



# Northeast Valley Health Corporation

“Caring for our community’s health.”

**Single Audit Report**  
**Northeast Valley Health Corporation**  
***Year ended December 31, 2014***  
***with Report of Independent Auditors***

An Independently Owned Member  
**McGLADREY ALLIANCE**



 **Vasquez**  
& Company LLP  
Certified Public Accountants and Business Consultants

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**Report of Independent Auditors 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  
Northeast Valley Health Corporation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast Valley Health Corporation (NEVHC), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated May 8, 2015.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Vasquez + Company LLP*

**Los Angeles, California  
May 8, 2015**

**Report of Independent Auditors on Compliance for Each Major Federal Program,  
on Internal Control over Compliance, and on the Schedule of Expenditures  
of Federal Awards Required by OMB Circular A-133**

**Board of Directors  
Northeast Valley Health Corporation**

**Report on Compliance for Each Major Federal Program**

We have audited Northeast Valley Health Corporation's (NEVHC) 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 NEVHC's major federal programs for the year ended December 31, 2014. NEVHC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of NEVHC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NEVHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NEVHC's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Northeast Valley Health Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014



## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2014-001 through 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

NEVHC's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NEVHC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Report on Internal Control over Compliance**

Management of NEVHC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NEVHC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NEVHC'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 a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of Northeast Valley Health Corporation as of and for the year ended December 31, 2014, and have issued our report thereon dated May 8, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

*Vasquez + Company LLP*

**Los Angeles, California  
May 8, 2015**

**Northeast Valley Health Corporation  
Schedule of Expenditures of Federal Awards  
Year ended December 31, 2014**

<u>Federal Grant / Pass-Through Grantor / Program Title</u>	<u>Pass-Through / Grantor's Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>MAJOR PROGRAMS</b>			
<b><u>Department of Health &amp; Human Services</u></b>			
<i>Direct Programs:</i>			
Consolidated Health Centers	N/A	93.224	\$ 10,469,130
Affordable Care Act (ACA) Grants for Capital Development in Health Centers			
Building Capacity	N/A	93.526	3,719,700
Immediate Facility Improvements	N/A	93.526	75,424
		<b>Total major programs</b>	<u>14,264,254</u>
<b>NON-MAJOR PROGRAMS</b>			
<b><u>Department of Agriculture</u></b>			
<i>Pass - through Program:</i>			
Special Supplemental Nutrition Program For Women, Infants and Children	11-10478	10.557	<u>10,815,961</u>
			<u>10,815,961</u>
<b><u>Department of Health &amp; Human Services</u></b>			
<i>Direct Programs:</i>			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	N/A	93.918	460,212
Connecting Kids to Coverage Outreach & Enrollment Program	N/A	93.767	363,278
<i>Pass-through Programs:</i>			
Medical Assistant Program	11-10289	93.778	70,215
Well-Integrated Screening and Evaluation for Women Across the Nation	13-20931	93.094	62,499
Family Planning Services	2694-5320-71209-12	93.217	143,994
HIV Emergency Relief Project Grants - Oral Health Care Services	H-204507	93.914	244,056
HIV Emergency Relief Project Grants - Medical Outpatient Medical Services	PH-002367	93.914	422,447
HIV Emergency Relief Project Grants - Medical Care Coordination Services	PH-002342 / H-209014	93.914	207,377
HIV Emergency Relief Project Grants - Mental Health, Psychotherapy Services	H-210823	93.914	88,755
HIV Emergency Relief Project Grants - Benefits Specialty Services	H-208023	93.914	44,051
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	0054.019.901	93.153	105,169
Health Care Innovation Awards	1C1MS330981-01-00	93.610	69,254
			<u>2,281,307</u>
<b><u>Department of Education</u></b>			
<i>Direct Programs:</i>			
Fund for the Improvement of Education	U215N120052	84.215	<u>38,808</u>
			<u>38,808</u>
		<b>Total non-major programs</b>	<u>13,136,076</u>
		<b>Total federal programs \$</b>	<u><u>27,400,330</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Scope of Presentation**

The accompanying schedule presents only the expenditures incurred by Northeast Valley Health Corporation (NEVHC) that are reimbursable under programs of federal agencies providing financial awards. For the purposes of this schedule, financial awards include federal awards received directly from a federal agency, federal funds received indirectly by NEVHC from a nonfederal agency or other organization. Only the portion of program expenditures reimbursable with such federal and selected state funds is reported in the accompanying schedule. Program expenditures in excess of the maximum reimbursement authorized or the portion of the program expenditures that were funded with other state, local or other nonfederal funds are excluded from the accompanying schedule.

**Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting.

**NOTE 2      PAYMENTS TO SUBRECIPIENTS**

During the year 2014, grants in the amount of \$3,035,387 were passed through to NEVHC's subrecipients under the Consolidated Health Centers Program. This amount is included in the Consolidated Health Center Program's total expenditures in the accompanying schedule of expenditures of federal awards.

**Northeast Valley Health Corporation  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2014**

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**Section I – Summary of Auditors’ Results**

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**Financial Statements**

Type of auditors’ report issued on the financial statements:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to the financial statements noted?	No

**Federal Awards**

Internal control over its major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditors’ report issued on compliance for its major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes (2014-001 through 2014-003)
Dollar threshold used to distinguish between Type A and Type B programs	\$822,010
Auditee qualified as a low-risk auditee?	Yes

**Identification of Major Programs**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	Consolidated Health Centers
93.526	Affordable Care Act (ACA) Grants for Capital Development in Health Centers
	<ul style="list-style-type: none"> <li>• Building Capacity</li> <li>• Immediate Facility Improvements</li> </ul>

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**Section II – Financial Statement Findings**

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None.

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**Section III – Federal Award Findings**

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**Finding No. 2014-001 - Cash Management**

***Federal Program Information***

<i>Federal Catalog Number:</i>	93.224
<i>Federal Program Title:</i>	Consolidated Health Centers
<i>Federal Agency:</i>	Department of Health and Human Services
<i>Pass-Through Entity:</i>	N/A

*Criteria*

Under the Department of Health and Human Services grants policy statement, Federal funds advanced to the recipient should be fully disbursed (checks written, signed, and issued to the payees) by the close of business the next work day after receipt of the funds.

*Condition*

22 out of 25 disbursements to subrecipients were made between 10 days to 41 days from receipt of Federal funds.

*Cause*

The Organization may not be ready to issue the checks when it requested for Federal funds.

*Effect*

The subrecipients will not receive their funds on time and will delay some program activities due to lack of funds.

*Questioned Cost*

None.

*Recommendation*

Prior to requesting for Federal funds, NEVHC should issue the checks payable to the subrecipients and release the checks when the Federal funds are credited to the Organization's operating bank account to comply with the cash management requirement.

*Views of Responsible Officials and Planned Corrective Action*

Management will minimize the lapse of time from receipt of Federal funds to actual disbursements to subrecipients as suggested.

**Finding No. 2014-002 - Reporting**

<i>Federal Catalog Number:</i>	93.224
<i>Federal Program Title:</i>	Consolidated Health Centers
<i>Federal Agency:</i>	Department of Health and Human Services
<i>Pass-Through Entity:</i>	N/A

*Criteria*

Under Notice of Grant Award No. 5 H80CS00139-13-00, Section 4, issued by the Department of Health and Human Services Health Resources and Services Administration (HRSA), the Uniform Data System (UDS) report is due in accordance with specific instructions from the Program Office.

Under the UDS Reporting Instruction issued by HRSA – Bureau of Primary Health Care (BPHC) for the calendar year 2014, UDS reports may be submitted after January 1, 2015 and are initially due by February 15, 2015. Between February 15<sup>th</sup> and March 31<sup>st</sup>, grantees work with their UDS Reviewer to identify and correct potential data errors. Final corrected submission is due by March 31<sup>st</sup> and changes after this date are not accepted.

*Condition*

During our review of the annual UDS report, we noted that the UDS report was submitted on March 20, 2015 which is beyond the initial deadline of February 15, 2015. Even though the final report was submitted before March 31, 2015, final submission deadline as required by BPHC, the initial deadline was not met.

*Questioned costs*

None

*Effect*

Delay in the submission of reports constitutes noncompliance with grant terms and conditions, which may be grounds for sanctions.

*Recommendation*

NEVHC should ensure that required reports are submitted timely and approvals for extensions, if necessary, are obtained, to avoid noncompliance with the reporting requirements.

*Views of Responsible Officials and Planned Corrective Action*

UDS report for 2014 was filed before the March 31, 2015, the final submission deadline by BPHC. NEVHC will continue to make efforts to obtain the necessary data in a timely fashion to file the required report.

**Finding No. 2014-003 - Cash Management**

***Federal Program Information***

<i>Federal Catalog Number:</i>	93.526
<i>Federal Program Title:</i>	ACA Grants for Capital Development in Health Centers
<i>Federal Agency:</i>	Department of Health and Human Services
<i>Pass-Through Entity:</i>	N/A

*Criteria*

Under the Department of Health and Human Services grants policy statement, Federal funds advanced to the recipient should be fully disbursed (checks written, signed, and issued to the payees) by the close of business the next work day after receipt of the funds.

*Condition*

2 out of 15 disbursements to a contractor were made 17 days from the receipt of Federal funds.

*Cause*

The Organization may not be ready to issue the checks when it requested for Federal funds.

*Effect*

The completion of the building construction and renovation may be delayed due to lack of funds.

*Questioned Cost*

None.

*Recommendation*

Prior to requesting for Federal funds, NEVHC should issue the checks payable to the vendors and release the checks when the Federal funds are credited to the Organization's operating bank account to comply with the cash management requirement.

*Views of Responsible Officials and Planned Corrective Action*

Management will minimize the lapse of time from receipt of Federal funds to actual disbursements to vendors as suggested.

**Northeast Valley Health Corporation  
Status of Prior Audit Findings  
Year ended December 31, 2014**

<b>Finding Reference</b>	<b>Condition</b>	<b>Recommendation</b>	<b>Status</b>	<b>Explanation if not fully implemented</b>
Finding 2013-001 Segregation of Duties over Accounts Payable	Accounts payable staff and certain members of finance management have access to process disbursements, such as creating vendors or initiating payment and printing checks	The individual that performs the three-way match should review the sequential order of the check stock in each batch and compare the first check number within the batch to the last check number on the previously reviewed batch to determine if any disbursements have been processed and printed without the appropriate approval.	Implemented	
Finding 2013-002 Recognition of Donated Facilities	NEVHC's December 31, 2013 and 2012 financial statements did not account for or recognize the value of certain donated facilities	Management should continue to complete a valuation based on fair market rates provided by the donor or based on a cost study of comparable facilities should be used by management to annually recognize the fair value of all donated facilities.	Implemented	
Finding 2013-003 Allowable Costs	1 out of 25 payroll expenses tested showed no time study had been completed which would determine if it was completed in accordance with the state contract management binder (CMB) and whether the allocation of charges to the program for the period was consistent with the study.	Management should use the general ledger detail of total payroll charged to the program to develop the population of employees necessary for conducting time studies in accordance with CMB.	Implemented	



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# Northeast Valley Health Corporation

"Caring for our community's health."

**Audited Financial Statements and  
Other Financial Information of  
Northeast Valley Health Corporation  
As of and for the Years ended December 31, 2014 and 2013  
With Report of Independent Auditors**

An Independently Owned Member  
**McGLADREY ALLIANCE**



 **Vasquez**  
& Company LLP  
Certified Public Accountants and Business Consultants

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## Report of Independent Auditors

### The Board of Directors Northeast Valley Health Corporation

#### Report on the Financial Statements

We have audited the financial statements of Northeast Valley Health Corporation (NEVHC) which comprise the statement of financial position as of December 31, 2014, and the related statements, of activities, and cash flows for the year then ended and the related notes to financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Valley Health Corporation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

The financial statements of Northeast Valley Health Corporation for the year ended December 31, 2013 were audited by other auditors whose report dated April 28, 2014 expressed an unmodified opinion on those statements.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as of and for the year ended December 31, 2014 as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis 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 for the year ended December 31, 2014 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for the year ended December 31, 2014 is fairly stated in all material respects, in relation to the financial statements as a whole. The schedule of functional expenses for the year ended December 31, 2013, was audited by other auditors whose report, dated April 28, 2014, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2015 on our consideration of NEVHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the NEVHC's internal control over financial reporting and compliance.

*Vasquez + Company LLP*

**Los Angeles, California  
May 8, 2015**

**Northeast Valley Health Corporation**  
**Statements of Financial Position**

	December 31	
	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 787,831	\$ 415,658
Short-term investments	455,732	455,671
Contracts and grants receivable	4,186,087	2,910,563
Patient accounts receivable, net of allowance for uncollectible accounts of \$485,146 in 2014 and \$602,881 in 2013	2,722,604	2,391,667
FQHC settlements receivable, net of allowance for uncollectible accounts of \$468,955 in 2014 and \$583,169 in 2013	6,610,633	6,325,426
Receivable - others	1,767,447	2,122,308
Inventories	858,490	906,384
Prepaid expenses	332,381	309,663
<b>Total current assets</b>	<b>17,721,205</b>	<b>15,837,340</b>
Property and equipment - net	6,925,656	3,763,269
Deposits	211,261	217,637
<b>Total assets</b>	<b>\$ 24,858,122</b>	<b>\$ 19,818,246</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,078,378	\$ 2,122,821
Accrued employee compensation and benefits	4,713,912	4,324,468
Accrued expenses and contract advances	821,994	640,859
Due to subrecipients	302,782	329,140
Current portion of capital lease obligation	22,238	20,584
Current portion of long-term debt	388,049	369,979
Line of credit	1,550,000	2,000,000
<b>Total current liabilities</b>	<b>9,877,353</b>	<b>9,807,851</b>
<b>Long-term liabilities</b>		
Capital lease obligation, net of current portion	16,517	40,409
Long-term debt, net of current portion	436,478	799,249
<b>Total long-term liabilities</b>	<b>452,995</b>	<b>839,658</b>
<b>Total liabilities</b>	<b>10,330,348</b>	<b>10,647,509</b>
<b>Net assets</b>		
Unrestricted	13,634,962	9,029,255
Temporarily restricted	892,812	141,482
<b>Total net assets</b>	<b>14,527,774</b>	<b>9,170,737</b>
<b>Total liabilities and net assets</b>	<b>\$ 24,858,122</b>	<b>\$ 19,818,246</b>

*See notes to financial statements.*

**Northeast Valley Health Corporation**  
**Statements of Activities**

	Years ended December 31	
	2014	2013
<b>Change in unrestricted net assets</b>		
<b>Unrestricted revenue, gains and other support</b>		
Net patient service revenue	\$ 14,028,635	\$ 14,944,908
Managed care contracts	24,824,294	20,216,561
Contracts and grants	29,259,188	25,296,814
Donated pharmaceuticals	5,058,111	5,062,593
Donated facilities	492,924	464,599
Other income	1,435,596	1,866,273
<b>Total unrestricted revenue, gains and other support before net assets released from restrictions</b>	<b>75,098,748</b>	67,851,748
<b>Net assets released from restrictions</b>		
Restrictions satisfied	359,140	322,256
<b>Total unrestricted revenue, gains and other support</b>	<b>75,457,888</b>	68,174,004
<b>Expenses</b>		
<b>Program services</b>		
Medical services	48,170,281	45,431,028
Other health services	10,899,099	10,850,729
Community services	1,699,765	1,037,873
Pass-through services	3,282,112	3,224,275
<b>Total program services</b>	<b>64,051,257</b>	60,543,905
<b>Supporting services</b>		
Administrative services	6,537,532	6,279,523
Fundraising services	263,392	211,328
<b>Total supporting expenses</b>	<b>6,800,924</b>	6,490,851
<b>Total expenses</b>	<b>70,852,181</b>	67,034,756
<b>Change in unrestricted net assets</b>	<b>4,605,707</b>	1,139,248
<b>Change in temporarily restricted net assets</b>		
Contributions and other support	1,110,470	165,499
Net assets released from restrictions	(359,140)	(322,256)
<b>Change in temporarily restricted net assets</b>	<b>751,330</b>	(156,757)
<b>Change in net assets</b>	<b>5,357,037</b>	982,491
<b>Net assets</b>		
Beginning	9,170,737	8,188,246
Ending	<b>\$ 14,527,774</b>	\$ 9,170,737

See notes to financial statements.

**Northeast Valley Health Corporation**  
**Statements of Cash Flows**  
**Years ended December 31, 2014 and 2013**

	<b>Years ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 5,357,037	\$ 982,491
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Reduction in allowance for doubtful accounts	(231,949)	(225,863)
Depreciation and amortization	599,325	613,281
Donated property and equipment	-	(18,423)
Net change in operating assets:		
Contracts and grants receivable	(1,275,524)	(496,455)
Patient accounts receivable	(213,202)	1,248,326
FQHC settlements receivable	(170,993)	(2,402,468)
Receivable - others	354,861	(359,141)
Inventories	47,894	(110,176)
Prepaid expenses	(22,718)	17,453
Deposits	6,376	(58,092)
Net change in operating liabilities:		
Accounts payable	(44,443)	521,967
Accrued employee compensation and benefits	389,444	570,400
Accrued expenses and contract advances	181,135	293,135
Due to subrecipients	(26,358)	(130,123)
<b>Net cash provided by operating activities</b>	<b>4,950,885</b>	<b>446,312</b>
<b>Cash flows from investing activities</b>		
Purchase of short-term investments	(61)	(92)
Purchase of property and equipment	(3,761,712)	(617,682)
<b>Net cash used in investing activities</b>	<b>(3,761,773)</b>	<b>(617,774)</b>
<b>Cash flows from financing activities</b>		
Proceeds from loan	25,288	-
Payment of capital lease obligation	(22,238)	(5,077)
Payment of long-term debt	(369,989)	(357,507)
Payment of line of credit	(450,000)	(480,481)
<b>Net cash used in financing activities</b>	<b>(816,939)</b>	<b>(843,065)</b>
<b>Change in cash and cash equivalents</b>	<b>372,173</b>	<b>(1,014,527)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>415,658</b>	<b>1,430,185</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 787,831</b>	<b>\$ 415,658</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid during the year	\$ 98,433	\$ 123,024
<b>Supplemental disclosures of noncash operating and investing activities:</b>		
Donated property and equipment	\$ -	\$ 18,423

**NOTE 1 ORGANIZATION AND NATURE OF OPERATIONS**

Northeast Valley Health Corporation (“NEVHC” or the “Organization”) is a not-for-profit corporation supported by federal, state and local grants, private foundation grants and revenues from operations. Organization activities consist of providing quality medical and supportive services to the population of the San Fernando and Santa Clarita Valleys. NEVHC operates 14 primary health care facilities located in San Fernando, Pacoima, North Hollywood, Canoga Park, Sun Valley, Valencia, Van Nuys and Santa Clarita. In addition, NEVHC provides Women, Infant and Children’s (WIC) program and other supportive services at 17 additional locations, and administrative services at 4 locations throughout North Los Angeles County. The Board of Directors governs all of the operations and programs of NEVHC. NEVHC’s underlying philosophy and mission is to provide quality comprehensive health services to the people of the area, regardless of income.

The Organization derives its support from grants and contracts awarded by the United States Department of Health and Human Services (“DHHS”), State of California, and a host of other local governments, private foundations and corporations.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of 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 (U.S. GAAP). 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 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 as of December 31, 2014 and 2013.

**Use of Estimate**

The preparation of financial statements in conformity with U.S. GAAP 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 events and results could differ from those assumptions and estimates.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and in financial institutions, and all highly liquid debt instruments with original maturities of three months or less.

**Short-Term Investments**

Short-term investments consist of certificates of deposit with maturities in excess of 90 days and less than one year. The short term investments are stated at fair value.

**Inventories**

Inventories are composed of supplies and pharmaceuticals and are recorded at the lower of cost or market on a first in, first out basis. Donated pharmaceuticals are recorded at the public health service price, which approximates market value.

**Property and Equipment**

Acquisitions of property and equipment are recorded at cost or, if donated, at fair value at date of donation. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Major improvements and replacements of buildings and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities. Depreciation and amortization is computed on the straight-line method over the following estimated useful lives of the properties:

Equipment and fixtures	3 - 5 years
Computer software	3 - 5 years
Building improvements	7 - 10 years
Buildings	20 - 40 years
Leasehold improvements	shorter of the term of lease or useful life of the asset

Property acquired with federal funds is considered owned by NEVHC while used in the programs for which it was purchased or in other future authorized programs. Its disposition as well as the ownership of any proceeds therefrom is subject to federal regulations. At December 31, 2014 and 2013, net property and equipment included approximately \$6,630,000 and \$3,724,000, respectively, of assets purchased with federal funds.

NEVHC reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2014, there were no events or changes in circumstances that indicate the carrying amount of the property and equipment may not be recoverable.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Donated Facilities**

NEVHC receives the use of certain facilities at no cost and at costs below fair value. NEVHC recognizes the difference between the amount paid for occupancy and the actual fair value as donated facilities. The value of recognized donated facilities was approximately \$493,000 and \$465,000 during the year ended December 31, 2014 and 2013, respectively.

**Revenue Recognition**

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

*Net patient service revenue* - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined.

*Federal funding* - NEVHC participates in the Medicare and Medi-Cal programs as a Federally Qualified Health Center ("FQHC"). Participation in the Medicare program provides for cost reimbursement as an all-inclusive provider, with reimbursement at a single rate for all types of services provided by NEVHC on an encounter reporting basis. Participation in the Medi-Cal program provides for prospectively determined reimbursements as an all-inclusive provider, with reimbursements at prospective payment rates which are unique to each clinical location for all types of services within each location on an encounter reporting basis.

*Sliding fee scales* - NEVHC provides discounted medical, dental, behavioral health and ancillary 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 December 31, 2014 and 2013, total approximately \$8,041,000 and \$9,978,000, respectively, and are included in net patient service revenue in the accompanying statements of activities.

*Managed care contracts* - Payment agreements have been established with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and an independent practice association. Premiums are due monthly (calculated on prospectively determined capitated rates) and are recognized as revenue during the period in which NEVHC is obligated to provide services to its members.

NEVHC has an agreement with an Independent Practice Association (IPA) to provide primary health services to the IPA's HMO members. Under this agreement, NEVHC receives monthly capitation payments based on the number of covered members, regardless of services actually performed by NEVHC. The IPA is financially responsible for all specialty services to covered members.

**NOTE 2           SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

During the year ended December 31, 2014, NEVHC received approximately 39% of its total net revenues from federal and state grants and contracts, 19% from patient fees (primarily Medi-Cal), 34% from managed care contracts, and 8% from other sources. During the year ended December 31, 2013, NEVHC received approximately 37% of its total net revenues from federal and state grants and contracts, 22% from patient fees (primarily Medi-Cal), 31% from managed care contracts, and 10% from other sources.

*Contracts and grants revenue* - Revenue from cost reimbursable grants and contracts is recorded to the extent of expenses incurred applicable to the grant or contract. Any difference between expenses incurred and the total funds received (not to exceed the grant or contract maximum) is recorded as a receivable or an advance whichever is applicable. Revenue from other grants is recognized on an accrual basis as earned according to the provisions of the grant.

*Donor-restricted gifts* - Unconditional promises to give cash and other assets to NEVHC are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is satisfied or met or the gift is received. Gifts received with donor stipulations that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by NEVHC, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

**Functional Allocation of Expenses**

Costs for providing NEVHC's programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited by a method that best measures the relative degree of benefit. NEVHC uses time studies and percentage of use estimates to allocate indirect costs.

**Professional Liability Insurance**

NEVHC is covered under the Federal Tort Claims Act that provides coverage based upon occurrence. Management is not aware of any pending claims that exceed the limitations provided by this coverage.

**Income Taxes**

NEVHC is a nonprofit corporation exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and is generally not subject to federal or state income taxes.

NEVHC recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no uncertain tax positions as of December 31, 2014 and 2013. The Organization's income tax returns remain subject to examination for all tax years ended on or after December 31, 2010 with regard to tax positions and results reported.

**Fair Value Measurements**

NEVHC's financial assets and liabilities include primarily cash and cash equivalents and receivables, accounts payable and accrued liabilities. Because of the short term nature of the cash, receivables, accounts payable and accrued liabilities, the carrying amounts of these assets and liabilities approximate their fair value.

**Reclassifications**

Certain reclassifications have been made to the prior year financial statement presentation to correspond to the current year's presentation. Total net assets and change in net assets are unchanged from these reclassifications.

**NOTE 3      INVESTMENTS**

NEVHC records its investments in accordance with Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value are established as follows:

- Level 1*      Quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
  
- Level 2*      Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuations in which all significant inputs are observable in the market.
  
- Level 3*      Valuation is modeled using significant inputs that are unobservable in the market. These unobservable inputs reflect NEVHC's own estimates of assumptions that market participants would use in pricing the asset or liability.

NEVHC's investments totaling approximately \$456,000 at both December 31, 2014 and 2013 consist of certificates of deposit with original maturities of greater than 90 days and less than one year. These investments have been categorized as Level 2. NEVHC did not have Level 1 or Level 3 investments as of December 31, 2014 and 2013.

**NOTE 4            CONTRACTS AND GRANTS RECEIVABLE**

Contracts and grants receivable are of as follows:

	2014	2013
California Department of Health Services	\$ 2,436,818	\$ 1,587,823
U.S. Department of Health and Human Services	1,005,974	739,647
County of L.A. Department of Health Services	243,259	275,246
Other entities	500,036	307,847
	\$ 4,186,087	\$ 2,910,563

**NOTE 5            PATIENT AND FQHC REVENUES AND RECEIVABLES**

NEVHC receives payment for services rendered from federal, state and local agencies, private insurance carriers, employers, managed care programs, and patients. A summary of the payment arrangements with major third-party payors is as follows:

**Medi-Cal**

NEVHC is reimbursed at prospectively determined rates which are unique to each clinical location for all types of services within each location on an encounter reporting basis. Final settlement is determined after submission of the annual Medi-Cal Reconciliation Request Form to the California Department of Health Care Services (the "Department") for purposes of determining whether it was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits. NEVHC has recorded a receivable for estimated settlements expected to be received for Medi-Cal Reconciliation Request Forms for the years ended December 31, 2008 through 2014. Following submission of the Medi-Cal Reconciliation Request Form, NEVHC will generally receive a tentative settlement from the Medi-Cal program with a final settlement generally made within three years of the date of submission. Department audits for years 2007 and prior have been completed and final settlements received as of December 31, 2014. NEVHC recognized income of approximately \$152,000 and \$635,000 in 2014 and 2013, respectively, related to changes in estimates on prior year settlements.

**Medicare**

NEVHC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by NEVHC and audits thereof by fiscal intermediaries. Final settlements are estimated and recorded in the financial statements in the year in which services are rendered.

For the years ended December 31, 2014 and 2013, revenue from Medi-Cal accounted for approximately 76% and 48%, respectively of net patient revenue. Medicare programs accounted for approximately 5% and 3% of NEVHC's net patient fee revenue for years ended December 31, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**NOTE 5 PATIENT REVENUES AND RECEIVABLES (CONTINUED)**

**Healthy Families Program**

NEVHC is reimbursed under a prospective payment system for services provided to patients under the State Healthy Families Program that transitioned to Medi-Cal in 2013. NEVHC has approximately \$267,000 receivable under this program as of December 31, 2013. There were no transactions under this program during the year ended December 31, 2014.

**NOTE 6 OTHER RECEIVABLES**

Other receivables consist of capitation premiums for subscribing participants under NEVHC's health plan contract, outstanding pharmacy reimbursements, and uncollected incentives under the Organization's participation in the Health Information Technology for Economic and Clinical Health ("HITECH") Act.

During 2014 and 2013, NEVHC applied for participation in the Medicaid Eligible Professionals Electronic Healthcare Record (EHR) Incentive Program under HITECH. NEVHC was approved for certain qualified first year payments and subsequent year incentives for demonstrating meaningful use. Included in other revenue in the statements of activities is approximately \$754,000 and \$657,000 of EHR revenue recognized during 2014 and 2013, respectively. Amounts receivable related to the EHR Program, included as other receivables in the statements of financial position, totaled approximately \$697,000 and \$463,000 at December 31, 2014 and 2013, respectively.

**NOTE 7 PROPERTY AND EQUIPMENT**

The summary of property and equipment and related accumulated depreciation and amortization are summarized as follows:

	<b>2014</b>	<b>2013</b>
Land	\$ <b>253,187</b>	\$ 253,187
Building and improvements	<b>9,037,735</b>	4,932,743
Equipment and fixtures	<b>5,572,473</b>	5,459,968
Computer software	<b>1,465,146</b>	1,465,146
	<b>16,328,541</b>	12,111,044
Less accumulated depreciation and amortization	<b>9,415,801</b>	8,860,272
	<b>6,912,740</b>	3,250,772
Construction in progress	<b>12,916</b>	512,497
	<b>\$ 6,925,656</b>	<b>\$ 3,763,269</b>

**NOTE 7      PROPERTY AND EQUIPMENT (CONTINUED)**

Total depreciation and amortization expense amounted to approximately \$556,000 and \$613,000 for the years ended December 31, 2014 and 2013, respectively.

The December 31, 2014 and 2013 building and improvements balance includes NEVHC's equities in the San Fernando and Pacoima Health Center properties. These equities are the percentage allocation in the reduction of the \$250,000 note on the properties from the inception of the note through August 31, 1990 and include building improvements. The initial percentage allocation basis used was determined by the relationship between federal and non-federal funding of the corporation, as determined by DHHS from July 1, 1971 through December 31, 1978.

A real property agreement between the U.S. Office of Economic Opportunity (OEO) and NEVHC was recorded with the title for the San Fernando Health Center's land and building. The note payable to finance such land and property was modified to reflect a 100% federal government interest in such land and property. The general nature of the modification was to effect a federal government recognition of the interest of the mortgagor and to establish a procedure whereby, upon any default by the corporation, OEO or its successor (DHHS), could exercise certain options as Trustor, to assure the continued use of the land and building for the purpose for which the government had assisted in its acquisition.

**NOTE 8      LONG-TERM DEBT**

The summary of long-term debt is as follows:

	<b>2014</b>	<b>2013</b>
Commercial note payable to CPCA Ventures, interest payable monthly at 3.175% through maturity date of December 1, 2017, with outstanding principal and any unpaid interest due August 1, 2016. The debt is collateralized substantially by all of NEVHC's assets.	<b>\$ 371,500</b>	\$ 487,586
Unsecured term loan payable to Citibank, payable \$22,329 monthly including principal and interest. Interest at a minimum of .25% or LIBOR through July 2016. The debt is collateralized substantially by all of NEVHC's assets.	<b>412,891</b>	661,983

**NOTE 8 LONG-TERM DEBT (CONTINUED)**

	<b>2014</b>	<b>2013</b>
Auto loan payable to Pacific Western Bank, payable \$444 monthly including principal and interest at 2.9% through November 2017, secured by automobile acquired from proceeds of the loan and a CD held with the institution that advanced the loan.	<b>14,846</b>	19,659
Auto loan payable to Sunrise Ford, payable \$464 monthly including principal and interest at 1.9% through September 2019, secured by automobile acquired from proceeds of the loan.	<b>25,290</b>	-
	<b>824,527</b>	1,169,228
Less current portion	<b>388,049</b>	369,979
Long- term debt, net of current portion	<b>\$ 436,478</b>	\$ 799,249

Scheduled annual maturities of long-term debt as of December 31, 2014 are as follows:

2015	\$ 388,049
2016	288,933
2017	137,961
2018	5,437
2019	4,147
	<b>\$ 824,527</b>

The above agreements require NEVHC to maintain compliance with certain financial and nonfinancial covenants including the maintenance of a debt service coverage ratio.

**NOTE 9 CAPITAL LEASE OBLIGATIONS**

NEVHC has a lease arrangement with a third party for equipment that is accounted for as a capital lease. The carrying value of the asset under the agreement totaled approximately \$52,000 at December 31, 2014.

**NOTE 9 CAPITAL LEASE OBLIGATIONS (CONTINUED)**

The schedule of future minimum lease payments including interest at a rate of 3.715% together with the present value of the future minimum lease payments are as follows:

Years Ending December 31,	
2015	\$ 23,187
2016	16,750
Total minimum lease payments	39,937
Less amount representing interest	1,182
Present value of future minimum lease payments	38,755
Less current portion	22,238
	\$ 16,517

**NOTE 10 COMMITMENTS**

**Line of Credit**

The Organization has a secured revolving line of credit loan with a local bank with a credit limit of \$2,500,000 which shall remain in full force and effect until such time as all of the loans are fully settled or until such time as the parties may agree in writing to terminate the agreement. The terms of the line of credit require pledging of all assets as security for any and all obligations taken by the Organization under this agreement. It also requires the Organization to comply with certain financial and nonfinancial covenants, including a debt service coverage ratio. The Organization had \$1,550,000 outstanding loan balance against the line of credit as of December 31, 2014.

**Operating Leases**

The Organization occupies certain facilities under non-cancelable operating leases on various dates through 2020. The required future minimum rental payments under the terms of the leases at December 31, 2014 are as follows:

Years Ending December 31,	
2015	\$ 1,959,586
2016	1,826,095
2017	1,406,765
2018	1,055,991
2019	290,731
	\$ 6,539,168

Total rent expense for facilities amounted to approximately \$2,467,000 and \$2,400,000, for the years ended December 31, 2014 and 2013, respectively.

**NOTE 11      CONTINGENCIES**

**Government Grants**

NEVHC has received local, state and federal funds for specific purposes that are subject to review and audit by the contracting agencies. Although such audits could generate expenditure disallowances under terms of the grants or contracts, management believes that any required reimbursements will not be material.

**Government Reimbursement**

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, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government healthcare program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. NEVHC is subject to similar regulatory reviews.

**Employee Termination Benefits**

NEVHC employees may accumulate vacation during their employment with NEVHC and redeem unused vacation time in cash upon termination of employment, subject to certain limitations. In addition, employees may accumulate sick leave up to a maximum of 288 hours. Employees with two or more years of continuous service may receive an amount equal to 50% of their accrued unused sick leave, payable to a maximum of 144 hours, at their applicable rate of pay at the time of separation unless terminated for cause. No payment for unused sick pay accrual will be made to employees who have less than two years continuous service upon leaving NEVHC, regardless of the reason.

The estimated amounts of accrued vacation pay and sick leave at December 31, 2014 totaled approximately \$2,250,000 and \$924,000, respectively. The estimated amounts of accrued vacation pay and sick leave at December 31, 2013 totaled approximately \$2,022,000 and \$973,000, respectively. Such amounts are included in accrued employee compensation and benefits in the accompanying statements of financial position.

**Litigation**

NEVHC is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, it is management's opinion that the liability, if any, from these actions will not have a material adverse effect on NEVHC's financial position.

**NOTE 12      CONCENTRATION OF CREDIT RISK**

**Cash and Cash Equivalents and Short-Term Investments**

Financial instruments that potentially subject NEVHC to concentrations of credit risk consist principally of accounts receivable and cash and cash equivalents and short-term investments. NEVHC maintains its cash and cash equivalents and short term investment balances in a financial institution. These balances, at times, may exceed federally insured limits. The Organization had approximately \$2,000,000 in cash that exceeded the federally insured limits and therefore is exposed to significant concentration of credit risk.

**Accounts Receivable**

NEVHC's accounts receivable comprises of contracts and grants receivable, patient accounts receivable, FQHC settlements receivable and other receivables. At December 31, 2014, approximately 43% of the total accounts receivable of approximately \$15,300,000 were comprised of FQHC receivables. At December 31, 2013 approximately 46% of the total accounts receivable of approximately \$13,750,000 were comprised of FQHC receivables. NEVHC recognizes that revenue and receivables from government agencies are significant to NEVHC's operations but do not believe that there are significant credit risks associated with these government agencies.

**NOTE 13      TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets totaling approximately \$893,000 and \$141,000 at December 31, 2014 and 2013, respectively, are available for program purposes. Net assets totaling approximately \$359,000 and \$322,000 for the years ended December 31, 2014 and 2013, respectively, were released from restriction and used for operating purposes.

**NOTE 14      SELF-INSURED WORKERS' COMPENSATION INSURANCE**

In 2013, NEVHC entered into an agreement to become self-insured for its workers' compensation insurance through a nonprofit mutual benefit corporation ("Group") organized under the Nonprofit Mutual Benefit Corporation Law of California. NEVHC is covered up to \$1,000,000 for the payment of medical, indemnity and legal costs of claims. NEVHC is also covered by a supplemental policy for excess workers' compensation coverage that pays all statutory benefits in excess of a retention limit of \$1,000,000. NEVHC believes there is adequate coverage provided by the nonprofit mutual benefit corporation.

In accordance with ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, NEVHC recognizes in the statements of financial position the estimated liability outstanding for workers' compensation claims as well as the related insurance recoveries.

**NOTE 14 SELF-INSURED WORKERS' COMPENSATION INSURANCE (CONTINUED)**

As required by the state of California Department of Industrial Relations, Office of Self-Insurance Plans ("OSIP"), the Group obtained a surety bond totaling approximately \$11,540,000 as of December 31, 2013 (the most recent audited financial information available) to satisfy the financial security requirement for self-insured plans. As a condition from the insurance company, in return for obtaining the surety bond posted by the program to OSIP, each participating member in the program is required to sign a General Agreement of Indemnity. In the event the insurer is called upon to satisfy any outstanding obligation of the Group, the insurer has the right of indemnification from each member on a joint and several bases. There were 38 members of the Group as of December 31, 2013.

**NOTE 15 RETIREMENT PLAN**

NEVHC has established a Tax Sheltered Annuity Plan under section 403(b) of the Internal Revenue Code. During the years ended December 31, 2014 and 2013; NEVHC paid 5.5% of participating employees' eligible compensation. NEVHC's contribution requires 90 days of continuous service for an employee to be 100% vested. An eligible employee must be regular and routinely work 20 hours or more per week completing 90 continuous days of full time employment with NEVHC. NEVHC's contribution does not begin until the employee has completed a year of service which is defined as 1,000 hours. After the employee has completed 1,000 hours, NEVHC's contribution begins retroactively to the first of the month following the employees' 90th day of continuous service. NEVHC's contribution expense for the years ended December 31, 2014 and 2013 amounted to approximately \$1,800,000 and \$1,783,000, respectively.

**NOTE 16 HEALTH CARE REFORM**

In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health care coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. The Patient Protection and Affordable Care Act (PPACA) provide funding for the expansion of community health centers through 2015. 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 Medi-Cal programs.

Much of the initial focus on Health Reform has been on the expansion of coverage for previously uninsured individuals. NEVHC has been actively engaged in both the expansion of Medicaid (Medi-Cal) in California and in the coverage expansion through Covered California, the state marketplace. NEVHC received Outreach and Enrollment funding from HRSA, CMS and the County of Los Angeles to assist uninsured residents of the San Fernando and Santa Clarita Valleys with enrollment into insurance programs available through Health Reform.

**NOTE 16      HEALTH CARE REFORM (CONTINUED)**

NEVHC actively participated in California's Bridge to Healthcare Reform which prequalified adult's ages 18-64 for the expansion of Medi-Cal to 138% of the FPL. NEVHC is a provider for Medi-Cal Managed Care Plans through LA Care, Health Net and Molina.

NEVHC expects that several provisions of the Health Care Reform Legislation will have a material effect on its business; however management is unable to predict the full impact of the Health Care Reform. Legislation at this time due to the law's complexity and lack of full implementation of provisions such as payment reform, cost savings sharing and the full implementation of new structures such as Accountable Care Organizations.

Although the 2012 Supreme Court decision upheld the constitutionality of most of the PPACA it did issue a decision which impacted Medicaid expansion provisions at the state level. It is possible that future acts of Congress or the state of California could further impact the PPACA implementation. Management continues to monitor and prepare to implement applicable provisions of the PPACA as they roll out.

**NOTE 17      SUBSEQUENT EVENTS**

NEVHC has evaluated events or transactions through May 8, 2015, which is the date on which the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements. NEVHC determined that no subsequent matters required disclosure or adjustments to the accompanying financial statements.

**SUPPLEMENTAL SCHEDULES**

**Northeast Valley Health Corporation**  
**Schedule of Functional Expenses**  
**Year ended December 31, 2014**

	<u>Program Services</u>					<u>Supporting Services</u>			<u>Total Services</u>
	<u>Medical Services</u>	<u>Other Health Services</u>	<u>Community Services</u>	<u>Pass-through Services</u>	<u>Total</u>	<u>Administrative Services</u>	<u>Fundraising Services</u>	<u>Total</u>	
<b>Employee compensation</b>									
Salaries	\$ 27,068,286	\$ 6,342,654	\$ 1,077,889	\$ 166,383	\$ 34,655,212	\$ 3,571,274	\$ 190,705	\$ 3,761,979	\$ 38,417,191
Fringe benefits	<u>7,158,660</u>	<u>2,038,003</u>	<u>358,014</u>	<u>45,463</u>	<u>9,600,140</u>	<u>1,224,109</u>	<u>49,971</u>	<u>1,274,080</u>	<u>10,874,220</u>
<b>Total employee compensation</b>	<u>34,226,946</u>	<u>8,380,657</u>	<u>1,435,903</u>	<u>211,846</u>	<u>44,255,352</u>	<u>4,795,383</u>	<u>240,676</u>	<u>5,036,059</u>	<u>49,291,411</u>
<b>Other expenses</b>									
Consultant, contractual services, medical and other	973,938	6,860	5,000	11,319	997,117	413,917	3,576	417,493	1,414,610
Travel and conferences	19,567	46,875	3,312	2,975	72,729	31,209	983	32,192	104,921
Equipment, maintenance and rental	1,225,490	292,596	17,916	2,686	1,538,688	198,515	2,113	200,628	1,739,316
Licenses and fees	66,033	7,915	23,656	170	97,774	13,774	-	13,774	111,548
Facilities cost	1,336,415	1,658,260	80,286	8,844	3,083,805	422,840	-	422,840	3,506,645
Facilities cost provided in-kind	492,924	-	-	-	492,924	-	-	-	492,924
Insurance	137,339	45,005	1,736	-	184,080	81,954	-	81,954	266,034
Supplies	3,281,561	217,424	15,662	2,464	3,517,111	63,876	4,815	68,691	3,585,802
Donated pharmaceutical supplies	5,132,327	-	-	-	5,132,327	-	-	-	5,132,327
Telephone	281,153	131,452	20,666	360	433,631	68,046	720	68,766	502,397
General and administrative	472,548	110,455	22,460	6,061	611,524	253,422	10,509	263,931	875,455
Interest	-	-	-	-	-	98,545	-	98,545	98,545
Sub-grants to subrecipients	22,366	-	73,168	3,035,387	3,130,921	-	-	-	3,130,921
<b>Total other expenses</b>	<u>13,441,661</u>	<u>2,516,842</u>	<u>263,862</u>	<u>3,070,266</u>	<u>19,292,631</u>	<u>1,646,098</u>	<u>22,716</u>	<u>1,668,814</u>	<u>20,961,445</u>
<b>Total expenses before depreciation and amortization</b>	47,668,607	10,897,499	1,699,765	3,282,112	63,547,983	6,441,481	263,392	6,704,873	70,252,856
<b>Depreciation and amortization</b>	<u>501,674</u>	<u>1,600</u>	<u>-</u>	<u>-</u>	<u>503,274</u>	<u>96,051</u>	<u>-</u>	<u>96,051</u>	<u>599,325</u>
<b>Total expenses</b>	<u>\$ 48,170,281</u>	<u>\$ 10,899,099</u>	<u>\$ 1,699,765</u>	<u>\$ 3,282,112</u>	<u>\$ 64,051,257</u>	<u>\$ 6,537,532</u>	<u>\$ 263,392</u>	<u>\$ 6,800,924</u>	<u>\$ 70,852,181</u>

**Northeast Valley Health Corporation**  
**Schedule of Functional Expenses**  
**Year ended December 31, 2013**

	Program Services					Supporting Services			Total Services
	Medical Services	Other Health Services	Community Services	Pass-through Services	Total	Administrative Services	Fundraising Services	Total	
<b>Employee compensation</b>									
Salaries	\$ 25,466,368	\$ 6,470,278	\$ 618,918	\$ 158,586	\$ 32,714,150	\$ 3,338,190	\$ 109,371	\$ 3,447,561	\$ 36,161,711
Fringe benefits	6,830,273	2,010,657	220,698	44,546	9,106,174	1,198,905	29,196	1,228,101	10,334,275
<b>Total employee compensation</b>	<u>32,296,641</u>	<u>8,480,935</u>	<u>839,616</u>	<u>203,132</u>	<u>41,820,324</u>	<u>4,537,095</u>	<u>138,567</u>	<u>4,675,662</u>	<u>46,495,986</u>
<b>Other expenses</b>									
Consultant, contractual services, medical and other	900,183	10,021	-	39,707	949,911	480,451	24,600	505,051	1,454,962
Travel and conferences	17,765	58,227	1,956	2,435	80,383	22,213	-	22,213	102,596
Equipment, maintenance and rental	742,084	172,057	33,869	-	948,010	205,208	-	205,208	1,153,218
Licenses and fees	46,796	3,487	22,874	-	73,157	8,283	-	8,283	81,440
Facilities cost	1,242,767	1,592,888	85,323	8,761	2,929,739	399,405	-	399,405	3,329,144
Facilities cost provided in-kind	464,599	-	-	-	464,599	-	-	-	464,599
Insurance	136,500	49,585	1,845	-	187,930	74,751	-	74,751	262,681
Supplies	2,990,311	228,047	13,834	1,267	3,233,459	66,819	4,671	71,490	3,304,949
Donated pharmaceutical supplies	5,019,921	-	-	-	5,019,921	-	-	-	5,019,921
Telephone	237,586	127,485	10,377	360	375,808	59,997	-	59,997	435,805
General and administrative	378,731	118,397	5,594	6,411	509,133	208,185	43,490	251,675	760,808
Interest	-	-	-	-	-	123,024	-	123,024	123,024
Sub-grants to subrecipients	447,555	-	22,585	2,962,202	3,432,342	-	-	-	3,432,342
<b>Total other expenses</b>	<u>12,624,798</u>	<u>2,360,194</u>	<u>198,257</u>	<u>3,021,143</u>	<u>18,204,392</u>	<u>1,648,336</u>	<u>72,761</u>	<u>1,721,097</u>	<u>19,925,489</u>
<b>Total expenses before depreciation and amortization</b>	44,921,439	10,841,129	1,037,873	3,224,275	60,024,716	6,185,431	211,328	6,396,759	66,421,475
<b>Depreciation and amortization</b>	509,589	9,600	-	-	519,189	94,092	-	94,092	613,281
<b>Total expenses</b>	<u>\$ 45,431,028</u>	<u>\$ 10,850,729</u>	<u>\$ 1,037,873</u>	<u>\$ 3,224,275</u>	<u>\$ 60,543,905</u>	<u>\$ 6,279,523</u>	<u>\$ 211,328</u>	<u>\$ 6,490,851</u>	<u>\$ 67,034,756</u>

**Report of Independent Auditors 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  
Northeast Valley Health Corporation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast Valley Health Corporation (NEVHC), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated May 8, 2015.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Vasquez + Company LLP*

**Los Angeles, California**  
**May 8, 2015**



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