

Single Audit Report on
Federal Awards for

**Northeast Valley Health
Corporation**

December 31, 2012

MOSS-ADAMS LLP

Certified Public Accountants | 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**

To the 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast Valley Health Corporation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast Valley Health Corporation'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 Northeast Valley Health Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Northeast Valley Health Corporation'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompany schedule of findings and questioned costs as item 2012-1 that we consider to be a significant deficiency.

MOSS ADAMS_{LLP}**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northeast Valley Health Corporation'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*.

Northeast Valley Health Corporation's Response to Findings

Northeast Valley Health Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Northeast Valley Health Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the 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.



Los Angeles, California
April 26, 2013

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Northeast Valley Health Corporation

Report on Compliance for Each Major Federal Program

We have audited Northeast Valley Health Corporation's compliance with the types of compliance requirements described in the *OMB A-133 Compliance Supplement* that could have a direct and material effect on each of Northeast Valley Health Corporation's major federal programs for the year ended December 31, 2012. Northeast Valley Health Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Northeast Valley Health Corporation'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 Northeast Valley Health Corporation'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 Northeast Valley Health Corporation'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, 2012.



Report on Internal Control Over Compliance

Management of Northeast Valley Health Corporation 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 Northeast Valley Health Corporation'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 our 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 the Northeast Valley Health Corporation's internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Northeast Valley Health Corporation as of and for the year ended December 31, 2012, and have issued our report thereon dated April 26, 2013, 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

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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 whole.

Moss Adams LLP

Los Angeles, California
April 26, 2013

NORTHEAST VALLEY HEALTH CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-through Grantor/Program Title	Pass-through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct Programs:			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	n/a	93.224	\$ 9,847,311
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	n/a	93.918	484,433
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	n/a	93.501	237,339
Affordable Care Act (ACA) Grants for Capital Development in Health Centers Health Care and Other Facilities	n/a	93.526	30,027
	n/a	93.887	926
			<u>10,600,036</u>
Passed through the California Department of Health: Medical Assistance Program	11-10289	93.778	<u>64,232</u>
Passed through the County of Los Angeles Department of Health Services:			
HIV Emergency Relief Project Grants - Oral Health Care Services	H-204507	93.914	107,916
HIV Emergency Relief Project Grants - Medical Outpatient Medical Services	H-209014	93.914	693,890
HIV Emergency Relief Project Grants - Medical Care Coordination Services	PH-002342	93.914	12,721
HIV Emergency Relief Project Grants - Mental Health, Psychotherapy Services	H-210823	93.914	84,607
HIV Emergency Relief Project Grants - Family Case Management Services	H-208023	93.914	38,967
HIV Emergency Relief Project Grants - Family Support Program	H-208023	93.914	19,664
Passed through the Tarzana Treatment Center:			
HIV Emergency Relief Project Grants - Case Management Services - Tarzana Treatment Center	H-210795	93.914	<u>86,281</u>
Total HIV Emergency Relief Projects Grants			<u>1,044,046</u>
Passed through Public Health Foundation Enterprises, Inc.:			
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	0054.019.901	93.153	<u>199,132</u>
Passed through California Family Health Council, Inc.:			
Family Planning Services	2694-5320-71209-12	93.217	166,627
Preventive Health Services Sexually Transmitted Diseases Control Grants	2694-5320-72401-11-12	93.977	<u>29,456</u>
Total U.S. Department of Health and Human Services			<u>12,103,529</u>
U.S. Department of Agriculture			
Passed through the California Department of Health:			
Special Supplemental Nutrition Program for Women, Infants and Children	11-10478	10.557	<u>10,667,246</u>
Total U.S. Department of Agriculture			<u>10,667,246</u>
Total Federal Expenditures			<u>\$ 22,770,775</u>

NORTHEAST VALLEY HEALTH CORPORATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Northeast Valley Health Corporation (NEVHC) under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (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 Northeast Valley Health Corporation, it is not intended to and does not present the financial position, statement of activities or cash flows of Northeast Valley Health Corporation.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity indentifying numbers are presented where available.

Note 3 - Subrecipients

Of the federal expenditures presented in the schedule, NEVHC provided awards to subrecipients as follows:

CFDA Number to Subrecipients	Name of Federal Program or Cluster	Amount Provided
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	\$ 2,929,883

**NORTHEAST VALLEY HEALTH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

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

Yes No

Identification of Major Programs

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued</i>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	<i>Unmodified</i>
93.914	HIV Emergency Relief Project Grants	<i>Unmodified</i>

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

\$ 683,123

Auditee qualified as low-risk auditee?

Yes No

Section II - Financial Statement Findings

FINDING 2012-1 – Segregation of Duties and Administrative Access Rights in Enterprise Practice Management System - Significant Deficiency in Internal Control over Financial Reporting

Criteria: Access within the Enterprise Practice Management System (EPM) which was implemented in 2012 should be restricted to ensure individuals with responsibilities for posting transactions cannot make changes to the system configuration or post transactions without proper approval or review.

Condition: Edits built into the EPM system can be turned on/off by the Director of Patient Accounts. Additionally, the Director of Patient Accounts can adjust a batch of patient balances directly in the system without subsequent review by another individual.

**NORTHEAST VALLEY HEALTH CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Context: Access rights and segregation of duties within the EPM system are not appropriate.

Effect: There is a risk that unauthorized or erroneous system changes and transactions could occur and not be detected.

Cause: NEVHC implemented the EPM system during 2012. As part of this system implementation many processes and changes were put in place, however administrative rights given to the Director of Patient Accounts as part of the system implementation were not removed once the system was placed in service.

Recommendation: Management should review existing access rights and segregation of duties within the EPM system to ensure access rights to make changes to the system are limited to those who do not have the ability to post transactions. Exception and/or edit reports can be generated to capture significant changes made which would then be required to be reviewed and signed off by another individual who does not have rights to make system changes or post transactions.

Views of responsible officials and planned corrective actions: Management concurs with the auditor's recommendation. Management will form an ad-hoc committee consisting of the Chief Information Officer, Chief Financial Officer, Controller, Patient Accounts Director and Billing Manger to review the current practices and access rights and establish the appropriate internal controls (access rights, edit reports and reviews) within the Enterprise Practice Management System (EPM). A policy and procedure will be developed to document the internal controls established.

Section III - Federal Award Findings and Questioned Costs

None reported

**NORTHEAST VALLEY HEALTH CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012**

FINDING 2011-1 – Accounting for Reserves on Federally Qualified Health Center Settlements (FQHC) – Significant Deficiency in Internal Control over Financial Reporting

Current Year Status: Corrected

FINDING 2011-2 – Accounting for Deferred Rent - Significant Deficiency in Internal Control over Financial Reporting

Current Year Status: Corrected

FINDING 2011-3 – Accounting for Donated Pharmaceutical Inventory - Significant Deficiency in Internal Control over Financial Reporting

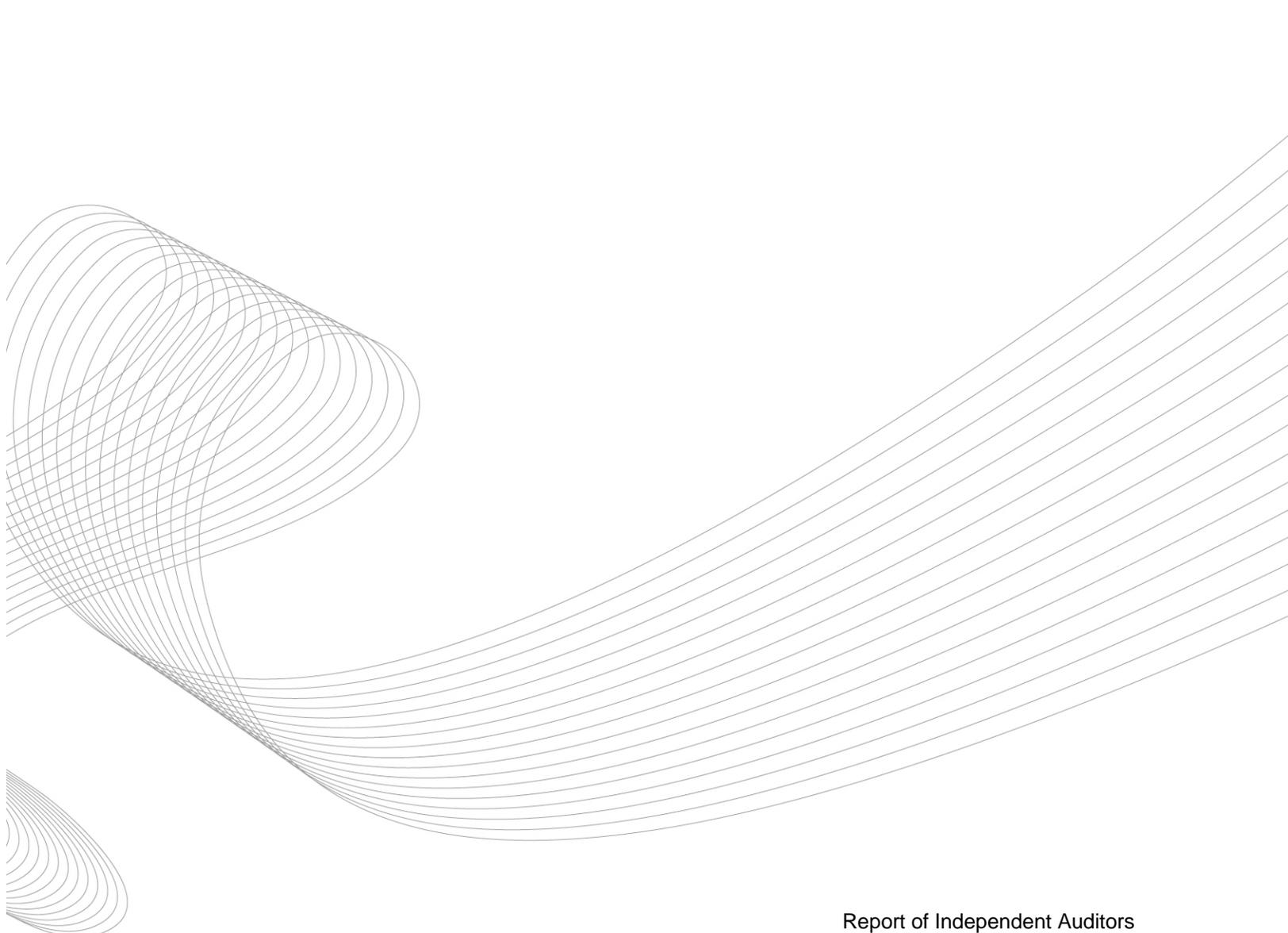
Current Year Status: Corrected

FINDING 2011-4 – Allowable Costs: Payroll Level of Effort Reporting – Significant Deficiency in Internal Control and Instance of Noncompliance

Current Year Status: After-the-fact determinations of monthly actual activity for salaried employees charged to the HIV Emergency Relief Project Grant, CFDA 93.914 was implemented in December 2012 and is considered to be corrected.

FINDING 2011-5 – Reporting – Instance of Noncompliance

Current Year Status: Corrected



Report of Independent Auditors
and Financial Statements
with Supplemental Schedules for

**Northeast Valley Health
Corporation**

December 31, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Northeast Valley Health Corporation

Report on Financial Statements

We have audited the accompanying financial statements of Northeast Valley Health Corporation, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements activities and cash flows for the years then ended, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 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, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MOSS ADAMS_{LLP}***Other Matter******Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Valley Health Corporation's basic financial statements. The supplementary information included in the schedules of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information included in the schedules of functional expenses 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2013 on our consideration of Northeast Valley Health Corporation'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 Northeast Valley Health Corporation's internal control over financial reporting and compliance.



Los Angeles, California
April 26, 2013

NORTHEAST VALLEY HEALTH CORPORATION
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31	
	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,430,000	\$ 1,461,000
Short-term investments	456,000	431,000
Contract and grant receivables	2,414,000	4,032,000
Accounts receivable, net	8,399,000	7,490,000
Receivables - others	701,000	57,000
Inventories	796,000	1,102,000
Prepaid expenses	327,000	178,000
	14,523,000	14,751,000
Total current assets		
Property and equipment, net	3,745,000	3,758,000
Deposits	160,000	163,000
	\$ 18,428,000	\$ 18,672,000
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,891,000	\$ 1,534,000
Accrued employee compensation and benefits	3,531,000	3,393,000
Accrued expenses	351,000	607,000
Due to subrecipients	459,000	809,000
Current portion of notes payable	358,000	17,000
Line of credit	2,480,000	3,491,000
	9,070,000	9,851,000
Total current liabilities		
Long-term liabilities:		
Notes payable, net of current portion	1,169,000	600,000
	10,239,000	10,451,000
TOTAL LIABILITIES		
Net assets:		
Unrestricted	7,891,000	7,993,000
Temporarily restricted	298,000	228,000
	8,189,000	8,221,000
Total net assets		
TOTAL LIABILITIES AND NET ASSETS	\$ 18,428,000	\$ 18,672,000

NORTHEAST VALLEY HEALTH CORPORATION
STATEMENTS OF ACTIVITIES

	DECEMBER 31	
	2012	2011
Change in unrestricted net assets:		
Unrestricted revenue, gains and other support:		
Net patient service revenue	\$ 12,061,000	\$ 12,672,000
Managed care contracts	20,614,000	18,446,000
Contracts and grants	24,519,000	26,765,000
Donated pharmaceuticals	5,220,000	6,458,000
Other income	252,000	261,000
Total unrestricted revenue, gains and other support before net assets released from restrictions	62,666,000	64,602,000
Net assets released from restrictions used for operations	380,000	855,000
Total unrestricted revenue, gains and other support	63,046,000	65,457,000
Expenses:		
Program services:		
Medical services	42,798,000	41,916,000
Other health services	10,556,000	11,830,000
Community services	673,000	877,000
Pass-through services	3,200,000	3,391,000
Total program services	57,227,000	58,014,000
Supporting services:		
Administrative services	5,600,000	6,023,000
Fundraising	321,000	389,000
Total supporting services	5,921,000	6,412,000
Total expenses	63,148,000	64,426,000
Change in unrestricted net assets	(102,000)	1,031,000
Change in temporarily restricted net assets:		
Contributions and other support	450,000	338,000
Net assets released from restrictions used for operations	(380,000)	(855,000)
Change in temporarily restricted net assets	70,000	(517,000)
Change in net assets	(32,000)	514,000
Net assets:		
Beginning	8,221,000	7,707,000
Ending	\$ 8,189,000	\$ 8,221,000

NORTHEAST VALLEY HEALTH CORPORATION
STATEMENTS OF CASH FLOWS

	DECEMBER 31	
	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (32,000)	\$ 514,000
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	643,000	541,000
Change in FQHC allowance	(700,000)	(297,000)
(Increase) decrease in assets:		
Contract and grant receivables	1,618,000	(721,000)
Accounts receivable	(208,000)	(2,281,000)
Receivable - others	(644,000)	384,000
Inventories	306,000	(218,000)
Prepaid expenses	(149,000)	15,000
Deposits	3,000	-
Increase (decrease) in liabilities:		
Accounts payable	198,000	519,000
Accrued employee compensation and benefits	138,000	266,000
Accrued expenses	17,000	(8,000)
Due to subrecipients	(350,000)	350,000
Net cash provided by (used in) operating activities	<u>840,000</u>	<u>(936,000)</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	-	705,000
Purchases of investments	(25,000)	(3,000)
Purchase of property and equipment	(745,000)	(1,228,000)
Net cash used in investing activities	<u>(770,000)</u>	<u>(526,000)</u>
Cash flows from financing activities:		
Proceeds from notes payable	1,008,000	600,000
Payment of notes payable	(98,000)	(67,000)
Advances on line of credit	2,489,000	10,311,000
Payments on line of credit	(3,500,000)	(8,820,000)
Net cash (used in) provided by financing activities	<u>(101,000)</u>	<u>2,024,000</u>
Net change in cash and cash equivalents	(31,000)	562,000
Cash and cash equivalents at beginning of year	<u>1,461,000</u>	<u>899,000</u>
Cash and cash equivalents at end of year	<u>\$ 1,430,000</u>	<u>\$ 1,461,000</u>
Supplemental disclosures:		
Accrued capital expenditures	<u>\$ 220,000</u>	<u>\$ 334,000</u>
Interest paid during the year	<u>\$ 148,000</u>	<u>\$ 89,000</u>

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

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 thirteen primary health care facilities located at 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 seventeen additional locations and administrative services at four 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. 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, 2012 or 2011.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and cash equivalents - NEVHC considers highly liquid investments with the original maturity of three months or less to be cash equivalents.

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.

Property and equipment - Acquisitions of property and equipment are recorded at cost or, if donated, at fair value at date of donation. 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, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities. Provision for 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
Building improvements	7 - 10 years
Buildings	20 years
Leasehold improvements	term of lease

Property acquired with federal funds is considered owned by NEVHC while used in the program(s) 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, 2012 and 2011, respectively, net property and equipment included approximately \$3,554,000 and \$3,633,000 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 2012 and 2011, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

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. Net patient service revenue also includes estimated retroactive adjustments under reimbursement agreements with third-party payors. NEVHC has agreements with third-party payors that provide for payments to NEVHC at amounts different from its established rates. Payment arrangements include prospectively determined rates per service, reimbursed costs, discounted charges and per diem payments. 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. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Estimated third-party payor settlement amounts included in the accompanying statements of financial position approximate fair value.

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, 2012 and 2011, total approximately \$9,632,000 and \$11,946,000, 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.

In 2004, NEVHC entered in an agreement with an Independent Practice Association (IPA) and transferred all of its existing HMO agreements to the IPA. Under this agreement, NEVHC receives monthly capitation payments based on the number of covered members, regardless of services actually performed by NEVHC to provide for primary health care services only. The IPA is financially responsible for all specialty services to covered members.

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

During the year ended December 31, 2012, NEVHC received approximately 40% of its total revenues from federal and state grants and contracts, 19% from patient fees (primarily Medi-Cal), 28% from managed care contracts, and 13% from other sources. During the year ended December 31, 2011, NEVHC received approximately 43% of its total revenues from federal and state grants and contracts, 21% from patient fees (primarily Medi-Cal), 23% from managed care contracts, and 13% from other sources.

Contract and grant 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 - In order to provide information in regard to service efforts, the costs of providing each of NEVHC's programs and support services have been presented in a separate schedule of functional expenses. In order to provide this presentation, certain costs were required to be allocated among the programs and services.

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 not-for-profit 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). Accordingly, no provision has been made for 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. 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, 2012 or 2011.

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

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 - In order to facilitate comparison of financial information, certain prior year amounts have been reclassified to conform to the current year presentation.

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 and \$431,000 at December 31, 2012 and 2011 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, 2012 and 2011.

Note 4 - Patient Revenues and Receivables

NEVHC receives payment for services rendered from federal, state and local agencies, private insurance carriers, employers, managed care programs, and patients. NEVHC recognizes that revenue and receivables from government agencies are significant to NEVHC's operations but do not believe that there are any significant credit risks associated with these government agencies.

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 4 - Patient Revenues and Receivables (continued)

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 2012. 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 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, 2012. NEVHC recognized income of approximately \$414,000 and \$770,000 in 2012 and 2011, 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, 2012 and 2011, revenue from Medi-Cal accounted for approximately 54% and 56%, respectively of net patient revenue. Medicare programs accounted for approximately 5% and 4% of NEVHC's net patient fee revenue for years ended December 31, 2012 and 2011 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.

Healthy families program - NEVHC is reimbursed under a prospective payment system for services provided to patients under the State Healthy Families Program. Due to State delays in modifying their payment system to accommodate retroactive claims over one year old, NEVHC had a significant receivable owed by the State for Healthy Families as of December 31, 2011. During 2011, NEVHC was notified that payments were beginning to be processed and NEVHC should submit claims they have with a date of service going back to October 1, 2009. As a result, NEVHC recognized revenue during 2011 related to services provided prior to January 1, 2011 totaling approximately \$856,000. Additionally, during 2012 NEVHC recognized revenue of approximately \$755,000 due to changes in estimates on prior year accounts receivable. As of December 31, 2012 and 2011, NEVHC has approximately \$441,000 and \$806,000 receivable, respectively, under the Healthy Families program.

NORTHEAST VALLEY HEALTH CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 4 - Patient Revenues and Receivables (continued)

Accounts receivable at December 31 are composed of:

	<u>2012</u>	<u>2011</u>
Federally Qualified Health Centers (FQHC) and other Medi-Cal	\$ 5,568,000	\$ 6,388,000
Less allowance for uncollectible accounts	<u>(179,000)</u>	<u>(879,000)</u>
Net	<u>5,389,000</u>	<u>5,509,000</u>
Patient fees receivable other than FQHC and other Medi-Cal	4,243,000	2,474,000
Less allowance for uncollectible accounts and contractual disallowances	<u>(1,233,000)</u>	<u>(493,000)</u>
Net	<u>3,010,000</u>	<u>1,981,000</u>
Accounts receivable, net	<u>\$ 8,399,000</u>	<u>\$ 7,490,000</u>

Note 5 - Contract and Grant Receivables

Contract and grant receivables as of December 31 are composed of:

	<u>2012</u>	<u>2011</u>
U.S. Department of Health and Human Services (DHHS)	\$ 618,000	\$ 702,000
California Department of Health Services	861,000	2,722,000
County of L.A. Department of Health Services	180,000	194,000
Medi-Cal Electronic Medical Records Incentive Program	599,000	-
Other entities	<u>156,000</u>	<u>414,000</u>
Total	<u>\$ 2,414,000</u>	<u>\$ 4,032,000</u>

During 2012, NEVHC applied for participation in the Medi-Cal Electronic Medical Records Incentive Program ("EHR Program"). NEVHC was approved for Phase I of the EHR Program and recognized revenue of approximately \$1,768,000 during 2012. Amounts receivable related to Phase I totaled \$599,000 at December 31, 2012.

NORTHEAST VALLEY HEALTH CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 6 - Property and Equipment

As of December 31, property and equipment and related accumulated depreciation are summarized as follows:

	2012	2011
Land	\$ 253,000	\$ 253,000
Computer software	1,464,000	-
Building and improvements	4,964,000	4,645,000
Equipment and fixtures	5,311,000	5,206,000
	11,992,000	10,104,000
Less accumulated depreciation and amortization	8,247,000	7,676,000
	3,745,000	2,428,000
System development	-	1,330,000
Net property and equipment	\$ 3,745,000	\$ 3,758,000

System development at December 31, 2011 represents amounts expended for implementation of the Electronic Practice Management and Electronic Medical Records System. The project was placed in service during 2012.

The December 31, 2012 and 2011 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.

NORTHEAST VALLEY HEALTH CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 7 - Notes Payable

Notes payable as of December 31 is composed of:

	<u>2012</u>	<u>2011</u>
Commercial note payable to CPCA Ventures, interest payable monthly at 3.175% through maturity date of August 1, 2016, with outstanding principal and any unpaid interest due August 1, 2016. The debt is collateralized by substantially all of NEVHC's assets.	\$ 600,000	\$ 600,000
Unsecured term loan payable to Citibank, payable \$22,329 monthly including principal and interest. Interest at a minimum of .25% or LIBOR (.85% at December 31, 2012) through July 2016.	903,000	-
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.	24,000	-
Note payable to Community Development Commission of the County of Los Angeles	<u>-</u>	<u>17,000</u>
	1,527,000	617,000
Less current portion	<u>358,000</u>	<u>17,000</u>
Long-term debt, net of current portion	<u><u>\$ 1,169,000</u></u>	<u><u>\$ 600,000</u></u>

Scheduled annual maturities of long-term debt as of December 31, 2012 are as follows:

2013	\$ 358,000
2014	370,000
2015	383,000
2016	284,000
2017	<u>132,000</u>
Total	<u><u>\$ 1,527,000</u></u>

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

NORTHEAST VALLEY HEALTH CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets totaling approximately \$298,000 and \$228,000 at December 31, 2012 and 2011 are available for program purposes. Net assets totaling approximately \$380,000 and \$855,000 for the years ending December 31, 2012 and 2011, respectively, were released from restriction and used for operating purposes.

Note 9 - Commitments

Line of credit - NEVHC maintains a line of credit arrangement with a local bank with a credit limit of \$3,500,000 at December 31, 2012 and 2011 which expires on August 31, 2013. Outstanding borrowings under this line of credit amounted to approximately \$2,480,000 and \$3,491,000 as of December 31, 2012 and 2011, respectively, and are secured by NEVHC's property and equipment. These arrangements require NEVHC to maintain compliance with certain financial and nonfinancial covenants, including a debt service coverage ratio.

Operating leases - NEVHC occupies certain facilities under both month-to-month and long-term lease agreements expiring through 2020. Future minimum rental payments under these non-cancelable leases for the years ending December 31 are as follows:

2013	\$ 1,977,000
2014	899,000
2015	740,000
2016	645,000
2017	432,000
Thereafter	<u>634,000</u>
	<u>\$ 5,327,000</u>

Total rent expense for facilities amounted to approximately \$1,913,000 and \$2,078,000, for the years ended December 31, 2012 and 2011, respectively.

Note 10 - 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.

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 10 - Contingencies (continued)

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 health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. 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 and redeem 50% of unused sick leave upon termination of employment. The estimated amounts of accrued vacation pay and sick leave at December 31, 2012 totaled approximately \$1,920,000 and \$816,000 respectively. The estimated amounts of accrued vacation pay and sick leave at December 31, 2011 totaled approximately \$1,985,000 and \$753,000, 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 11 - 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) provides 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. 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, current lack of implementing regulations and or interpretive guidance. 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.

NORTHEAST VALLEY HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 12 - 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, 2012 and 2011, 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, 2012 and 2011 amounted to approximately \$1,651,000 and \$1,631,000, respectively.

Note 13 - Concentration of Credit Risk

Cash and short-term investments - NEVHC maintains its cash accounts and short-term investments primarily with banks located in California. On July 21, 2010, the Dodd-Frank financial regulatory reform legislation was signed into law making all noninterest-bearing transaction accounts fully insured without limit effective December 31, 2010 until January 1, 2013. The legislation also modifies the methodology for FDIC assessments from deposit based to asset based. In addition, on July 21, 2010, the regulatory reform signed into law made the standard maximum deposit insurance amount of \$250,000 permanent. As of December 31, 2009, FDIC insurance covers up to \$250,000 per bank. As of December 31, 2012 and 2011, NEVHC's cash balances on deposit with banks and certificates of deposit included in short-term investments are fully-insured.

Accounts receivable - At December 31, 2012, approximately 65% of the total accounts receivable of approximately \$8,399,000 were comprised of FQHC receivables. At December 31, 2011, approximately 73% of the total accounts receivable of approximately \$7,490,000 were comprised of FQHC receivables.

Note 14 - Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. NEVHC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. NEVHC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

NEVHC has evaluated subsequent events through April 26, 2013, which is the date the financial statements are available to be issued. Based upon NEVHC's evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

SUPPLEMENTAL SCHEDULES

NORTHEAST VALLEY HEALTH CORPORATION
SCHEDULE OF FUNCTIONAL EXPENSES - FOR THE YEAR ENDED DECEMBER 31, 2012
(IN \$000S)

	Program Services					Supporting Services			
	Medical Services	Other Health Services	Community Services	Pass-through Services	Total	Administrative Services	Fundraising Services	Total	Total Services
Employee Compensation:									
Salaries	\$ 24,291	\$ 6,341	\$ 392	\$ 161	\$ 31,185	\$ 3,210	\$ 183	\$ 3,393	\$ 34,578
Fringe benefits	6,386	1,937	145	44	8,512	784	48	832	9,344
Total employee compensation	<u>30,677</u>	<u>8,278</u>	<u>537</u>	<u>205</u>	<u>39,697</u>	<u>3,994</u>	<u>231</u>	<u>4,225</u>	<u>43,922</u>
Other Expenses:									
Consultant/contractual services/ medical and other	676	11	-	40	727	395	5	400	1,127
Travel and conferences	17	25	-	1	43	15	1	16	59
Equipment, maintenance and rental	1,051	180	6	3	1,240	175	2	177	1,417
Licenses and fees	56	5	24	-	85	6	-	6	91
Facilities cost	1,157	1,611	84	9	2,861	409	-	409	3,270
Insurance	128	54	2	-	184	65	-	65	249
Supplies	2,275	154	6	4	2,439	53	6	59	2,498
Donated pharmaceutical supplies	5,496	-	-	-	5,496	-	-	-	5,496
Telephone	160	116	9	1	286	58	-	58	344
General and administrative	353	112	5	7	477	185	76	261	738
Interest	-	-	-	-	-	139	-	139	139
Sub-grants to subrecipients	225	-	-	2,930	3,155	-	-	-	3,155
Total other expenses	<u>11,594</u>	<u>2,268</u>	<u>136</u>	<u>2,995</u>	<u>16,993</u>	<u>1,500</u>	<u>90</u>	<u>1,590</u>	<u>18,583</u>
Total expenses before depreciation and amortization	42,271	10,546	673	3,200	56,690	5,494	321	5,815	62,505
Depreciation and amortization	527	10	-	-	537	106	-	106	643
Total expenses	<u>\$ 42,798</u>	<u>\$ 10,556</u>	<u>\$ 673</u>	<u>\$ 3,200</u>	<u>\$ 57,227</u>	<u>\$ 5,600</u>	<u>\$ 321</u>	<u>\$ 5,921</u>	<u>\$ 63,148</u>

NORTHEAST VALLEY HEALTH CORPORATION
SCHEDULE OF FUNCTIONAL EXPENSES - FOR THE YEAR ENDED DECEMBER 31, 2011
(IN \$000S)

	Program Services				Total	Supporting Services			Total Services
	Medical Services	Other Health Services	Community Services	Pass-through Services		Administrative Services	Fundraising Services	Total	
Employee Compensation:									
Salaries	\$ 23,172	\$ 6,953	\$ 533	\$ 157	\$ 30,815	\$ 3,234	\$ 215	\$ 3,449	\$ 34,264
Fringe benefits	5,837	2,089	179	42	8,147	1,067	52	1,119	9,266
Total employee compensation	29,009	9,042	712	199	38,962	4,301	267	4,568	43,530
Other Expenses:									
Consultant/contractual services/ medical and other	613	99	-	56	768	351	-	351	1,119
Travel and conferences	15	76	3	5	99	21	7	28	127
Equipment, maintenance and rental	948	195	7	3	1,153	222	6	228	1,381
Licenses and fees	42	3	24	-	69	6	-	6	75
Facilities cost	1,211	1,863	106	9	3,189	469	-	469	3,658
Insurance	90	55	2	-	147	62	-	62	209
Supplies	2,492	211	7	5	2,715	77	12	89	2,804
Donated pharmaceutical supplies	6,277	-	-	-	6,277	1	-	1	6,278
Telephone	164	140	11	-	315	79	1	80	395
General and administrative	424	136	5	5	570	203	96	299	869
Interest	-	-	-	-	-	88	-	88	88
Sub-grants to subrecipients	243	-	-	3,109	3,352	-	-	-	3,352
Total other expenses	12,519	2,778	165	3,192	18,654	1,579	122	1,701	20,355
Total expenses before depreciation and amortization	41,528	11,820	877	3,391	57,616	5,880	389	6,269	63,885
Depreciation and amortization	388	10	-	-	398	143	-	143	541
Total expenses	\$ 41,916	\$ 11,830	\$ 877	\$ 3,391	\$ 58,014	\$ 6,023	\$ 389	\$ 6,412	\$ 64,426