

**AMPLA HEALTH**

**FINANCIAL REPORT**

**Year Ended June 30, 2012 and 2011**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Ampla Health  
Yuba City, California

We have audited the accompanying statements of financial position of Ampla Health (a non-profit organization), as of June 30, 2012, and the related statements of activity, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2011 financial statements, and was audited by other auditors whose report dated October 26, 2011, expressed an unqualified opinion on those statements.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ampla Health, 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 September 25, 2012 on our consideration of Ampla Health's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Ampla Health, 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 also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Oliver & Konrad, LLP*

September 25, 2012

**AMPLA HEALTH**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2012 and 2011**

	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 1,706,933	\$ 2,602,446
Patient accounts receivable - net of allowances of \$514,520 in 2012 and \$891,932 in 2011	2,702,079	2,147,974
Grants and contributions receivable	469,088	436,694
Estimated amounts due from third-party payers	1,215,321	230,000
Other receivable	1,136,926	105,760
Investments internally designated for reserves	980,000	860,000
Investments restricted for bond service and reserve	1,598,153	1,594,212
Supplies inventory	271,770	215,237
Prepaid expenses	365,214	408,243
Deferred financing costs	525,424	557,107
Property and equipment - net	14,436,717	13,520,362
<b>Total assets</b>	<b>\$25,407,625</b>	<b>\$22,678,035</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 907,647	\$ 1,020,431
Estimated amounts due to third-party payers	838,720	-
Accrued expenses	2,228,088	2,329,054
Long-term debt	8,717,301	8,939,613
<b>Total liabilities</b>	<b>12,691,756</b>	<b>12,289,098</b>
<b>Net Assets</b>		
Unrestricted		
Undesignated	12,678,469	10,369,808
Temporarily restricted	37,400	19,129
<b>Total net assets</b>	<b>12,715,869</b>	<b>10,388,937</b>
<b>Total liabilities and net assets</b>	<b>\$25,407,625</b>	<b>\$22,678,035</b>

The accompanying notes are an integral part of this statement.

**AMPLA HEALTH**  
**STATEMENTS OF ACTIVITY**  
**For the Years Ended June 30, 2012 and 2011**

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
<b>Unrestricted Net Assets</b>				
<i>Support</i>				
Net patient revenue	\$ 27,212,832	\$ -	\$ 27,212,832	\$ 27,094,683
Grant revenue	6,753,493	25,650	6,779,143	7,814,088
Contribution revenue	14,150	6,750	20,900	19,479
Other income	1,347,384	-	1,347,384	29,969
Net assets released from restriction	14,129	(14,129)	-	-
Total support	35,341,988	18,271	35,360,259	34,958,219
<b>Expenses</b>				
<i>Program services</i>	27,610,583	-	27,610,583	29,783,326
<i>Supporting services</i>	5,422,744	-	5,422,744	5,073,061
Total expenses	33,033,327	-	33,033,327	34,856,387
<b>Changes in Net Assets</b>	<b>2,308,661</b>	<b>18,271</b>	<b>2,326,932</b>	<b>101,832</b>
<b>Net Assets, Beginning of year</b>	<b>10,369,808</b>	<b>19,129</b>	<b>10,388,937</b>	<b>10,287,105</b>
<b>Net Assets, end of year</b>	<b>12,678,469</b>	<b>\$ 37,400</b>	<b>\$ 12,715,869</b>	<b>\$ 10,388,937</b>

The accompanying notes are an integral part of this statement.

**AMPLA HEALTH**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash Flows From Operating Activities</b>		
Change in net assets	<b>\$ 2,326,932</b>	\$ 101,832
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	<b>770,701</b>	700,793
Provision for bad debt	<b>256,490</b>	571,923
Amortization of deferred issuance cost	<b>31,683</b>	31,683
 (Increase) decrease in operating assets		
Patient accounts receivable	<b>(810,590)</b>	814,865
Grants and contributions receivable	<b>(32,394)</b>	14,404
Estimated amounts due from third-party payers	<b>(985,321)</b>	268,138
Other receivable	<b>(1,031,166)</b>	102,059
Supplies Inventory	<b>(56,533)</b>	57,701
Prepaid expenses	<b>43,029</b>	27,988
Increase (decrease) in operating liabilities		
Accounts payable	<b>(112,784)</b>	197,193
Estimated amounts due to third-party payers	<b>838,720</b>	-
Accrued expenses	<b>(100,966)</b>	(888,615)
<b>Net cash provided by operating activities</b>	<b>\$ 1,137,801</b>	\$ 1,999,964

The accompanying notes are an integral part of this statement.

**AMPLA HEALTH**  
**STATEMENTS OF CASH FLOWS**  
**(Continued)**  
**For the Years Ended June 30, 2012 and 2011**

	2012	2011
Net cash provided by operating activities	<b>\$ 1,137,801</b>	\$ 1,999,964
Cash flows from investing activities		
Proceeds from disposition of investments	-	1,000,000
Purchase of property and equipment	<b>(1,472,861)</b>	(3,214,842)
Net cash used by investing activities	<b>(1,472,861)</b>	(2,214,842)
Cash flows from financing activities		
Net transfers (to) from bond debt service funds	<b>(3,941)</b>	(5,949)
Cash transferred to internally designated reserve	<b>(120,000)</b>	(120,000)
Repayment of principal on long-term debt	<b>(436,512)</b>	(674,575)
Net cash used by financing activities	<b>(560,453)</b>	(800,524)
<b>Net decrease in cash and cash equivalents</b>	<b>(895,513)</b>	(1,015,402)
<b>Cash and cash equivalents at beginning of year</b>	<b>2,602,446</b>	3,617,848
<b>Cash and cash equivalents at end of year</b>	<b>\$ 1,706,933</b>	\$ 2,602,446
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest Paid	<b>\$ 425,466</b>	\$ 448,556
<b>Non-Cash Financing Activities</b>		
Financed purchase of real estate	<b>\$ 214,200</b>	\$ -

The accompanying notes are an integral part of this statement.

**AMPLA HEALTH**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Years Ended June 30, 2012**

	<b>Medical Services</b>	<b>Dental Services</b>	<b>Health Education &amp; Community Services Programs</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Total Program and Support Services</b>
<b>Expenses:</b>						
Salaries & benefits	\$ 16,860,045	\$ 3,435,463	\$ 1,326,429	\$ 21,621,937	\$ 3,353,426	\$ 24,975,363
Supplies	823,357	325,216	49,371	1,197,944	104,935	1,302,879
Contractual	1,675,709	322,142	12,436	2,010,287	536,848	2,547,135
Insurance	30,862	6,859	709	38,430	168,470	206,900
Bad debts (recovery)	183,687	(42,345)	34,157	175,499	80,991	256,490
Other operating expenses	948,356	172,579	50,977	1,171,912	823,568	1,995,480
Depreciation	488,945	142,480	28,004	659,429	111,272	770,701
Interest	259,898	69,420	-	329,318	96,148	425,466
Travel	26,868	27,592	40,805	95,265	129,229	224,494
Space cost	134,181	46,767	129,614	310,562	17,857	328,419
<b>Total Expenses</b>	<b>\$ 21,431,908</b>	<b>\$ 4,506,173</b>	<b>\$ 1,672,502</b>	<b>\$ 27,610,583</b>	<b>\$ 5,422,744</b>	<b>\$ 33,033,327</b>

The accompanying notes are an integral part of this statement.

**AMPLA HEALTH**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Years Ended June 30, 2011**

	<b>Medical Services</b>	<b>Dental Services</b>	<b>Health Education &amp; Community Services Programs</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Total Program and Support Services</b>
<b>Expenses:</b>						
Salaries & benefits	\$ 17,149,425	\$ 3,784,592	\$ 1,686,847	\$ 22,620,864	\$ 3,409,636	\$ 26,030,500
Supplies	920,943	384,611	70,887	1,376,441	121,824	1,498,265
Contractual	2,209,492	337,366	19,271	2,566,129	464,619	3,030,748
Insurance	20,278	7,012	1,673	28,963	176,743	205,706
Bad debts (recovery)	476,585	95,338	-	571,923	-	571,923
Other operating expenses	992,091	176,547	60,059	1,228,697	576,722	1,805,419
Depreciation	420,984	144,225	23,775	588,984	111,809	700,793
Interest	301,259	72,602	-	373,861	74,695	448,556
Travel	54,050	34,747	50,442	139,239	115,045	254,284
Space cost	159,095	11,196	117,934	288,225	21,968	310,193
<b>Total Expenses</b>	<b>\$ 22,704,202</b>	<b>\$ 5,048,236</b>	<b>\$ 2,030,888</b>	<b>\$ 29,783,326</b>	<b>\$ 5,073,061</b>	<b>\$ 34,856,387</b>

The accompanying notes are an integral part of this statement.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Organization***

Ampla Health, is a not-for-profit organization, operating under the provisions of Section 501(c)(3) of the Internal Revenue code. The purpose of the Organization is to provide health and education services to low income families and seasonal and migrant agricultural workers and their families who reside in California's Northern Sacramento Valley. In addition to patient service revenues from Medicare, Medi-Cal and private sources, the Organization also receives funding from federal grants. The Organizations primarily earns revenues by providing physician and related health care services through clinics located in Yuba, Sutter, Glenn, Butte, and Colusa counties in California.

***Summarized Financial Information***

The financial statements include certain prior-year summarized comparative information in the total but no by net asset class. Such information does not include sufficient information to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements as of June 30, 2011.

***Basis of Accounting and Presentation***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor imposed stipulations. Investment earnings are recorded as unrestricted net assets for certain temporarily restricted funds in accordance with the Organization's spending rule and for certain funds in accordance with donor stipulations.

*Temporarily restricted net assets* – Net assets subject to donor imposed stipulations that will be met either by actions of the Organization and /or passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor imposed stipulations are maintained by the Organization in perpetuity. There were no permanently restricted net assets during the year.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Revenue Recognition***

The Organization has agreements with third-party payers that provide for payment amounts, which differ from its standard charges. A summary of major payment arrangements is as follows:

*Patient service revenue* – Approximately 78% of the Organization’s revenues are from patients who are covered by Medicare, Medi-Cal, or third-party insurance carriers. These payers limit payment for services based upon their respective schedules of usual, customary, and reasonable fees. An allowance for contractual adjustments results from the difference between the payment based on the usual, customary, and reasonable fee and the Organization’s standard charge. The allowance is recorded as a deduction from patient revenues. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*Federal funding* – The Organization participates in the Medi-Cal and Medicare programs as a Federally Qualified Health Center (“FQHC”), which provides for cost reimbursement as an all-inclusive provider. This program provides reimbursement at a single rate for all types of services provided by the Organization on an encounter reporting basis.

*Sliding fee scales* – The Organization provides discounted medical, dental, and optometry services to self-pay patients on a sliding fee scale based on the patient’s gross income. Sliding fee discounts for self-pay patients for the years ended June 30, 2012 and 2011, total \$2,470,606, and \$2,059,962, respectively, and are included in the accompanying statement of activities.

*Grants and contributions* – The Organization receives grants from federal agencies, the State of California, as well as contributions from private organizations. Government grants are reimbursed base on the actual expenses incurred or units of services provided. Revenue from these grants is recognized either when expenses are incurred or when services are provided. Revenue recognition depends on the grant award agreements. Contribution revenue is reported when cash is received, unconditional promises are made, or ownership of other assets is transferred to the organization. Contributions may be restricted for either specific operating purposes or for capital purposes.

*Donations* – Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Noncash donations are recorded at their estimated fair values at the date of donation. Donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are reported as donated services.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

***Functional Allocation of Expenses***

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

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The Organization provides for estimated losses on accounts receivable based on prior bad debt experience and generally does not charge interest on past due balances. Past due status is based upon the date of services provided. Uncollectible receivables are charged-off when deemed uncollectible. Recoveries from previously charged-off accounts are recorded when received.

***Cash and Cash Equivalents***

The Organization considers all highly liquid investments, with original maturities of three months or less to be cash and cash equivalents.

***Restricted and Designated Investments***

Restricted and designated investments primarily include investments held by trustees under indenture agreements and designated assets set aside by the Board of Directors for specific purposes including future capital improvements over which the Board of Directors retains control and may at its discretion subsequently use for other purposes.

***Investments***

All investments in money market funds are measured at fair value in the statements of financial position. Investment income or loss is included in unrestricted net assets unless their use is temporarily or permanently restricted by donor or law. Unrealized gains and losses on investments are included in changes in unrestricted net assets unless the income or loss is restricted by donor or law.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

***Patient Accounts Receivable***

The Organization reports patient accounts receivable for services rendered at estimated net realizable amounts from third-party payers, patients and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivables are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

***Supplies Inventory***

The Organization states office and medical supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

***Property and Equipment***

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the improvements.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Cost or maintenance and repairs are charged to expense as incurred. Estimated usefully lives are as follows:

Buildings	5 - 30 years
Furniture and fixtures	7 years
Equipment	3 - 7 years

The Organization evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 1. Summary of Significant Accounting Policies (Continued)**

***Income Taxes***

The Organization is a nonprofit corporation under the internal Revenue Code Section 501 (c)(3) and has been granted tax-exempt status by the Internal Revenue Service and the California Revenue and Taxation Code. As of June 30, 2012, the Organization had no unrecognized tax positions or uncertain tax positions requiring accrual. Therefore, no provision for income taxes has been provided in the financial statements.

The Organization's federal Exempt Organization income Tax Returns (Form 990) for 2012, 2011, 2010 and 2009 are subject to examination by the IRS, generally for three years after they were filed.

***Reclassifications***

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

***Subsequent Events***

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 25, 2012, the date the financial statements were available to be issued.

**Note 2. Investments**

Investments consist of the following:

	<b>2012</b>		<b>2011</b>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Money market mutual funds	\$ 994,984	\$ 994,984	\$ 991,043	\$ 991,043
Money market accounts with brokers	1,639,347	1,639,347	\$ 1,969,160	\$ 1,969,160
Total Investments carried at fair value	<u>\$ 2,634,331</u>	<u>\$ 2,634,331</u>	<u>\$ 2,960,203</u>	<u>\$ 2,960,203</u>
Restricted for bond service & reserve	\$ 1,598,153	\$ 1,598,153	\$ 1,594,212	\$ 1,594,212
Internally designated for board reserve	980,000	980,000	860,000	860,000
Investments considered cash equivalents	56,178	56,178	505,991	505,991
Total Investments carried at fair value	<u>\$ 2,634,331</u>	<u>\$ 2,634,331</u>	<u>\$ 2,960,203</u>	<u>\$ 2,960,203</u>

The Organization measures fair value at the price that would be received upon sale of an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 2. Investments (Continued)**

Authoritative guidance establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values, requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

The Organization's endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of the financial instruments in accordance with the guidance's pricing levels as of:

	<b>As of June 30 2012</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds:				
Money market mutual funds	\$ 994,984	\$ 994,984	\$ -	\$ -
Money market fund accounts with brokers	1,639,347	1,639,347	-	-
Total Investments carried at fair value	\$2,634,331	\$2,634,331	\$ -	\$ -
	<b>As of June 30 2011</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds:				
Money market mutual funds	\$ 991,043	\$ 991,043	\$ -	\$ -
Money market fund accounts with brokers	1,365,991	1,365,991	-	-
Total Investments carried at fair value	\$2,357,034	\$2,357,034	\$ -	\$ -

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 2. Investments (Continued)**

Investments in money market mutual funds and money market accounts with brokers are valued using market prices on active markets (Level 1). Level 1 instrument valuation are obtained from real-time quotes for transactions in active exchange markets.

The Organization did not have any Level 2 or Level 3 investments.

**Note 3. Property and Equipment**

The following is a summary of property and equipment at cost less, accumulated depreciation:

	<u>2012</u>	<u>2011</u>
Nondepreciable:		
Land	\$ 2,243,995	\$ 1,937,995
Construction in progress	1,613,063	2,897,314
Depreciable		
Buildings and improvements	15,757,188	13,293,282
Equipment	<u>5,631,770</u>	<u>5,430,369</u>
	25,246,016	23,558,960
Less accumulated depreciation	<u>10,809,299</u>	<u>10,038,598</u>
	<u>\$ 14,436,717</u>	<u>\$ 13,520,362</u>

Depreciation expense was \$770,701 and \$700,793 for the years ended June 30, 2012 and 2011 respectively.

**Note 4. Line of Credit**

The Organization had an unsecured \$1,000,000 line of credit available at June 30, 2012. The Organization had no borrowings against this line of credit as of June 30, 2012.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 5. Long-Term Debt**

Long-term debt consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
California Statewide Communities Development Authority Insured Health Facility Revenue Bonds, Series 2003A; collateralized by real estate of the location; due in annual principal payments and monthly interest payment at 4.50%; this includes an unamortized original issue discount of \$126,042 and \$118,874 for 2012 and 2011 respectively; the debt agreement requires a defined level of debt service coverage to be maintained; matures December 2028. Payment of principal and interest of the Revenue Bonds is insured by the Office of Statewide Health Planning and Development of the State of California through The California Health Facility Construction Loan Insurance Program.	\$ 6,726,126	\$ 6,983,958
California Statewide Communities Development Authority Certificate of Participation; secured by a pledge of the Organization's gross revenues; due in annual principal payments and monthly interest payments at 4%; the debt agreement requires a defined level of debt service coverage to be maintained; matures August 2020. Payment of principal and interest of the Certificate of Participation is insured by the Office of Statewide Health Planning and Development of the State of California through The California Health Facility Construction Loan Insurance Program.	645,000	700,000
Note payable to California Health Facilities Financing Authority, monthly installments of \$6,809, including interest at 3%, maturing at October 1, 2022. This note is secured by real estate and the Organization's gross revenues. The principal of this loan was used to refund the Series 1994B Revenue Bonds previously held by the Organization.	716,245	775,497

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 5. Long-Term Debt (Continued)**

	<u>2012</u>	<u>2011</u>
Note payable to the United States Department of Agriculture ("USDA") Rural Development, quarterly installments of \$14,960, including interest at 5.00%, maturing at October 10, 2019. Secured by real estate.	\$ 380,959	\$ 419,809
Note payable to the Boardenkircher Family Trust, monthly installments of \$2,500, including interest at 7.00% until May 30, 2017 at which time all outstanding principal and accrued interest of \$124,673 is due. Secured by real estate.	212,950	-
Note payable to Kronos Incorporated, monthly installments of \$1,063 including interest at 9%, maturing December 1, 2013. Secured by a equipment.	<u>36,021</u>	<u>60,349</u>
	\$ 8,717,301	\$ 8,939,613
Less current portion	<u>(466,874)</u>	<u>(435,260)</u>
	<u>\$ 8,250,427</u>	<u>\$ 8,504,353</u>

Long-term debt repayments due in each of the next five fiscal years are:

<u>Year Ending June 30,</u>	
2013	\$ 457,988
2014	467,630
2015	481,850
2016	506,243
2017	530,815
Thereafter	<u>6,274,787</u>
	<u>\$ 8,719,313</u>

**Note 6. Compliance with Financial Covenants**

Under the terms of the Regulatory Agreement by and between the Organization, and the Office of Statewide Health Planning and Development of the State of California (OSHPD), Cal-Mortgage Loan Insurance Division the Organization is subject to financial covenants on debt which include a current ratio, minimum days of cash-on-hand and debt service coverage ratio requirements. The Organization was in compliance with all of these debt covenants as of and for the year ended June 30, 2012.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 7. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2012</u>	<u>2011</u>
Healthcare services	\$ 37,399	\$ 19,129

Net assets were released from donor restrictions as follows:

	<u>2012</u>	<u>2011</u>
Purpose of restriction accomplished:		
Expenses incurred and services provided to satisfy donor/grant restrictions	\$ 14,129	\$ 33,861

**Note 8. Operating Lease Commitments**

The Organization has various building, storage and equipment leases that are classified as operating leases.

Total rent expense was 316,570 and 310,190 for the years ended June 30, 2012 and 2011 respectively.

Future minimum lease payments under the non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

2013	\$134,537
2014	49,911
2015	41,664
Thereafter	13,249

**Note 9. Employee Retirement Plan**

The Organization has a defined contribution profit-sharing plan covering substantially all of its employees. Employees qualify based on age and hours of service. Employees are fully vested after three years. The amount of the contribution is determined annually by the Board of Directors. Pension Plan expense was \$0 for the years ended June 30, 2012 and 2011.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 10. Concentration of Credit Risk**

Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of bank demand deposit in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance thresholds, cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds, and various debt and equity investments in excess of the Securities Investor Protection Corporation (“SIPC”) insurance threshold. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market and credit risk. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the statement. The risk associated with the investments is mitigated through diversification.

Credit risk related to patient accounts receivable arises from the granting of credit without collateral to patients, most of whom are residents of counties that the Organization serves in the State of California.

The mix of receivables from patients and third-party payers at June 30, 2012 and 2011, is:

	<u>2012</u>	<u>2011</u>
Medicare	24%	41%
Medi-Cal	42%	14%
Other third-party payers	34%	45%
	<u>100%</u>	<u>100%</u>

**Note 11. Commitments & Contingencies**

***Medi-Cal Audit***

As a result of the California Department of Health Services (the State) audit of the Organization’s fiscal year 2010 Medi-Cal Cost Reconciliation Report, the State is requesting the return of \$1,019,135 in Medi-Cal funding. The Organization is in agreement with \$281,671 of this balance and has reported this balance as part of accounts payable. The remaining balance of \$737,464 has not been recorded and is currently being contested by the Organization.

**AMPLA HEALTH**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended June 30, 2012 and 2011**

**Note 11. Commitments & Contingencies (Continued)**

***Equipment Purchase Commitment***

In June 2012, the Organization entered into an agreement to purchase Electronic Medical Records software system in the amount of \$231,175.

***Regulatory***

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Organization is subject to similar regulatory review will not have a material adverse effect on the Organization's financial position.

**Note 12. Health Care Reform**

In 2010 the Health Care Reform Legislation was signed into law. The New law will result in sweeping changes across the health care industry. The primary goal of this legislation is to extend health care coverage to uninsured legal U.S. residence through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. The Organization is unable to predict the full impact of the Health Care Reform Legislation at this time due to the Law's complexity and current lack of regulations and or interpretive guidance. However, the Organization, expects that several provisions of the Health Care Reform Law will have material effect on its business.

**Note 13. Subsequent Event**

In July 2012, the Organization entered into an agreement for the construction for the renovation of the Chico Clinic in the amount of \$1,626,344.

## **SUPPLEMENTAL INFORMATION**

**AMPLA HEALTH  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA No.	Grant/ Agency No.	Federal Ex-
<i>U.S. Department of Agriculture</i>			
Passed through California Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants & Children (WIC)	10.557	08-85434	\$ 378,191
Special Supplemental Nutrition Program for Women, Infants & Children (WIC)	10.557	11-10432	930,559
Passed through Central Valley Health Network			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	10-10037	<u>29,170</u>
<i>Total U.S. Department of Agriculture</i>			<u>1,337,920</u>
<i>U.S. Department of Health &amp; Human Services</i>			
Consolidated Health Centers	93.224	H80CS00765-10	2,022,000
Consolidated Health Centers	93.224	H80CS00765-11	180,944
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H764A00794-09	350,121
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H764A00794-10	118,638
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	C8ACS21236-01	1,159,062
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	C8BCS24006-01	9,803
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Progr	93.527	H80CS00765-10	1,330,305
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Progr	93.527	H80CS00765-11	<u>120,629</u>
Subtotal Direct Programs			<u>5,291,502</u>
Passed through California Department of Health Services			
HIV Care Formula Grants	93.917	10-95308	<u>118,972</u>
Subtotal Passed-Through Programs			<u>118,972</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>5,410,474</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 6,748,394</u>

See accompanying notes to schedule of expenditures of federal awards.

**AMPLA HEALTH  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**Note A. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Ampla Health and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**AMPLA HEALTH  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2012**

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There were no audit findings noted in the June 30, 2011 audit

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Ampla Health  
Yuba City, California

We have audited the financial statements of Ampla Health, as of and for the year ended June 30, 2012, and have issued our report thereon dated May 14, 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**

In planning and performing our audit, we considered Ampla Health'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 Ampla Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

## Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, board of directors, management, 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.

*Ostergren & Konrad, LLP*

September 25, 2012

## Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS**  
**APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL**  
**OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Ampla Health  
Yuba City, California

### Compliance

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

In our opinion, Ampla Health 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.

## Internal Control Over Compliance

Management of Ampla Health 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 Ampla Health'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 Ampla Health's internal control over compliance.

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

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a significant deficiency.

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

This report is intended solely for the information and use of the audit committee, board of directors, management, 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.

*Oliver & Konrad, LLP*

September 25, 2012

**AMPLA HEALTH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**SUMMARY OF AUDITOR'S RESULTS**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

-Material weakness(es) identified?  yes  no  
 -Significant deficiency(s) identified?  yes  none reported

Noncompliance material to financial statements noted?

yes  no

**Federal Awards**

Internal control over major programs:

-Material weakness(es) identified?  yes  no  
 -Significant deficiency(s) identified?  yes  none reported

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

Any audit findings disclosed that are Required to be reported in accordance with Section 510(a) of OMB Circular A-133?

yes  no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

93.224	Consolidated Health Centers
93.526	ACA Capital Development in Health Centers
93.527	ACA New & Expanded Services Under Health Cntr Program
93.917	HIV Care Formula Program

Dollar threshold used to distinguish between type A and type B programs

\$ 300,000

Auditee qualified as low-risk auditee?

yes  no

**AMPLA HEALTH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**MAJOR FEDERAL AWARDS PROGRAM AUDIT**

*United States Department of Health and Human Services*

<b>2012-1</b>	<b><i>Procurement Standards</i></b>	<b>CFDA #</b>
	<i>Consolidated Health Centers – Grant No. H80CS00765-10; Project Period 6/1/2011 to 6/30/2012</i>	<b>93.24</b>
	<i>ACA Grants for New &amp; Expanded Services under the Health Center Program – Grant No. H80CS00765-10; Project Period 6/1/2011 to 6/30/2012</i>	<b>93.527</b>
	<i>ACA Grants for Capital Development in Health Centers – Grant No. C8ACS21236-01; Project Period 10/1/2010 to 9/30/2011</i>	<b>93.526</b>
	<i>ACA Grants for Capital Development in Health Centers – Grant No. C8BCS224006-01; Project Period 5/1/12 to 4/30/2014</i>	<b>93.526</b>

***Criteria***

All organizations receiving federal funding are required to follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110. (revised September 30, 1999), Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C - Post-Award Requirements sections .40 to .48 Procurement Standards, which set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property and other services with Federal funds. These standards are furnished to ensure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal statutes and executive orders.

These procurement standards require the recipient of federal funding to establish written procurement procedures which provide at a minimum the following:

- (1) Recipients avoid purchasing unnecessary items.
- (2) Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government.

**AMPLA HEALTH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**MAJOR FEDERAL AWARDS PROGRAM AUDIT (Continued)**

***Finding 2012-1 Procurement Standards (Continued)***

(3) Solicitations for goods and services over \$25,000 provide for all of the following.

(i) A clear and accurate description of the technical requirements for the material, product or service to be procured. In competitive procurements, such a description shall not contain features which unduly restrict competition.

(ii) Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals.

(iii) A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.

(iv) The specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation.

(v) The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the metric system of measurement.

(vi) Preference, to the extent practicable and economically feasible, for products and services that conserve natural resources and protect the environment and are energy efficient.

All contracts, awarded by recipient including small purchases, shall contain the provisions of **Debarment and Suspension (E.O.s 12549 and 12689)** - No contract shall be made to parties listed on the General Services Administration's List of Parties Excluded from Federal Procurement or Nonprocurement Programs in accordance with E.O.s 12549 and 12689, "Debarment and Suspension." This list contains the names of parties debarred, suspended, or otherwise excluded by agencies, and contractors declared ineligible under statutory or regulatory authority other than E.O. 12549. Contractors with awards that exceed the small purchase threshold shall provide the required certification regarding its exclusion status and that of its principal employees.

***Description of Condition***

The Organization currently requires all purchases greater than \$5,000 (other than accumulated orders of supplies) is subject to competitive bidding; however, our review of procedures disclosed that this process was not always being followed in addition, the Organization does not have procedures in place to assure contracts are not awarded to contractors listed under Debarment and Suspension.

**AMPLA HEALTH  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**MAJOR FEDERAL AWARDS PROGRAM AUDIT (Continued)**

***Finding 2012-1 Procurement Standards (Continued)***

***Effects of Condition and Questioned Costs***

Not following prescribed procedures, may result in acquisitions, such as materials and services to be obtained in an ineffective manner and in non-compliance with the provisions of applicable Federal statutes and executive orders. This finding did not result in any questioned costs.

***Response:***

Ampla Health belongs to purchasing groups that offer significant reduced prices. These purchasing groups are created for the specific purpose of providing savings to their members. In all cases the prices through the groups are so low, that rather than wasting time in going for bids that we know beforehand will result in higher prices, we stay with the purchasing groups. Due to changes in personnel, adherence to the Organization's policies was not well documented but we have made changes to assure our current policies are followed and documented.

The issue of checking the contractors listed under Debarment and Suspension, were corrected immediately and documented and filed in a separate binder for future use and verification.