

# **Family Health Centers of San Diego, Inc.**

San Diego, California

## **Financial Statements and Independent Auditor's Report**

*For the year ended June 30, 2012*

## **Single Audit Report**

*For the year ended June 30, 2012*



**PUN & McGEADY** LLP  
Certified Public Accountants and Business Advisors



# Family Health Centers of San Diego, Inc.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California

We have audited the accompanying balance sheets of the Family Health Centers of San Diego, Inc. ("Health Center"), a California not-for-profit organization, as of June 30, 2012, and the related statement of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Health Center's 2011 financial statements were audited by other auditors, whose report dated November 30, 2011 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Health 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 November 9, 2012, on our consideration of the Health 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 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.

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California  
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Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

*For  $\frac{1}{2}$  Mc Geady LLP*

San Diego, California  
November 9, 2012

## **FINANCIAL STATEMENTS**

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**Family Health Centers of San Diego, Inc.**  
**Statements of Financial Position**  
**June 30, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	15,983,240	\$ 19,257,266
Investments	1,135,757	1,049,674
Patient accounts receivable, net of contractual allowance in the amount of \$2,400,089 and \$4,679,217 at June 30, 2012 and 2011, respectively	6,802,843	2,886,592
Grants and contracts receivable	3,218,016	3,359,738
Other receivable	970,945	7,935
Inventories	246,305	353,364
Prepaid items	565,126	518,205
Other assets	-	214,480
<b>Total current assets</b>	<b>28,922,232</b>	<b>27,647,254</b>
<b>Noncurrent assets:</b>		
Deposits	130,344	112,010
Property and equipment, net	47,246,147	40,304,324
Deferred charges	20,801	21,895
<b>Total noncurrent assets</b>	<b>47,397,292</b>	<b>40,438,229</b>
<b>Total assets</b>	<b>\$ 76,319,524</b>	<b>\$ 68,085,483</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 2,072,858	\$ 3,459,234
Accrued expenses	4,284,295	5,008,551
Accrued tax liabilities	20,000	10,300
Deferred revenue	37,957	32,450
Long term debt, current	82,917	78,590
<b>Total current liabilities</b>	<b>6,498,027</b>	<b>8,589,125</b>
<b>Noncurrent liabilities:</b>		
Long term debt, net of current portion	3,232,484	3,315,402
<b>Total noncurrent liabilities</b>	<b>3,232,484</b>	<b>3,315,402</b>
<b>Total liabilities</b>	<b>9,730,511</b>	<b>11,904,527</b>
<b>Net Assets:</b>		
Unrestricted	65,377,832	55,029,818
Temporarily restricted	1,211,181	1,151,138
<b>Total net assets</b>	<b>66,589,013</b>	<b>56,180,956</b>
<b>Total liabilities and net assets</b>	<b>\$ 76,319,524</b>	<b>\$ 68,085,483</b>

See accompanying Notes to Financial Statements.

**Family Health Centers of San Diego, Inc.**  
**Statements of Activities**  
**For the years ended June 30, 2012 and 2011**

	2012	2011
<b>CHANGE IN UNRESTRICTED NET ASSETS:</b>		
<b>Revenue and other support:</b>		
Net patient service revenue	53,516,893	\$ 47,323,175
Grant revenue:		
Federal	17,897,509	16,747,598
State	-	117,366
County	10,803,672	9,962,469
City	767,514	368,114
Other	874,874	506,191
Net assets released from restrictions - programs	887,301	843,487
Donated services and materials	470,168	533,361
Other	2,476,421	1,241,594
	<b>87,694,352</b>	<b>77,643,355</b>
<b>Expenses:</b>		
Salaries and Benefits	55,733,545	50,032,225
Contractual Medical Services	5,659,813	6,071,833
Medical and Pharmaceutical Supplies	5,066,611	3,514,519
Space Costs	2,767,419	2,897,010
Lab Fees	743,580	874,886
Other Expenses	2,235,792	2,086,892
Interest Expense	183,025	235,809
Taxes on Unrelated Business Income	20,000	10,300
Depreciation	1,954,100	1,827,647
Office and Educational Supplies	929,480	1,087,999
Communication	533,913	545,766
Minor Equipment	1,233,214	641,475
Insurance	285,846	255,823
	<b>77,346,338</b>	<b>70,082,184</b>
<b>Change in unrestricted net assets:</b>		
From operations	5,530,235	5,359,730
From grants for purchase of long-lived assets	4,837,775	2,201,440
<b>Change in unrestricted net assets</b>	<b>10,348,014</b>	<b>7,561,171</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	947,344	767,034
Net assets released from restrictions - programs	(887,301)	(843,487)
<b>Changes in temporarily restricted assets</b>	<b>60,043</b>	<b>(76,453)</b>
<b>Increase in net assets</b>	<b>10,408,057</b>	<b>7,484,718</b>
<b>NET ASSETS:</b>		
Beginning of year	56,180,956	48,696,238
End of year	<b>\$ 66,589,013</b>	<b>\$ 56,180,956</b>

See accompanying Notes to Financial Statements.

**Family Health Centers of San Diego, Inc.**  
**Statements of Cash Flows**  
**For the years ended June 30, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 10,408,057	\$ 7,484,718
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,954,100	1,827,647
Loss on disposal of property and equipment	-	-
Change in operating assets and liabilities:		
Patient accounts receivable	(3,916,251)	2,335,367
Grants and contracts receivable	141,722	173,153
Other receivable	(963,010)	23,069
Inventories	107,059	(89,728)
Prepaid items and deposits	(65,255)	275,882
Estimated third party payor settlement receivable	-	-
Due from FHCS Foundation	-	-
Other assets	214,480	(83,218)
Deferred charges	1,094	1,075
Accounts payable	(1,386,376)	852,361
Accrued expenses	(724,256)	630,840
Accrued tax liabilities	9,700	7,463
Deferred revenue	5,507	29,264
<b>Net cash provided by operating activities</b>	<b>5,786,571</b>	<b>13,467,893</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(8,895,923)	(4,513,555)
Acquisition of investments	(86,083)	(186,013)
<b>Net cash used in investing activities</b>	<b>(8,982,006)</b>	<b>(4,699,568)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(78,591)	(1,011,733)
<b>Net cash provided by (used in) by financing activities</b>	<b>(78,591)</b>	<b>(1,011,733)</b>
<b>Increase in cash and cash equivalents</b>	<b>(3,274,026)</b>	<b>7,756,592</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	19,257,266	11,500,674
End of year	<b>\$ 15,983,240</b>	<b>\$ 19,257,266</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	<b>\$ 177,604</b>	<b>\$ 181,931</b>
Amortization of deferred charges	<b>\$ 1,094</b>	<b>\$ 1,094</b>

See accompanying Notes to Financial Statements.

**Family Health Centers of San Diego, Inc.**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2012**

	Program Services									
	Adults, Specialties & General Medicine	Pediatrics	Family Planning & OB/GYN	Vision Care	Pediatric Development Services	Pharmacy	Laboratory	Mental Health	Dental	
<b>Expenses:</b>										
Salaries and Benefits	\$ 12,991,779	\$ 2,581,451	\$ 7,371,856	\$ 392,520	\$ 3,037,399	\$ 276,099	\$ 1,950,378	\$ 3,292,744	\$ 3,371,753	
Contractual Medical Services	274,121	220,323	22,724	-	2,044,273	36,721	-	362,082	28,766	
Medical and Pharmaceutical Supplies	1,733,887	234,551	538,901	58,384	1,178	458,547	1,372,798	75,898	323,185	
Space Costs	138,949	37,407	68,923	5,955	6,996	10,380	53,862	81,481	81,210	
Lab Fees	70,476	27,780	6,499	42,784	180	-	457,927	-	137,994	
Other Expenses	1,461,325	23,731	244,913	78	331,170	43,229	167,728	389,702	27,496	
Interest Expense	-	-	-	-	-	-	-	-	-	
Taxes on Unrelated Business Income	-	-	-	-	-	-	-	-	-	
Depreciation	-	-	-	-	-	-	29,617	-	-	
Office and Educational Supplies	111,777	23,345	99,893	3,169	38,994	7,984	16,884	39,291	48,500	
Communication	9,151	1,605	3,725	-	935	-	714	23,445	8,473	
Minor Equipment	422,561	54,307	81,482	16,870	38,763	124	4,609	62,336	50,768	
Insurance	-	-	-	-	-	-	-	-	-	
<b>Total expenses</b>	<b>\$ 17,214,026</b>	<b>\$ 3,204,500</b>	<b>\$ 8,438,916</b>	<b>\$ 519,760</b>	<b>\$ 5,499,888</b>	<b>\$ 833,084</b>	<b>\$ 4,054,517</b>	<b>\$ 4,326,979</b>	<b>\$ 4,078,085</b>	

(Continued)

**Family Health Centers of San Diego, Inc.**  
**Statement of Functional Expenses, Continued**  
**For the year ended June 30, 2012**

	Program Services						Management & General			
	Health	Homeless	Medical	Registration	Total	Facility	Admin	Fundraising	Total	
	Education	Records	Program	Services	Management & General	Fundraising	Total			
<b>Expenses:</b>										
Salaries and Benefits	\$ 3,108,165	\$ 630,669	\$ 1,874,411	\$ 921,621	\$ 41,800,845	\$ 1,925,803	\$ 11,472,397	\$ 534,500	\$ 13,398,200	\$ 55,733,545
Contractual Medical Services	535,189	1,163,956	-	-	4,688,155	493,020	447,191	31,447	940,211	5,659,813
Medical and Pharmaceutical Supplies	225,932	43,350	-	-	5,066,611	-	-	-	-	5,066,611
Space Costs	183,063	1,377	31,853	8,142	709,598	1,618,030	437,612	2,179	2,055,642	2,767,419
Lab Fees	-	-	-	-	743,580	-	-	-	-	743,580
Other Expenses	893,431	474,393	4,495	3,341	4,065,032	268,449	(2,137,615)	39,926	(1,869,166)	2,235,792
Interest Expense	-	-	-	-	-	-	183,025	-	183,025	183,025
Taxes on Unrelated Business Income	-	-	-	-	-	-	20,000	-	20,000	20,000
Depreciation	-	-	-	-	29,617	1,913,564	10,006	913	1,923,570	1,954,100
Office and Educational Supplies	110,004	3,031	44,633	23,615	571,120	53,102	297,442	7,816	350,544	929,480
Communication	11,027	-	80	61	59,216	134,745	339,115	837	473,860	533,913
Minor Equipment	72,709	1,054	48,705	5,689	859,977	4,518	366,476	2,243	370,994	1,233,214
Insurance	-	1,090	-	-	1,090	202,596	82,160	-	284,756	285,846
<b>Total expenses</b>	<b>\$ 5,139,520</b>	<b>\$ 2,318,920</b>	<b>\$ 2,004,177</b>	<b>\$ 962,469</b>	<b>\$ 58,594,841</b>	<b>\$ 6,613,827</b>	<b>\$ 11,517,809</b>	<b>\$ 619,861</b>	<b>\$ 18,131,636</b>	<b>\$ 77,346,338</b>

(Concluded)

**Family Health Centers of San Diego, Inc.**  
**Statement of Functional Expenses**  
**For the year ended June 30, 2011**

	Program Services									
	Adults, Specialties & General Medicine	Pediatrics	Family Planning & OB/GYN	Vision Care	Pediatric Development Services	Pharmacy	Laboratory	Health	Mental	Dental
<b>Expenses:</b>										
Salaries and Benefits	\$ 11,847,140	\$ 2,200,407	\$ 6,551,423	\$ 385,076	\$ 2,671,438	\$ 284,829	\$ 1,684,170	\$ 2,708,877	\$ 3,187,654	
Contractual Medical Services	234,689	234,937	27,701	-	2,072,315	22,470	362	285,060	31,361	
Medical and Pharmaceutical Supplies	513,994	124,530	561,353	45,783	966	483,270	1,311,471	16,156	264,639	
Space Costs	285,367	58,676	57,575	4,393	167,297	12,750	27,497	82,528	87,871	
Lab Fees	108,550	29,562	3,466	64,313	-	-	477,114	-	191,881	
Other Expenses	1,358,597	22,907	285,690	2,729	292,079	36,338	16,342	304,773	28,476	
Interest Expense	-	-	-	-	-	-	-	-	-	
Taxes on Unrelated Business Income	-	-	-	-	-	-	-	-	-	
Depreciation	-	-	-	-	-	-	-	-	-	
Office and Educational Supplies	132,104	28,113	98,992	5,385	54,311	13,583	128,658	38,675	39,163	
Communication	13,162	4,157	4,297	-	19,419	-	517	25,807	8,000	
Minor Equipment	79,217	8,254	66,050	1,834	21,427	1,439	24,672	25,669	42,032	
Insurance	-	-	-	-	-	-	-	-	-	
<b>Total expenses</b>	<b>\$ 14,572,820</b>	<b>\$ 2,711,543</b>	<b>\$ 7,656,547</b>	<b>\$ 509,513</b>	<b>\$ 5,299,252</b>	<b>\$ 854,679</b>	<b>\$ 3,670,803</b>	<b>\$ 3,487,545</b>	<b>\$ 3,881,077</b>	

(Continued)

**Family Health Centers of San Diego, Inc.**  
**Statement of Functional Expenses, Continued**  
**For the year ended June 30, 2011**

	Program Services					Management & General				
	Health Education	Homeless	Medical Records	Registration	Program Services	Facility	Admin	Management & General	Fundraising	Total
<b>Expenses:</b>										
Salaries and Benefits	\$ 2,964,505	\$ 619,567	\$ 1,633,684	\$ 655,688	\$ 37,994,458	\$ 1,673,091	\$ 10,461,880	\$ 12,134,971	\$ 502,796	\$ 50,032,225
Contractual Medical Services	500,644	1,328,996	-	-	4,738,535	427,340	905,519	1,332,859	439	6,071,833
Medical and Pharmaceutical Supplies	121,476	46,213	-	-	3,489,851	-	24,668	24,668	-	3,514,519
Space Costs	206,479	7,190	36,585	204	1,034,412	1,323,624	536,432	1,860,056	2,542	2,897,010
Lab Fees	-	-	-	-	874,886	-	-	-	-	874,886
Other Expenses	935,713	523,419	4,973	244	3,812,280	136,859	(1,884,308)	(1,747,449)	22,061	2,086,892
Interest Expense	-	-	-	-	-	-	235,809	235,809	-	235,809
Taxes on Unrelated Business Income	-	-	-	-	-	-	10,300	10,300	-	10,300
Depreciation	-	-	-	-	-	1,827,647	-	1,827,647	-	1,827,647
Office and Educational Supplies	102,095	5,941	64,270	17,770	729,060	52,768	293,102	345,870	13,069	1,087,999
Communication	13,401	600	108	-	89,468	85,584	370,714	456,298	-	545,766
Minor Equipment	50,419	1,095	13,169	2,659	337,996	29,438	273,513	302,951	588	641,475
Insurance	-	764	-	-	764	131,315	123,744	255,059	-	255,823
<b>Total expenses</b>	<b>\$ 4,894,732</b>	<b>\$ 2,533,785</b>	<b>\$ 1,752,789</b>	<b>\$ 676,565</b>	<b>\$ 52,501,650</b>	<b>\$ 5,687,666</b>	<b>\$ 11,351,373</b>	<b>\$ 17,039,039</b>	<b>\$ 541,495</b>	<b>\$ 70,082,184</b>

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**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements**  
**For the years ended June 30, 2012 and 2011**

**1. ORGANIZATION**

Family Health Centers of San Diego, Inc. ("Health Center"), a California not-for-profit organization was organized and incorporated in May 1973, for the purpose of providing affordable, high quality health care services to all persons in San Diego. The Health Center, formerly known as the Logan Heights Family Health Center, serves individuals at all income levels, with a special commitment to low income, uninsured individuals.

The Health Center provides health services at the following locations:

1. Beach Area Family Health Center
2. Chase Avenue Family Health Center
3. Chula Vista Family Health Center
4. City Heights Family Health Center
5. Diamond Neighborhoods Family Health Center
6. Downtown Family Health Center
7. Elm Street Family Health Center
8. Grossmont Spring Valley Family Health Center
9. Lemon Grove Family Health Center
10. Logan Heights Family Counseling Center
11. Logan Heights Family Health Center
12. North Park Family Health Center
13. Sherman Heights Family Health Center, and
14. Teen Health Center

In 1998, the mobile medical unit, referred to as KidCare Express, commenced operations at various school sites and parks. Currently, the Health Center operates three mobile medical units.

The Health Center derives its support through grants and contracts with the U.S. Department of Health and Human Services, the State of California, the County of San Diego, and other grantors. Additionally, revenues are derived from patient fees and third-party charges.

In connection to the purchase of a property located at 7592 Broadway, Lemon Grove, California 91945, the Health Center established FHC Lemon Grove LLC, a Delaware Limited Liability Partnership on July 21, 2009. The FHC Lemon Grove, LLC was created as a Single Purpose Entity for the purpose of owning and utilizing the property and assuming the indebtedness of an obligation of the seller. Family Health Center Lemon Grove, LLC was dissolved on May 18, 2011.

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Presentation

The financial statements of the Health Center have been prepared to present the financial position, results of activities and cash flows in accordance with the American Institute of Certified Public Accountants *Accounting and Audit Guide for Health Care Entities*.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting that records revenues when earned and expenses when incurred.

Net Assets

Net assets are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Temporarily restricted net assets consist of contributed funds, subject to specific donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before the Health Center may spend the funds. Temporarily restricted donations for fixed assets are released when the assets are placed into service.

Permanently restricted net assets are subject to irrevocable donor restrictions, requiring that the principle be maintained in perpetuity. At June 30, 2012 and 2011, the Health Center did not have any permanently restricted net assets.

Net Patient Service Revenue

Net patient service revenue is reported at the Health Center's established rates adjusted for sliding fee discounts at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Revenue recognized for services rendered to Medicare program beneficiaries is recorded and paid based on a cost-per-visit. The administrative procedures related to this program generally preclude final determination of amounts due to or from the Health Center until an annual cost report, filed by the Health Center, is audited or otherwise reviewed and approved by the applicable administrative agency. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Revenue reported for services to Medi-Cal program covered patients is based upon the Prospective Payment System (PPS), which has been adopted by the State of California since 2001. The Health Center's initial rate for PPS in July 2001 was its cost per visit rate as of June 30, 2000, subsequently adjusted by the Medical Economic Index (MEI) annually and any approved change-in-scope requests.

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted depending on the nature of the donor's restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

Grant Revenue and Deferred Revenue

The policy of the Health Center is to recognize revenue from all contracts to the extent of eligible costs incurred up to an amount not to exceed the total contract authorized. Deferred revenues result from revenue received from contracts that are applicable to a subsequent period.

Charity Care

The Health Center provides care without charge or at amounts less than its established rates to patients who meet certain criteria. Because the Health Center does not pursue collection of amounts determined to qualify as sliding fee scale discounts, such amounts are not reported as revenue in the accompanying statements of activities. Charges foregone for services furnished by the Health Center totaled \$4,688,801 and \$4,665,898 for years ended June 30, 2012 and 2011, respectively.

Donated Services and Materials

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Health Center. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Inventories

The Health Center's inventories are comprised of medical, dental, laboratory, pharmaceutical, and office supplies. Inventories are carried at the lower of cost or market value on the first-in, first-out basis.

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Property and Equipment

Property and equipment are recorded at cost. The Health Center capitalizes all acquisitions equal to or greater than \$5,000. Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

	<u>Years</u>
Buildings	15-30
Improvements	15-30
Equipment, furniture, and fixtures	3-10

Income Taxes

The Health Center has been recognized as a not-for-profit organization under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701(d) and is exempt from Federal and California income taxes on related income. For the years ended June 30, 2012 and 2011, the Health Center generated revenue from an unrelated business activity and was taxed accordingly. See Note 15 for details.

Effective July 1, 2009, the Health Center adopted newly issued guidance on *Accounting for Uncertainty in Income Taxes*. Under this new guidance, the Health Center utilizes a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement.

As a result of the adoption of *Accounting for Uncertainty in Income Taxes*, the Health Center did not recognize an increase or decrease in the liability for unrecognized tax benefits related to tax positions taken in prior periods; therefore, there was no corresponding adjustment to unrestricted net assets. Additionally, for the year ended June 30, 2012, there were no additional liabilities recorded for unrecognized tax benefits related to tax positions taken in the current year. The Health Center considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes.

There were no accruals for interest and penalties related to uncertain tax positions at the inception date or for the year ended June 30, 2012.

The Health Center has determined that its major tax jurisdictions are the United States and California. The tax years of 2006, 2007, 2010 and 2011 remain open and subject to examination by the appropriate governmental agencies in the United States or California.

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Fair Value of Financial Instruments

The Health Center uses certain methods and assumptions in estimating its fair value disclosures for financial instruments. Fair value of investments can be measured based on the following levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1, that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 inputs are unobservable inputs for the assets.

For cash and cash equivalents, the Health Center uses the carrying amounts, which approximate fair value due to their short maturity.

For long-term investments, fair values of investments were obtained based on quoted market prices at the closing of the last business day of the year from the respective major U.S. exchanges where such publicly traded equity securities are traded.

For long-term debt borrowings, the fair values are estimated using discounted cash flow analysis, based on the Health Center's current incremental borrowing rates for similar types of borrowing arrangements. As of June 30, 2012 and 2011, the fair values of long-term debt borrowings were not considered to be materially different from the recorded values.

Use of Estimates

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

Reclassification

Certain items from the prior year have been reclassified to conform to the current year presentation.

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**3. CASH AND INVESTMENTS**

At June 30, cash and investments consisted of the following:

	2012	2011
<b>Cash and cash equivalents</b>		
Cash deposits	\$ 15,852,054	\$ 19,126,410
Money market funds	131,186	130,856
<b>Total cash and cash equivalents</b>	15,983,240	19,257,266
<b>Investments</b>	1,135,757	1,049,674
<b>Total cash and investments</b>	\$ 17,118,997	\$ 20,306,940

Cash Deposits

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of less than three months at purchase. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The carrying amounts of cash deposits were \$15,852,054 and \$19,126,410 at June 30, 2012 and 2011, respectively, which were fully insured and/or collateralized with securities held by the pledging financial institutions in the Health Center's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Health Center's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Health Center's name.

The fair value of pledged securities must equal at least 110% of the Health Center's cash deposits. California law also allows institutions to secure the Health Center's deposits by pledging first trust deed mortgage notes having a value of 150% of the Health Center's total cash deposits. The Health Center may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Health Center, however, has not waived the collateralization requirements.

Investments

At June 30, investments, at fair value, consisted of the following:

	2012			2011		
	Amount Invested	Percentage of Investments	Measurement Input	Amount Invested	Percentage of Investments	Measurement Input
Certificate of Deposits	\$ 755,997	66.56%	Level 1	\$ 755,516	71.98%	Level 1
Equities	379,760	33.44%	Level 1	294,158	28.02%	Level 1
<b>Total investments</b>	\$ 1,135,757	100.00%		\$ 1,049,674	100.00%	

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**4. PATIENT ACCOUNTS RECEIVABLE**

At June 30, patient accounts receivable consisted of the following:

	2012		
	Receivable	Contractual Allowance	Net
Fee for service	\$ 3,600,885	\$ 879,110	\$ 2,721,775
Medi-Cal	2,562,063	(84,889)	2,646,952
Patients	1,987,607	1,291,336	696,271
SOFP	476,988	191,660	285,328
Medicare	575,389	122,872	452,517
<b>Total</b>	<b>\$ 9,202,932</b>	<b>\$ 2,400,089</b>	<b>\$ 6,802,843</b>

	2011		
	Receivable	Contractual Allowance	Net
Fee for service	\$ 2,512,007	\$ 1,542,329	\$ 969,678
Medi-Cal	1,454,372	207,481	1,246,891
Patients	2,731,635	2,487,425	244,210
SOFP	317,013	155,189	161,824
Medicare	550,782	286,793	263,989
<b>Total</b>	<b>\$ 7,565,809</b>	<b>\$ 4,679,217</b>	<b>\$ 2,886,592</b>

**5. GRANTS AND CONTRACTS RECEIVABLE**

At June 30, grants and contracts receivable consisted of the following:

	2012	2011
Federal grants	\$ 526,273	\$ 1,042,730
State grants	-	61,500
County grants	2,446,228	1,982,436
Other grants and contracts	245,515	273,072
<b>Total grants and contracts receivable</b>	<b>\$ 3,218,016</b>	<b>\$ 3,359,738</b>

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**6. PROPERTY AND EQUIPMENT**

A summary of property and equipment at June 30, 2012 and 2011 is as follows:

	2012	2011
Land	\$ 15,212,593	\$ 10,581,308
Construction in progress	1,045,133	3,782,782
Works of art	39,585	39,585
Buildings	37,791,802	31,606,016
Equipment	9,112,754	8,347,586
Software	1,139,673	1,110,244
Automobiles	140,625	118,729
Leasehold improvements	355,814	355,814
	64,837,979	55,942,064
Accumulated depreciation	(17,591,832)	(15,637,740)
<b>Total property and equipment</b>	<b>\$ 47,246,147</b>	<b>\$ 40,304,324</b>

Depreciation expense was \$1,954,100 and \$1,827,647 for the years ended June 30, 2012 and 2011, respectively.

**7. LONG-TERM DEBT**

A summary of changes in long-term debt for the fiscal year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Current Portion	Long-Term Portion
<i>Notes Payable:</i>						
2008 Promissory note payable - Union Bank	\$ 1,928,324	\$ -	\$ (49,261)	\$ 1,879,063	\$ 51,821	\$ 1,827,242
2010 Promissory note payable - Union Bank	1,465,668	-	(29,330)	1,436,338	31,096	1,405,242
<b>Total long term debt</b>	<b>\$ 3,393,992</b>	<b>\$ -</b>	<b>\$ (78,591)</b>	<b>\$ 3,315,401</b>	<b>\$ 82,917</b>	<b>\$ 3,232,484</b>

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**7. LONG-TERM DEBT, Continued**

*2008 Promissory Note Payable – Union Bank*

On March 12, 2008, the Health Center issued a promissory note to Union Bank in the amount of \$2,062,500. The note bears an interest rate of 5.08%. The purpose of the note was to purchase property for the Chula Vista Clinic location. At June 30, 2012, the outstanding balance of the note was \$1,879,063.

The annual debt service requirements for the note outstanding at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 51,821	\$ 94,261	\$ 146,082
2014	54,516	91,566	146,082
2015	57,351	88,731	146,082
2016	60,333	85,749	146,082
2017	63,470	82,612	146,082
2018-2033	1,591,572	731,760	2,323,332
<b>Total</b>	<b>\$ 1,879,063</b>	<b>\$ 1,174,679</b>	<b>\$ 3,053,742</b>

*2010 Promissory Note Payable – Union Bank*

On April 1, 2010, the Health Center issued a promissory note to Union Bank in the amount of \$1,500,000. The note bears an interest rate of 5.86%. The purpose of the note was to purchase property for the Lemon Grove Clinic location. At June 30, 2012, the outstanding balance of the note was \$1,436,338.

The annual debt service requirements for the note outstanding at June 30, 2012 are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 31,096	\$ 83,342	\$ 114,438
2014	32,967	81,471	114,438
2015	34,952	79,486	114,438
2016	37,056	77,382	114,438
2017	39,287	75,151	114,438
2018-2020	1,260,980	177,217	1,438,197
<b>Total</b>	<b>\$ 1,436,338</b>	<b>\$ 574,049</b>	<b>\$ 2,010,387</b>

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**8. LEASE COMMITMENTS**

The Health Center has commitments under operating lease agreements. The aggregate future rental costs for which the Health Center is obligated under the agreements are as follows:

Years Ending June 30,	Amount
2013	\$ 329,426
2014	142,190
2015	93,582
2016	93,582
2017	78,212
2018	78,212
2019	78,212
<b>Total</b>	<b>\$ 893,416</b>

Rent expense under various operating leases totaled \$571,498 and \$504,711 for the years ended June 30, 2012 and 2011, respectively. The Health Center has an agreement to use certain real property for the exclusive purpose of providing vehicle parking for the Health Center's employees. No monthly rental payments are required.

**9. LINE-OF-CREDIT**

The Health Center has a line-of-credit with Union Bank in the amount of \$1,000,000, which is set to expire on February 1, 2013. Interest is payable monthly at prime, plus 1 percent (3.25 percent at June 30, 2012) on any outstanding balance. There was no outstanding balance at June 30, 2012 and 2011.

**10. INSURANCE**

The Health Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; job-related illnesses or injuries to employees; and natural disasters for which the Health Center carries commercial insurance. The Health Center purchases commercial insurance to cover the risk of loss for property, business liability, and medical payments.

**11. COMMITMENTS AND CONTINGENCIES**

Grants and Contracts

The Health Center has grants and contracts with government agencies which are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits would not be material.

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**11. COMMITMENTS AND CONTINGENCIES, Continued**

Construction Contracts

The Health Center has signed contracts with various contractors for construction projects. As of June 30, 2012, balances remaining on the contracts were not significant.

Medical Malpractice Claims

The Health Center is deemed to be an employee of the federal government and is covered for malpractice insurance under the Federal Tort Claims Act (FTCA). There are no known claims being managed by the Department of Justice.

Office of the Inspector General Review

On August 29, 2012, the Office of Inspector General (the "OIG") issued a draft report entitled *Family Health Centers of San Diego, Inc., Claimed Unallowable and Inadequately Documented Costs for Health Resources Services Administration ("HRSA") Grants Under the Recovery Act*, which is subject to further review and revision.

The OIG's report alleges that the Health Center claimed for reimbursement from HRSA \$4,425,966 of inadequately documented salaries and salary-related costs. The Health Center is strongly refuting the OIG draft report's allegation and is committed to working with HRSA to resolve any potential issues. The OIG provided a draft copy of their report to HRSA and as of November 9, 2012, HRSA has not communicated their stance to the Health Center. The likelihood of incurring a liability and the potential dollar amount are unable to be determined as of June 30, 2012. As such, no liability has been recorded on the Health Center's financial statements as of June 30, 2012.

**12. RETIREMENT PLAN**

In 1992, the Board of Directors approved a defined contribution retirement plan for the Health Center's employees under Internal Revenue Code 403(b). The plan is designed to provide an incentive for substantially all employees to contribute to a retirement program, as well as provide a benefit to all employees. Plan eligibility begins after one year of service and benefits are vested 100 percent to participants at that time.

The Health Center contributes for employees based on contributions for years of service up to a maximum of 5 percent for both contributions and matching. During the years ended June 30, 2012 and 2011, the Health Center contributed \$1,084,612 and \$858,234, respectively, on behalf of participating employees.

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**13. CONCENTRATION OF CREDIT RISK**

The Health Center is reimbursed for services provided to patients under certain programs administrated by governmental agencies. Revenue from Medicare, Medi-Cal, and other federal, state or county funding sources amounted to approximately 76% and 71% of total revenue for 2012 and 2011, respectively. Laws and regulations governing these programs are complex. The Health Center believes it is in compliance with all the applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from participating in these programs.

	2012	2011
Medicare	\$ 2,263,367	\$ 2,388,804
Medi-Cal	16,807,926	17,671,842
Federal, State & County Grants	29,516,415	27,064,335
Other governmental funding	18,339,993	8,007,286
Subtotal	\$ 66,927,701	\$ 55,132,267
<b>Total unrestricted revenue</b>	<b>\$ 87,694,352</b>	<b>\$ 77,643,355</b>
<b>Percentage</b>	<b>76%</b>	<b>71%</b>

**14. TEMPORARILY RESTRICTED NET ASSETS**

At June 30, temporarily restricted net assets consisted of the following:

	2012	2011
City Heights FHC capital project	\$ 783,592	\$ 624,888
Incest/Sexual Violence Prevention Initiative	-	149,720
Reproductive Health Services	-	60,470
HIV Program	-	69,262
Other program restrictions (less than \$50,000 individually)	427,589	246,798
<b>Total</b>	<b>\$ 1,211,181</b>	<b>\$ 1,151,138</b>

**Family Health Centers of San Diego, Inc.**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2012 and 2011**

**14. TEMPORARILY RESTRICTED NET ASSETS, Continued**

At June 30, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or from satisfying time restrictions as follows:

	<u>2012</u>	<u>2011</u>
City Heights FHC capital project	\$ -	\$ 80,000
Reproductive Health Services	134,103	125,694
Incest/Sexual Violence Prevention Initiative	59,743	124,905
Kaizen Initiative	-	75,819
HIV Program	102,833	136,595
Diabetes Care	94,277	-
Breast Cancer Project	63,128	-
Other program restrictions (less than \$50,000 individually)	<u>433,217</u>	<u>300,474</u>
<b>Total</b>	<u><u>\$ 887,301</u></u>	<u><u>\$ 843,487</u></u>

**15. UNRELATED BUSINESS INCOME**

The Health Center purchased tenant-occupied properties. As a stipulation of the property purchase agreements, the Health Center agreed to honor previously existing lease contracts with the tenants of the purchased properties and generated unrelated business income. The following is a condensed summary of the unrelated business income tax calculation for the years ended June 30, 2012 and 2011:

	<u>Year Ended June 30, 2012</u>	<u>Year Ended June 30, 2011</u>
Unrelated rental income	\$ 189,304	\$ 101,282
Deduct: associated expenses	<u>(102,990)</u>	<u>(57,771)</u>
Taxable unrelated business income	<u><u>\$ 86,314</u></u>	<u><u>\$ 43,511</u></u>
Accrued tax liabilities	<u><u>\$ 20,000</u></u>	<u><u>\$ 10,300</u></u>

**16. SUBSEQUENT EVENTS**

The Health Center has evaluated all events and transactions that occurred after June 30, 2012, and through November 9, 2012, the date the financial statements and accompanying notes to the financial statements were available to be used. During this period, no other events or transactions occurred that would require adjustment of the financial statements or disclosure in the accompanying notes.

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## **SINGLE AUDIT**

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**INDEPENDENT AUDITORS' 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 Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California

We have audited the balance sheet of the Family Health Centers of the San Diego, Inc. ("Health Center"), a California not-for-profit organization, as of June 30, 2012 and the related statements of operations, functional expenses and cash flows for the year then ended, and have issued our report thereon dated November 9, 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 the Health 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 Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Health 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California  
Page Two

This report is intended solely for the information and use of the 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.

*Rudolph Mc Geady LLP*

San Diego, California  
November 9, 2012



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**INDEPENDENT AUDITORS' 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 Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California

**Compliance**

We have audited the Family Health Centers of San Diego, Inc.'s (the Health Center), a California not-for-profit organization, 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 the Health Center's major federal programs for the year ended June 30, 2012. The Health Center's major federal programs are identified in the summary of auditors' 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 the Health Center's management. Our responsibility is to express our opinion on the Health 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 the Health 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 on the Health Center's compliance with those requirements.

In our opinion, the Health Center complied, in all material respects, with the 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 the Health 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 the Health Center's internal control over compliance with 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

To the Board of Directors  
of the Family Health Centers of San Diego, Inc.  
San Diego, California  
Page Two

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 the Health 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.

This report is intended solely for the information and use of the 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.

*Paul J. Mc Geady LLP*

San Diego, California  
November 9, 2012

**Family Health Centers of San Diego, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Expenditures</u>
<b><u>U.S. Department of Health and Human Services:</u></b>			
<b><u>Direct Programs:</u></b>			
Healthy Behaviors in Women	93.110	5 H59MC12789-03-00	\$ 172,070
Mpowerment Outcome Monitoring Project	93.118	5 U65PS002072-02	176,966
<b><u>Health Center Cluster:</u></b>			
Health Center Cluster - Section 330	93.224	H80CS00224-11-03	10,294,769
ACA Grants for School-Based Health Centers Capital Program	93.501	6 C12CS21850-01-02	106,334
ACA Capital Development Grants	93.526	1 C8ACS21259-01-00	2,008,291
ARRA - Health Information Technology Implementation	93.703	4 H2LIT16855-01-01	100,244
ARRA - Health Information Technology Implementation	93.703	1 H2LCS18161-01-00	1,498,097
ARRA - Capital Improvement Program	93.703	6 C81CS13920-01-03	1,282,023
	<b>93.703 Total</b>		<b>2,880,364</b>
Health Care Facilities and Other Construction	93.887	6 C76HF15294-02-02	284,969
Ryan White Part C Outpatient E/S Program	93.918	6 H76HA00150-22-01	37,301
Ryan White Title III HIV Capacity Development	93.918	6 P06HA16523-01-02	755,054
	<b>93.918 Total</b>		<b>792,355</b>
Special Projects of National Significance	93.928	6 H97HA19500-01-01	28,085
HIV Prevention Projects - YMC and YT	93.939	5 U22PS000469-05	280,817
HIV Prevention Projects for CBO	93.939	1 U65PS002617-01	388,080
	<b>93.939 Total</b>		<b>668,897</b>
A Male Family Planning Initiative	93.974	5 FPRPA006042-03-00	214,273
<b><u>Passed Through California Family Health Council, Inc.:</u></b>			
Title X Family Planning Services	93.217	2500-5320-071209-11	268,637
<b><u>Passed Through County of San Diego:</u></b>			
HIV Emergency Relief Project - Outreach Services	93.914	536599	69,481
HIV Emergency Relief Project - Case Management	93.914	537488	527,502
HIV Emergency Relief Project - Counseling and Testing	93.914	524878	47,192
HIV Emergency Relief Project - Ryan White	93.914	517900	892,847
HIV Emergency Relief Project - Minority AIDS Initiative	93.914	523368	343,551
	<b>93.914 Total</b>		<b>\$ 1,880,573</b>

See accompanying notes to schedule at expenditures of federal awards.

**Family Health Centers of San Diego, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards, Continued**  
**For the year ended June 30, 2012**

Federal Grantor/Program Title	CFDA Number	Grant/Contract Number	Expenditures
<b><u>U.S. Department of Health and Human Services, Continued:</u></b>			
<b><u>Passed Through County of San Diego:</u></b>			
HIV Emergency Relief Project - Care Formula Grants	93.917	517900	\$ 227,291
<b><u>Passed Through County of San Diego:</u></b>			
Black Infant Program - Title V	93.994	518297	228,469
<b><u>Passed Through County of San Diego:</u></b>			
Childhood Lead Poisoning Prevention Program	93.778	519753	55,590
Coverage Initiative (SB1448) for Chronic Disease - CAA	93.778	521464	1,945
Low Income Health Program	93.778	523966	511,043
	<b>93.778 Total</b>		<b>568,578</b>
<b><u>Passed Through County of San Diego:</u></b>			
Black Infant Program - Title XIX	93.779	518297	157,288
<b><u>Passed Through County of San Diego:</u></b>			
Substance Abuse and Mental Health Services Administration	93.959	535893	1,208,062
<b><u>Passed Through County of San Diego:</u></b>			
HIV Prevention Activities - Health Department Based	93.940	519828	321,738
HIV Prevention Activities - Health Department Based	93.940	519839	116,574
	<b>93.940 Total</b>		<b>438,312</b>
<b><u>Passed Through County of San Diego:</u></b>			
Expanded HIV Testing in Healthcare Settings	93.943	539516	101,239
<b><u>Passed Through County of San Diego:</u></b>			
Comprehensive STD Prevention Systems	93.977	519839	150,000
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 22,855,822</b>
<b><u>U.S. Department of Housing and Urban Development:</u></b>			
<b>Community Development Block Grant Cluster</b>			
<b><u>Passed through County of San Diego:</u></b>			
Community Development Block Grant	14.218	531402	\$ 31,182
<b><u>Passed through City of San Diego:</u></b>			
Community Development Block Grant	14.218	n/a	590,000
<b><u>Passed through City of Chula Vista:</u></b>			
Community Development Block Grant	14.218	883	10,000
ARRA - Community Development Block Grant	14.253	896	85,080
<b><u>Passed through City of El Cajon:</u></b>			
Community Development Block Grant	14.218	n/a	54,926
<b>Total Community Development Block Grant Cluster</b>			<b>771,188</b>
<b>Total U.S. Department of Housing and Urban Development</b>			<b>771,188</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 23,627,010</b>

See accompanying notes to schedule at expenditures of federal awards.

**Family Health Centers of San Diego, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards, Continued**  
**For the year ended June 30, 2012**

**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal grant activity of the Family Health Centers of San Diego, Inc. ("Health Center") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Health Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Health Center.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where applicable.

**Family Health Centers of San Diego, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2012**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Types of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in Accordance with section 510(a) of OMB Circular A-133	No

Identification of major programs:

<u>Major Program</u>	<u>CFDA Number</u>	<u>Expenditures</u>
ACA Capital Development Grants	93.526	\$ 2,008,291
ARRA - Grants to Health Centers	93.703	2,880,364
Grants to Provide Outpatient Early Intervention Services - HIV	93.918	792,355
HIV Prevention Programs	93.939	668,897
Total Major Program Expenditures		<u>\$ 6,349,907</u>
Total Expenditures of Federal Awards		<u>\$ 23,627,010</u>
Percentage of Total Federal Expenditures		<u>26.88%</u>

Dollar threshold used to distinguish between type A and type B program \$708,810

Auditee qualified as low-risk auditee under Section 530 of OMB Circular A-133? Yes

**Family Health Centers of San Diego, Inc.**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2012**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No financial statement findings were noted.

**SECTION III - FEDERAL AWARD FINDINGS**

**Current Year Findings and Questioned Costs - Major Federal Award Program Audit**

No findings or questioned costs were noted on the Health Center's Major Programs for the year ended June 30, 2012.

**Prior Year Audit Findings and Questioned Costs - Major Federal Award Program Audit**

No findings or questioned costs were noted on the Health Center's Major Programs for the year ended June 30, 2011.