is developed and in file.).

Criteria:

The Provider Agreement with the NM Department of Health requires that the Center maintain an individual client record/chart which will include at a minimum, fourteen (14) items described in the agreement.

Cause:

Original client files scanned into the electronic medical system may be incomplete or unreadable.

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:

The Center is upgrading our scanning system and developing a secondary review process to ensure that all files are readable and complete.

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial statement Findings

12-1
340B Drug Program

Condition:

The Center has a total of three clients who are on the Medicaid program. We obtained a report from the pharmacy for all 340B drugs dispensed during the fiscal year and found 1 patient on Medicaid also received drugs dispensed out of the 340B program, which total \$82.75 during the year.

Criteria:

Section 340B(a)(5)(A) of the PHSA required the Secretary of HHS to establish a mechanism to ensure that manufacturers did not pay a "duplicate discount" on a drug claim. A "duplicate discount" would occur if an entity received a **340B discount** and a **Medicaid rebate** were provided on the same drug. The mechanism that the Secretary established to comply with the legislation's mandate to prohibit duplicate discounts is a part of the Office of Pharmacy Affairs database called the Medicaid Exclusion File.

Cause:

The Center distinguishes between Medicaid and non-Medicaid clients with an asterisk in front of the patient name. Due to program limitations in the QS1 system (program used to approve, dispense and maintain pharmacy inventory), the program did not prevent Medicaid clients from dispensing drugs out of the 340B program. The pharmacy director indicated that the patient did receive non-340B drugs, but it caused differences in the inventory for 340B & non-340B drugs.

Effect:

Variances exist between 340B and non-340B drugs. In addition, the Center could have received duplicate discount for 340B drugs plan and Medicaid drug plan.

Recommendation:

Due to limited number of Medicaid clients, the pharmacy needs to be more careful on dispensing drugs to Medicaid clients.

Response:

The pharmacy staff will investigate additional options to assist in identifying Medicaid patients to ensure 340b medications will not be dispensed to Medicaid patients.

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial statement Findings

12-2

Acknowledgement Letter

Condition:

The Center sends acknowledgement letters for full face value to individuals sponsoring the gala event or purchasing tickets to the Kentucky Derby. The letter stated no goods or services were exchanged for the donation even though donors did receive direct benefits (food, drinks, facility, etc) for attending these events.

Criteria:

Tickets to special events with stated value of \$75 or more should disclose direct benefits received by donors per IRS regulations.

Cause:

Tickets to the special events did not state the direct benefit received from donors.

Effect:

Non-compliance with IRS regulations. Donors may be inclined to deduct the full face value of the ticket as a charitable contribution.

Recommendation:

The Center should disclose direct benefits received by donors attending special events either on the face of the ticket or in the acknowledgement letters.

Response:

The Blackbaud system that we are now using allows us to make automatic benefit calculations and the receipt is attached to the bottom of the acknowledgement letter.

Every donor receives a letter regardless of the amount. Letters over \$75.00 will have a receipt showing if any benefits were received.

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial statement Findings

12-3
Fixed Asset

Condition:

The Center currently does not have a centralized location to receive assets, tag them, and assign them to individuals or departments. In addition, assets under the capitalization amount of \$500 were not tagged. As a result, some iPads were missing or stolen and not discovered until after the fact.

Criteria:

Proper internal controls require management to maintain custody and account for all assets.

Cause:

Fixed assets are not tagged.

Effect:

More assets could have been missing and not noticed by management.

Recommendation:

The Center may need to assign an individual to be responsible for all fixed assets. The fixed asset manager should ensure that all assets are tagged, serialized, disposed properly, maintain a depreciation schedule, and perform a physical inventory annually.

Response:

SCC has retained a contractor to assist with the procurement of all new inventory and tagging of all current assets, as well as, new software to track and maintain those assets from both location and cost standpoint. Further, all assets will be tracked in the Blackbaud system to capture appropriate depreciation on a monthly basis as well as in an IT related system so the Center is aware of where items are located and who is using them.

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial statement Findings

12-4
Deposit

Condition:

A financial specialist that prepares the deposit also takes the deposit to the bank; there is no secondary verification. There is no way for the Center to verify that all money collected is also deposited.

Criteria:

Proper internal controls will prevent the same person that prepares the deposit to also deliver the deposit to the bank.

Cause:

Control procedures over cash receipts were poorly designed.

Effect:

Money could have been missing and not noticed by management.

Recommendation:

We recommend that separation of duties be implemented so that the person that prepares the deposit does not also deliver the deposit to the bank. The Center should also have procedures in place to ensure that money collected at various departments get deposited in a timely manner.

Response:

Now that proper staffing levels have been achieved in the department these duties have been separated. One person opens mail and prepares the deposit, a different verifies the items to be deposited, and a third person then takes the deposit to the bank.

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial statement Findings

12-5

Reconciliation of Donor Database to the General Ledger

Condition:

The Center uses the Sage donor database that currently is not reconciled to the accounting system to ensure accuracy.

Criteria:

Proper internal controls require reconciliation between the subsidiary systems and the accounting system.

Cause:

The current development director does not have confidence in the reports generated from Sage.

Effect:

Revenue classifications between donor contributions and special events may not be accurate.

Recommendation:

The Center should always reconcile the subsidiary systems to the accounting system to ensure accuracy in financial reporting.

Response:

With the purchase and implementation of Blackbaud Financial Edge and Raisers Edge software the record keeping between the donor database and accounting system will be fully integrated.

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial statement Findings

12-6

In-Kind Contributions

Condition:

The Center did not record in-kind contributions for financial reporting. The amounts are recorded through an audit adjustment. The Center did not have procedures in place to document the value of in-kind contributions received.

Criteria:

Donated goods should be recorded at fair value, and donated services that enhance nonfinancial assets or require specialized skills should also be recorded at fair value.

Cause:

The Center has difficulty obtaining documents for in-kind contributions from vendors.

Effect:

The actual values of in-kind contributions received may differ from the amounts recorded in the financial statements.

Recommendation:

In-kind goods and services received should be valued, documented and posted to the accounting system in a timely manner.

Response:

In Kind contributions are being recorded in the Blackbaud system. All In Kind donors will receive a letter acknowledging their contribution to the Center. Copies of the letters are kept in a binder in the Development Dept. The Development Department is requesting invoices from all donors. The amount recorded is what is stated on the invoice.

Finance and Development will work within the integrated Financial Edge and Raisers Edge software to account for and reconcile in-kind contributions.

SOUTHWEST C.A.R.E. CENTER
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section III – Federal Awards Findings

12-7

Reporting Requirement

Questioned Costs: \$8,612

Program: HIV Care Formula Grants
CFDA #: 93.917
US Department of Health and Human Services,
Pass-through from New Mexico Department of Health
Grant #: 12IDBHIV0109

Condition:

This pass-through grant was received from the New Mexico Department of Health and partially funded (35%) by the Department of Health and Human Services. We reviewed five monthly reimbursement reports and found reports for May and June were overstated by \$23,366 and \$1,179, respectively. The supporting documentation for services provided to clients during these months did not agree to the amounts requested for reimbursement.

Criteria:

The Center has to submit monthly invoices to the Department of Health no later than the 5th of each month for services rendered in the previous month.

Cause:

The submission requirement for invoicing to the Department of Health for services rendered is an issue for the Center. Services provided to clients toward the end of the month may not be reflected on the current reimbursement report, and the Center has to invoice those unbilled services in the following months.

Effect:

The Center may need to refund the Department of Health for the questioned cost.

Recommendation:

The Center should reconcile monthly reimbursement reports to services provided to clients posted in the CareWare system to ensure the accuracy of amounts invoiced.

Response:

The Director of CQM will ensure that FY13 CAREWare reports match the invoiced amounts exactly, (both the initial bill amounts and the revised bill amounts based on DOH denials).

SOUTHWEST C.A.R.E. CENTER

Summary Schedule of Prior Year Audit Findings

June 30, 2012

10-4	Client Records	Revised & Repeated
11-1	Data Collection Form	Resolved
11-2	Eligibility	Resolved

SOUTHWEST C.A.R.E. CENTER

Exit Conference

June 30, 2012

The contents of this report were discussed with the Finance Committee at a scheduled meeting on January 9, 2013.