

**OPEN DOOR COMMUNITY HEALTH CENTERS**

**AUDITED FINANCIAL STATEMENTS**

**For The Years Ended December 31, 2012 and 2011**

**Open Door Community Health Centers**  
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# TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon, Suite 211, Fresno, CA 93720  
Voice (559) 431-7708 Fax (559) 431-7685

## *INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

Board of Directors  
Open Door Community Health Centers  
Arcata, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Open Door Community Health Centers (the "Center"), which comprise the balance sheets as of December 31, 2012 and 2011 and the related statements of operations and changes in net assets, 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 the 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 consolidated 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 Open Door Community Health Centers as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2013, on our consideration of the entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Center taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

***TCA Partners, LLP***

Fresno, California

March 23, 2013

**Open Door Community Health Centers**  
**Balance Sheets**  
**December 31, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,660,059	\$ 757,943
Investments	532,723	472,726
Patient accounts receivable, net	2,202,511	3,413,466
Grant and other receivables	1,073,488	500,136
Estimated third-party payor settlements	1,543,801	2,536,573
Inventories	531,076	563,245
Prepaid and other current assets	163,282	262,995
Total current assets	8,706,940	8,507,084
Property and equipment, net	14,363,667	7,667,302
Total assets	\$23,070,607	\$16,174,386
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Current liabilities:		
Line-of-credit	\$ 1,900,000	\$ 2,730,250
Current maturities of debt borrowings	302,145	679,917
Accounts payable and accrued expenses	1,482,316	1,446,888
Accrued payroll and related liabilities	1,630,926	1,650,428
Deferred revenue	269,541	398,736
Total current liabilities	5,584,928	6,906,219
Debt borrowings, net of current maturities	6,067,139	4,522,529
Total liabilities	11,652,067	11,428,748
Net assets:		
Unrestricted net assets	11,418,540	4,745,638
Total liabilities and net assets	\$ 23,070,607	\$ 16,174,386

See accompanying Notes to the Financial Statements

**Open Door Community Health Centers**  
**Statements of Operations and Changes in Net Assets**  
**For the years ended December 31, 2012 and 2011**

	2012	2011
<b>Unrestricted revenues and other support:</b>		
Patient service revenue, net	\$ 26,903,549	\$ 22,436,964
Grant revenue	11,284,824	6,603,497
Contributions	191,781	552,541
Other	688,167	782,183
Total unrestricted revenue and other support	39,068,321	30,375,185
Expenses:		
Salaries and benefits	20,245,483	18,593,971
Payroll related expenses	1,647,965	1,606,853
Healthcare services and supply	4,700,844	1,840,446
Occupancy expense	2,009,501	1,942,592
Depreciation and amortization	871,478	1,131,842
Equipment expense	1,394,141	1,017,753
Contract services	373,675	664,378
Office expense	274,964	304,693
Training, development, education, and travel	332,027	323,199
Interest	322,864	330,682
Insurance	145,859	165,359
Other	127,015	93,696
Total expenses	32,445,816	28,015,464
Excess of revenues over expenses	6,622,505	2,359,721
Unrealized gains (losses) in available-for-sale securities	50,397	(39,599)
Change in unrestricted net assets	6,672,902	2,320,122
Net assets, beginning of year	4,745,638	2,425,516
Net assets, end of year	\$ 11,418,540	\$ 4,745,638

See accompanying Notes to the Financial Statements

**Open Door Community Health Centers**  
**Statements of Cash Flows**  
**For the years ended December 31, 2012 and 2011**

	2012	2011
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 6,672,902	\$ 2,320,122
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	871,478	1,131,842
Unrealized gains in available-for-sale securities	(50,397)	39,599
Changes in operating assets and liabilities:		
Change in patient accounts receivable	1,210,955	(274,234)
Change in other receivables	(573,352)	(274,223)
Change in inventories	32,169	(105,958)
Change in prepaid assets and deposits	99,713	65,832
Change in accounts payable and accrued expenses	35,428	409,830
Change in accrued payroll and related liabilities	(19,502)	488,943
Change in estimated third-party payor settlements	992,772	(1,303,292)
Change in deferred revenue	(129,195)	153,191
Net cash provided by operating activities	9,142,971	2,651,652
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(7,567,843)	(4,321,056)
Purchases of available-for-sale securities	(9,600)	(8,863)
Net cash used in investing activities	(7,577,443)	(4,329,919)
<b>Cash flows from financing activities:</b>		
Net changes on line-of-credit	(830,250)	730,979
Proceeds from issuance of long-term debt	1,850,510	1,163,934
Principal payments on long-term debt	(683,672)	(283,576)
Net cash provided by financing activities	336,588	1,611,337
Net increase (decrease) in cash and cash equivalents	1,902,116	(66,930)
Cash at beginning of year:	757,943	824,873
Cash at end of year:	\$ 2,660,059	\$ 757,943
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 322,864	\$ 330,682

See accompanying Notes to the Financial Statements

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**Note A: Summary of Significant Accounting Policies**

**Organization:** Open Door Community Health Centers (the "Center"), a not-for-profit organization, was incorporated in the State of California. The Center provides free and low cost medical, dental, psychological and educational services to people in need throughout Humboldt and Del Norte Counties in California. The Center is committed to addressing the special needs of the community's medically underserved and migrant populations.

The Center was designated as a Federally Qualified Health Center for Medicare and Medi-Cal reimbursement effective in 2001. The Center derives support through grants and contracts with the U.S. Department of Health and Human Services and the State of California Department of Health and Human Services. The majority of the revenue is derived from patient services and the remainder from the aforementioned grants and contracts, as well as other state and local grants.

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

**Third-Party Contractual Agreements:** The Center has agreements with Medicare that provide payments under a cost-based reimbursement (not to exceed the maximum cap) system and with Medi-Cal that provide payments under the Prospective Payment System (PPS). In the case of Medicare, reasonable estimates are made and reported in the period services are rendered, and differences between the estimates and actual receipts are included in the statement of operations in the period in which they are determined. In the case of Medi-Cal, payments under the PPS payment system are final, unless the number of reimbursable visits is changed as a result of an audit by the State of California, Department of Health and Human Services.

**Patient Accounts Receivable:** Accounts receivable are recorded at gross value along with a corresponding allowance for doubtful accounts. Allowance accounts are estimated for each type of receivable based on the Center's experience in collecting receivables. The Center does not refuse service to patients based on an individual's ability to pay.

**Cash and Cash Equivalents:** Cash and cash equivalents constitute cash held in checking, savings and money market accounts and short term investments held with maturities less than 90 days. Of the bank balances, per the various financial institutions as of December 31, 2012 and 2011, \$2,275,994 and \$557,613 respectively was covered by federal depository insurance and \$381,356 and \$200,330, respectively, was uninsured.

**Property and Equipment:** Property and equipment acquisitions are recorded at cost. The Center capitalizes assets with economic useful lives greater than one year and a value greater than \$5,000. Donated assets are recorded at their fair market value at the time the contributed asset is received. Depreciation of property and equipment is computed on the straight-line method over the estimated lives of depreciable assets.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**Note A: Summary of Significant Accounting Policies (continued)**

**Compensated Absences:** The Center permits its employees to accumulate vacation hours over their working career and to redeem such unused vacation hours in cash upon termination of employment. Employees earn vacation hours based on length of service.

**Charity Care:** The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Center does not pursue collection of amounts determined to qualify as charity care.

**Income Taxes:** The Center has been recognized by the Internal Revenue Service as a non-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Sec. 501(a) of the IRC and California Revenue and Taxation code Section 23701(d).

**Revenue Recognition:** It is the policy of the Center to recognize revenues from federal grants and state contracts to the extent of expenses incurred not to exceed grant and contract awards. When the grant and contract budgets do not coincide with the Center's reporting period, revenues are recognized on a prorata basis.

Patient service revenue is recorded at the Center's established rates with sliding fee scale adjustments, provision for uncollectible accounts, and contractual allowances deducted to arrive at net patient service revenue.

**Reclassifications:** Certain financial statement amounts have been reclassified in these financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net income.

**Note B: Concentrations of Credit Risk**

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party agreements. The mix of receivables from patients and third-party payors at December 31, 2012 and 2011 was as follows:

Gross patient accounts receivable	2012	2011
Medicare	\$ 313,554	\$ 488,174
Medi-Cal	911,006	997,735
Other third-party payors	757,451	776,814
Private pay	1,084,583	1,764,826
Total patient accounts receivable	<u>3,066,594</u>	<u>4,027,549</u>
Less: contractual and doubtful account allowances	<u>(864,083)</u>	<u>(614,083)</u>
Net patient accounts receivable	<u>\$ 2,202,511</u>	<u>\$ 3,413,466</u>

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**Note C: Fair Value of Financial Instruments**

Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, requires the fair value of financial assets and liabilities to be determined using a specific fair-value hierarchy. The objective of the fair value measurement of financial instruments is to reflect the hypothetical amounts at which the Center could sell assets or transfer liabilities in an orderly transaction between market participants at the measurement date. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

**Level 1** - Quoted prices in active markets for identical assets;

**Level 2** - Observable inputs other than Level I prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets;

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Pursuant to FASB ASC 820, the Center's investments are classified within Level 1 of the fair-value hierarchy. The types of securities valued based on Level 1 inputs include money market securities. The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
December 31, 2012:				
Money market funds	\$ 908,104	\$ 908,104	\$ -	\$ -
Total	<u>\$ 908,104</u>	<u>\$ 908,104</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2011:				
Money market funds	\$ 667,081	\$ 667,081	\$ -	\$ -
Total	<u>\$ 667,081</u>	<u>\$ 667,081</u>	<u>\$ -</u>	<u>\$ -</u>

The carrying amounts reported in the balance sheets for other financial assets and liabilities that are not measured at fair value on a recurring basis including patient accounts receivable, grant and other receivables, settlement receivables, accounts payable, accrued payroll and other expenses, deferred revenue, long term debt, and estimated third party liabilities approximate fair value.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**Note D: Net Patient Service Revenue**

The Center has agreements with third-party payors that provide payments to the Center at amounts different from its established rates. A summary of the payment arrangements with third-party payors follows:

**Medicare:** Medical services rendered to Medicare program beneficiaries are paid the lower of cost-based reimbursement or the FQHC cap per visit. The Center is reimbursed at a tentative (“interim”) rate, with final settlement determined after submission of annual cost report by the Center and audit thereof by the fiscal intermediary. In the opinion of management, any final settlement of the associated cost reports will not materially affect the financial statements of the Center.

**Medi-Cal:** Medical and dental services rendered to Medi-Cal beneficiaries are paid under a Prospective Payment System, using rates established by the Center’s “Base Years - fiscal years ended June 30, 2000 and 1999” cost reports filed under the previous cost-based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center’s scope of service. The Center is required to file a payment reconciliation report with the state. In the opinion of management, any reconciliation settlement of the payment reconciliation will not materially affect the financial statements of the Center.

**Other:** Payments for services rendered to those payors other than Medicare or Medi-Cal are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

**Note E: Property and Equipment**

Property and equipment consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,659,339	\$ 1,509,339
Building	4,736,789	4,569,306
Leasehold improvements	1,468,597	1,468,597
Equipment	6,609,059	6,560,563
Construction-in-progress	9,191,376	2,017,378
	<u>23,665,160</u>	<u>16,125,183</u>
Less: Accumulated depreciation	(9,301,493)	(8,457,881)
	<u>\$14,363,667</u>	<u>\$ 7,667,302</u>

Depreciation expense for fiscal year ending December 31, 2012 and 2011 was \$871,478 and \$1,131,842, respectfully.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**Note F: Debt Borrowings**

Debt borrowings at December 31, 2012 and 2011 are as follows:

	2012	2011
National Cooperative Bank Building Loan with payments of \$11,597; interest rate of 6.00%. Secured with real property.	\$ 1,575,601	\$ 1,617,268
California Health Facilities Financing Authority Facilities Loans. The 15 year loans mature in 2019 and 2024. Total monthly payments, including interest at 3% were \$5,877. Secured with real property and gross revenues.	578,480	630,793
Umpqua Bank Commercial Loan. Monthly payments of \$15,110; interest rate at 6.92%, matures 2014. Secured by assets.	1,278,649	438,930
OCHN note payable in 2012. Interest rate at 4.00%, secured by equipment.	-	402,559
Umpqua Bank Loan. 119 monthly payments of \$6,661 and one final irregular payment of approximately \$778,862. Interest rate indexed at a 6.25% minimum. Secured with real property.	927,978	949,349
Coast Central Credit Union loan payable in monthly installments of \$521. Interest rate of 5.99%. Secured by vehicle.	9,891	15,372
Arcata Economic Development Corporation loan for \$2,000,000. Interest only, rate of 5.50%. Due June 1, 2014. Secured by property.	1,998,685	1,148,175
Total long-term debt	6,369,284	5,202,446
Less: current portion	(302,145)	(679,917)
	\$ 6,067,139	\$ 4,522,529

The agreed upon repayment schedule indicates future maturities of debt borrowings of \$302,145 in 2013; \$2,312,666 in 2014; \$1,056,890 in 2015; \$140,711 in 2016; \$147,806 in 2017; and \$2,409,067 thereafter.

The Center was in compliance with all debt covenant requirements as of December 31, 2012.

As of December 31, 2012, the Center had available a line-of-credit of \$2,000,000 with a variable interest rate with Umpqua Bank, secured by the Center's assets. There was a balance outstanding on the line-of-credit of \$1,900,000 and \$2,730,250 for the years ending December 31, 2012 and 2011, respectively.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**Note G: Accrued Payroll and Related Liabilities**

Accrued payroll and related liabilities consisted of the following at December 31, 2012 and 2011:

	2012	2011
Accrued payroll	\$ 389,893	\$ 506,493
Accrued vacation	755,820	725,197
Accrued retirement	180,000	180,000
Accrued medical expenses	305,213	238,738
Total	\$1,630,926	\$1,650,428

**Note H: Commitments and Contingencies**

**Medical malpractice** - The Center, including officers, governing board members, employees, and contractors who are physicians or other licensed or certified healthcare practitioners, are covered by professional and general liability insurance. The Center is deemed by the Federal Government and is covered under the Federal Tort Claims Act ("FTCA") for malpractice insurance. The Center also has supplemental professional liability coverage. There are no known claims or incidents that may result in the assertion of additional claims as of the date of this report.

**Pension plan** - The Center has a profit sharing plan and trust for its employees. The Plan is a defined contribution plan covering all full-time employees who have completed one year of service, are over the age of eighteen and have been credited with 1,000 hours of service during the eligibility computation period. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan is administered by a third-party administrator. The annual contribution amount is at the discretion of management. The Center's annual contribution is 3% to 10% of total annual payroll costs. The assets of the Plan are held and invested by the trustee in pooled investments. For the years ended December 31, 2012 and 2011, the Center had accrued liabilities of \$180,000 and \$180,000, respectively.

**Grants and contracts** - Continuing program funding from federal and state sources is contingent upon availability of funds and project performance. The funds are awarded on a yearly basis upon receipt and approval of program applications. In addition, expenses made under federal and state grants are subject to review and audit by the grantor agencies.

**Operating leases** - The Center leases business equipment from various entities under non-cancelable lease terms that expire at various dates through 2016. Future minimum lease payments required under these lease agreements are approximately: \$42,512 in 2013; \$37,774 in 2014; \$27,687 in 2015; \$4366 in 2016; and \$2,183 in 2017.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2012 and 2011**

**Note H: Commitments and Contingencies (continued)**

**Litigation** - The Center may from time-to-time be involved in litigation and regulatory investigations, which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of December 31, 2012, will be resolved without material adverse effect on the Center's future financial position, results from operations or cash flows.

**Risks and uncertainties** - Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs

**Self-Insurance** - The Center is self-insured for employee health insurance benefits. The accrual for self-insurance is evaluated periodically throughout the fiscal year for adequacy based on the Center's claim history. The Center has specific and aggregate excess stop loss insurance. Specific deductible amount per covered participant for the covered period is \$115,000. Calendar year limit of liability per covered participant is \$1,885,000.

**Note I: Functional Classification of Expenses**

	Medical Services	Dental Services	General Admin	Total 2012	Total 2011
Salaries and Benefits	\$15,759,778	\$2,996,611	\$3,469,086	\$22,225,475	\$20,524,023
General and Administrative	178,556	23,908	199,515	401,979	400,043
Space Costs	1,250,776	450,686	308,039	2,009,501	1,942,592
Medical Supplies	4,211,477	483,756	5,611	4,700,844	1,840,446
Equipment Costs	957,558	205,907	230,676	1,394,141	1,016,098
Depreciation	447,416	236,782	187,280	871,478	1,131,843
Contractual Medical Services	325,855	46,275	1,545	373,675	664,378
Interest	210,816	864	111,184	322,864	330,682
Insurance	120,185	14,640	11,034	145,859	165,359
	<u>\$23,462,417</u>	<u>\$4,459,429</u>	<u>\$4,523,970</u>	<u>\$32,445,816</u>	<u>\$28,015,464</u>

**Note J: Subsequent Events**

On January 30, 2013 the Center closed on a loan agreement with Umpqua Bank to refinance existing debt obligations. The loan has a principal balance of \$6,433,000, an annual interest rate of 4.0%, and is secured by Center property and equipment. Monthly payments of \$25,930 includes both principal and interest, and the loan matures on December 24, 2015. This loan paid off the outstanding balances of the Arcata Economic Development Corporation, Coast Central Credit Union, and two Umpqua Bank loans as described in Note F above. The remaining unspent portion of the loan will pay off the National Cooperative Bank loan in August 2013.

**SINGLE AUDIT REPORTS**

**Open Door Community Health Centers  
Schedule of Expenditures of Federal Awards  
For the year ended December 31, 2012**

Federal Grant / Program Title	Federal CFDA Number	Expenditures
<b><u>U.S. Department of Health and Human Services, Public Health Service:</u></b>		
Community Health Custer	*93.224	\$ 3,558,378
ACA – Capital Development Grant	*93.526	6,420,507
Ryan White Part C Outpatient EIS Program	93.918	396,815
<b><u>Passed Through North Coast Clinics Network:</u></b>		
AHEC Program	93.107	20,657
<b><u>Passed Through California Family Health Network:</u></b>		
Title X Family Planning Program	93.217	44,539
		<u>\$ 10,440,896</u>

**Open Door Community Health Centers**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended December 31, 2012**

**Note A: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the expenditures of Open Door Community Health Centers (the “Center”) under programs of the federal government for the year ended December 31, 2012. Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Center.

For purposes of the Schedule, federal awards include all grants and contracts entered into directly between the Center, agencies, and departments of the federal government. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government and Non-Profit Organizations.

**Note B: Basis of Accounting**

For purposes of the Schedule, expenditures for federal programs are recognized on the accrual basis of accounting. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-122, Cost Principles for Non-Profit Organizations.

**Note C: Relationship of Schedule of Expenditures of Federal Awards to Financial Statements**

Consistent with management’s policy, federal awards are recorded in various revenue categories. As a result, the amount of total federal awards expended on the Schedule does not agree to total grant revenue on the Statement of Operations and Changes in Net Assets as presented in the Center’s Report on Audited Financial Statements.

# TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon, Suite 211, Fresno, CA 93720  
Voice (559) 431-7708 Fax (559) 431-7685

*Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards*

Board of Directors  
Open Door Community Health Centers  
Arcata, California

We have audited the financial statements of Open Door Community Health Centers (the "Center") as of and for the year ended December 31, 2012, and have issued our report thereon dated March 23, 2013. 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 of America.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Open Door Community Health Centers' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Open Door Community Health Centers' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness Open Door Community Health Centers' internal control over financial reporting.

A control deficiency 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 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 Center's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### ***Compliance and Other Matters***

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

This report is intended for the information of the board of directors, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

***TCA Partners, LLP***

Fresno, California

March 23, 2013

# TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon, Suite 211, Fresno, CA 93720  
Voice (559) 431-7708 Fax (559) 431-7685

*Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance In Accordance with OMB Circular A-133*

Board of Directors  
Open Door Community Health Centers  
Arcata, California

## ***Compliance***

We have audited the compliance of Open Door Community Health Centers (the “Center”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. Open Door Community Health Centers’ major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Open Door Community Health Centers’ management. Our responsibility is to express an opinion on Open Door Community Health Centers’ compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Open Door Community Health Centers’ compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Open Door Community Health Centers’ compliance with those requirements.

In our opinion, Open Door Community Health Centers complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2012.

### ***Internal Control Over Compliance***

The management of Open Door Community Health Centers is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Open Door Community Health Centers' internal control over compliance.

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

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

This report is intended solely for the information and use of the board of directors, management, state and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

***7CA Partners, LLP***

Fresno, California

March 23, 2013

**Open Door Community Health Centers  
Schedule of Findings and Questioned Costs  
For the year ended December 31, 2012**

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued	Unqualified	
Internal Control over financial reporting: Material weakness identified?	_____ Yes	<u>  X  </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	<u>  X  </u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	<u>  X  </u> No

**Federal Awards**

Internal control over major programs: Material weakness identified?	_____ Yes	<u>  X  </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	<u>  X  </u> None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	<u>  X  </u> No

**Major Programs**

	<u>CFDA Number</u>
Community Health Custer	93.224
ACA – Capital Development Grant	93.526
Dollar threshold used to distinguish Types A and B programs	\$ 313,227
Auditee qualified as low-risk auditee?	<u>  X  </u> Yes      _____ No

**Open Door Community Health Centers  
Schedule of Findings and Questioned Costs  
For the year ended December 31, 2012**

**II. Current Year Audit Findings and Questioned Costs**

**Financial Statement Findings**

None Reported

**Federal Award Findings And Questioned Costs**

None Reported

**III. Prior Year Audit Findings and Questioned Costs**

None Reported