

San Ysidro Health Center, Inc.

AUDITED FINANCIAL STATEMENTS

For The Years Ended December 31, 2012 and 2011

San Ysidro Health Center, Inc.

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

Board of Directors
San Ysidro Health Center, Inc.
San Ysidro, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Ysidro Health Center, Inc. (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 San Ysidro Health Center, Inc. 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

San Ysidro Health Center, Inc.
Balance Sheets
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,770,838	\$ 7,828,801
Patient accounts receivable, net	5,149,223	4,428,410
Grants, contracts and other receivables	1,860,089	3,068,086
Estimated third-party payor settlements	1,594,045	148,155
Inventories	335,693	332,746
Prepaid assets	503,415	422,751
Total current assets	13,213,303	16,228,949
Property and equipment, net	47,546,221	39,065,952
Security deposits	424,916	233,420
Total assets	\$ 61,184,440	\$ 55,528,321
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	3,674,994	3,520,706
Accrued compensation	3,747,360	3,496,684
Line-of-credit	1,344,151	1,841,394
Long-term debt, current portion	292,813	237,740
Deferred revenue	294,349	418,170
Total current liabilities	9,353,667	9,514,694
Long-term debt	14,668,784	14,410,695
Total liabilities	24,022,451	23,925,389
Unrestricted net assets	36,869,900	31,497,406
Temporarily restricted net assets	292,089	105,526
Total net assets	37,161,989	31,602,932
Total liabilities and net assets	\$ 61,184,440	\$ 55,528,321

See accompanying Notes to the Financial Statements

San Ysidro Health Center, Inc.
Statements of Operations and Changes in Net Assets
For the years ended December 31, 2012 and 2011

	2012	2011
Change in Unrestricted Net Assets:		
Revenue and other support:		
Patient and third party revenue, net	\$ 55,913,311	\$ 50,123,199
Grant revenue	19,708,128	21,520,013
Other	2,840,432	1,061,973
Interest	11,490	15,575
Net assets released from restriction	51,120	13,055
Total unrestricted revenue and other support	78,524,481	72,733,815
Expenses:		
Salaries and benefits	48,084,051	41,703,876
Medical supplies and drugs	7,499,500	6,477,805
Medical contractual services	2,401,444	2,426,408
Purchased services	3,854,235	2,850,755
Space costs	2,904,423	2,698,048
Other	1,756,288	1,599,049
Depreciation and amortization	1,988,667	1,816,054
Office and other consumable supplies	876,212	746,319
Repairs and maintenance	722,733	640,577
Communications	368,185	329,383
Travel, conferences and meetings	418,741	310,737
Insurance	349,116	335,085
Minor equipment	369,804	467,298
Interest	847,638	791,279
Total expenses	72,441,037	63,192,673
Excess of revenues over expenses	6,083,444	9,541,142
Loss on disposal of building	710,950	-
Change in unrestricted net assets	5,372,494	9,541,142
Change in Temporarily Restricted Net Assets:		
Contributions	237,683	5,126
Net assets released from restriction	(51,120)	(13,055)
Change in temporarily restricted net assets	186,563	(7,929)
Change in net assets	5,559,057	9,533,213
Net Assets:		
Beginning of year	31,602,932	22,069,719
End of year	\$37,161,989	\$31,602,932

See accompanying Notes to the Financial Statements

San Ysidro Health Center, Inc.
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 5,559,057	\$ 9,533,213
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,988,667	1,816,054
Loss on disposal of building	710,950	-
Changes in operating assets and liabilities:		
Change in patient accounts receivable	(720,813)	(1,394,188)
Change in grants and contracts receivables	1,207,997	(1,156,218)
Change in inventories	(2,947)	(25,744)
Change in prepaid assets	(80,664)	(129,642)
Change in security deposits	(191,496)	(80,329)
Change in accounts payable and accrued expenses	154,288	1,416,549
Change in accrued compensation	250,676	400,061
Change in estimated third-party payor settlements	(1,445,890)	394,970
Change in deferred revenue	(123,821)	(51,452)
Net cash provided by operating activities	7,306,004	10,723,274
Cash flows from investing activities:		
Acquisition of property and equipment	(11,179,886)	(9,890,329)
Net cash used in investing activities	(11,179,886)	(9,890,329)
Cash flows from financing activities:		
Change in line-of-credit	(497,243)	1,841,394
Net Borrowings	550,000	-
Principal payments on long-term debt	(236,838)	(248,258)
Net cash provided by (used in) financing activities	(184,081)	1,593,136
Net increase (decrease) in cash and cash equivalents	(4,057,963)	2,426,081
Cash and Cash Equivalents:		
Cash at beginning of year:	7,828,801	5,402,720
Cash at end of year:	\$ 3,770,838	\$ 7,828,801
Supplemental disclosure of cash flow information:		
Interest paid	\$ 847,638	\$ 791,279

See accompanying Notes to the Financial Statements

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note A: Organization and Operations

Centro De Salud De La Comunidad De San Ysidro, Inc. (d/b/a San Ysidro Health Center, Inc.) (the "Center"), a not-for-profit organization, was organized as a volunteer program in August 1968 by local area residents and incorporated in 1971, for the purpose of providing low-cost, high quality, comprehensive primary care services to residents of San Diego County's South Bay Region. In addition to its principal healthcare center in San Ysidro at 4004 Beyer Boulevard, the Center provides health services at National City Family Clinic, Chula Vista Family Clinic, South Bay Family Dental Clinic, Otay Family Health Center, South Bay Family Health Center, Comprehensive Health Center (CHC) – Ocean View, CHC – Downtown, CHC – Euclid, San Diego Children's Dental Clinic, Maternal Child Health Center, and Paradise Health Family Center, as well as several satellite offices. The Center provides a variety of medical, dental, mental health, health education and enabling services. The Center derives its support through grants and contracts with the U.S. Department of Health and Human Services ("DHHS"), the State of California, the County of San Diego, and various other entities. Additionally, revenues are derived from patient fees and third party charges.

Note B: Summary of Significant Accounting Policies

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The checking and investments are on deposit with various financial institutions. As of December 31, 2012 and 2011 the carrying amount of all the accounts, excluding petty cash and net of outstanding checks were \$3,761,125 and \$7,819,926, respectively. Of the bank balances, per the various financial institutions as of December 31, 2012 and 2011, \$1,163,475 and \$1,751,200, respectively was covered by federal depository insurance and \$2,597,650 and \$6,068,726, respectively, was uninsured.

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 those receivables.

Third-Party Contractual Agreements:

The Center has agreements with Medicare that provide payments under a cost-based reimbursement 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 system are final, unless the number of reimbursable visits is changed as a result of an audit by the State of California, Department of Healthcare Services. In addition, under the Medi-Cal PPS, the Center may apply for a change-in-scope of services annually. This process may result in additional Medi-Cal reimbursement for the Center.

Inventories:

Inventories consist of pharmaceutical, medical and office supplies and are stated at cost. Due to rapid turnover of supplies, cost approximates market value.

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note B: Summary of Significant Accounting Policies (continued)

Property, Building and Equipment:

Land, building and equipment are carried at cost or estimated fair value at date of acquisition. The Center capitalizes all acquisitions greater than \$5,000. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from three to forty years. Leasehold improvements are amortized on a straight-line method over the estimated useful life of the improvement or the term of the lease, whichever is less. Construction-in-progress is recorded at cost and is capitalized upon completion. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

Temporarily and Permanently Restricted Net Assets:

Contributions, including government grants and contracts, are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restrictions ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

Income Taxes:

San Ysidro Health Center, Inc. is a private not-for-profit corporation organized under the laws of the State of California. The Center has been determined to be exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the State of California Revenue and Taxation Code by the IRS and Franchise Tax Board, respectively. Accordingly, no provision for income taxes is included in the accompanying financial statements.

Revenue Recognition:

Patient service revenue is recorded at the Center's established rates adjusted for sliding fee scale discounts, provisions for uncollectible accounts and third-party contractual allowances to arrive at net service revenue. Revenue from government grants and contracts restricted for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Cash received in excess of revenue recognized is recorded as refundable advances.

At December 31, 2012 and 2011, the Center has received notification of conditional grants, contracts and loans from governmental entities in the aggregate amount of \$25,796,249 and \$25,796,249, respectively; that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Use of Estimates:

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

San Ysidro Health Center, Inc.
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.

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	\$ 3,087,937	\$ 3,087,937	\$ -	\$ -
Total	<u>\$ 3,087,937</u>	<u>\$ 3,087,937</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2011:				
Money market funds	\$ 5,249,213	\$ 5,249,213	\$ -	\$ -
Total	<u>\$ 5,249,213</u>	<u>\$ 5,249,213</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.

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note D: Patient Accounts Receivable

Patient accounts receivable are comprised of the following payors at December 31, 2012 and 2011:

	2012	2011
Medicare	\$ 883,255	\$ 913,503
Medi-Cal	2,649,765	2,740,509
Other third-party payors	3,085,617	2,657,463
Private Pay	1,927,102	1,993,097
Total patient accounts receivable, gross	8,545,739	8,304,572
Less allowance for doubtful accounts	(3,396,516)	(3,876,162)
Total patient accounts receivable, net	\$ 5,149,223	\$ 4,428,410

Note E: Grants, Contracts and Other Receivables

Grants and contract receivables are comprised of the following at December 31, 2012 and 2011:

	2012	2011
County of San Diego - Mental Health Program	\$ 133,489	\$ 142,861
Women, Infants and Children program	445,317	562,574
AIDS program	326,766	175,461
HRSA – CIP & FIP	-	1,449,144
Research Projects	348,746	177,636
Miscellaneous grants and other receivables	605,771	560,410
Total	\$ 1,860,089	\$ 3,068,086

Note F: Estimated Third-Party Payor Settlements

The Center has recorded a receivable from the State Medi-Cal program for the managed care reconciliation calculation; the established receivable at December 2012 and 2011 was \$1,594,045 and \$148,155, respectively.

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note G: Property and Equipment

Land, building and equipment at December 31, 2012 and 2011 was comprised of the following:

	2012	2011
Land	\$ 1,116,361	\$ 667,361
Construction-in-progress	737,029	5,960,317
Building	44,113,156	33,870,306
Leasehold improvements	2,421,964	1,894,220
Equipment	13,892,206	9,581,081
Subtotal	62,280,716	51,973,285
Accumulated depreciation	(14,734,495)	(12,907,333)
Total	\$ 47,546,221	\$ 39,065,952

Construction-in-progress at December 31, 2012 and 2011 consisted primarily of various site renovations and planning costs for a new facility.

Note H: Net Patient 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 agreements with third party payors follows:

Medicare:

Medical services rendered to Medicare program beneficiaries are paid under a cost-based reimbursement system. The Center is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of the annual cost report by the Center and audit thereof by the fiscal intermediary.

Medi-Cal:

Medical and dental services rendered to Medi-Cal beneficiaries are paid under the Prospective Payment System (PPS) using rates established by the Center's "Base Year" cost report 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.

Note I: Accrued Compensation

The balance of accrued compensation at December 31, 2012 and 2011 was comprised of the following:

	2012	2011
Accrued payroll	\$1,754,940	\$1,526,884
Accrued vacation	1,659,304	1,472,396
Accrued other liabilities	333,116	497,404
Total	\$3,747,360	\$3,496,684

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note J: Donated Services and Facilities

Donated services are those services which have been received, valued and recorded. Contributed services are those services which are received but not valued or recorded. It is the policy of Center to encourage contributions from the greater San Diego Metropolitan area. Donated services and facilities are valued at prevailing market rates. Certain immaterial services and facilities contributed to the Center have not been valued or recorded

Note K: Sliding Fee Scale Discounts

As described in Note B, the Center records sliding fee discounts as a contra-revenue account. The amount of sliding fee discounts for the years ended December 31, 2012 and 2011 was approximately \$2,087,156 and \$3,350,580, respectively.

Note L: Long-term Debt

Long-term debt consists of the following at December 31, 2012 and 2011:

	2012	2011
Note payable - The Center entered into a loan agreement with National Cooperative Bank Capital Impact (NCBCI) for \$4,000,000 at 6.0% annual interest. The loan is payable in monthly installments of \$25,976, which includes principal and interest. The Note matures in 2030 and is secured with the Center's real property and assets. The Note is guaranteed through a "Federal Loan Guarantee" program. A subordination agreement exists between NCBCI, HRSA and the Center.	\$3,397,343	\$3,498,444
Note payable - The Center entered into two notes with National Cooperative Bank for a combined total of \$10,000,000 at 6.14% and 2.898% fixed annual interest. The notes are payable in interest only quarterly payments for the first seven years. The Notes were entered into in 2007, matures in 2022, and are secured with the Center's real property and assets.	10,000,000	10,000,000
Notes payable - The Center assumed a note with Neighborhood Bank upon the acquisition of National Medical Association Comprehensive Health Center (NMACHC). The loan is payable in monthly installments of \$4,300 for the first 12 months, which reflects only interest payments and \$5,257.76 for the next 24 months beginning March 22, 2011. Beginning May 22, 2011 and April 22, 2018 the monthly installment will be based on the unpaid principal at the current 11 th District Cost of Funds index rate plus 3.25%. The current interest rate is 4.719%. The note is secured with a Deed of Trust on the real property acquired by the Center and matures on April 22, 2018 in which a balance of \$615,103 is due.	683,456	702,812

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note L: Long-term Debt (continued)

	2012	2011
Notes payable - The Center assumed a note with the California Health Facilities Authority (CHFFA) upon the acquisition of National Medical Association Comprehensive Health Center. The loan is payable in monthly installments of \$3,000 at zero interest rate and matures May 2012.	-	11,508
Note payable - The Center entered into a loan agreement with National Cooperative Bank for \$452,494 at a 3.175% annual interest rate. The principal payments are \$8,675 for 60 months. The Note matures in 2016 and is secured with the Center's assets.	330,798	431,195
Note payable - The Center entered into a loan agreement with National Cooperative Bank for \$550,000 at a 3.175% annual interest rate. The principal payments are \$9,926 for 60 months. The Note matures in 2018 and is secured with the Center's assets.	550,000	-
Lease payable - The Center assumed an equipment lease with Bryn Mawr Funding upon the acquisition of National Medical Association Comprehensive Health Center. The lease is payable in monthly installments of \$1,015 at an interest rate of 10.5%. The lease is secured by the radiology equipment and matures May 2012.	-	4,476
Total long-term debt	14,961,597	14,648,435
Less: current portion	(292,813)	(237,740)
	\$14,668,784	\$14,410,695

The Center is subject to certain financial covenants including but not limited to, a minimum current ratio and a net worth ratio. The Center met all the debt covenants at December 31, 2012 and 2011.

The Center has obtained a line-of credit of \$5,000,000 as of December 31, 2012. The Center has drawn down as of December 31, 2012 and 2011, \$1,344,151 and \$1,841,394, respectively.

Future principal and interest payments are as follows for the years ended December 31:

Year	Principal	Interest	Total
2013	292,813	791,281	1,084,094
2014	432,460	784,511	1,216,971
2015	1,401,974	729,065	2,131,039
2016	1,367,689	660,163	2,027,852
2017	1,429,908	588,414	2,018,322
Thereafter	10,036,753	2,758,226	12,794,979
Total	\$14,961,597	\$6,311,660	\$21,273,257

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note M: Concentration 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 accounts receivables from patients and third-party payors at December 31, 2012 and 2011 was as follows:

<u>Payor Class</u>	<u>2012</u>	<u>2011</u>
Medicare	10%	11%
Medi-Cal	31%	33%
Other third-party payors	36%	32%
Private pay	23%	24%
Total	<u>100%</u>	<u>100%</u>

Note N: Deferred Revenue

Deferred revenue consists of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Kaiser Permanente	\$ 20,000	\$ 10,469
Amigos de CASA	19,715	20,000
Blue Shield of California Foundation	11,670	11,670
CASA Donations	24,381	15,590
The San Diego Foundation	44,194	102,821
Komen Foundation	33,561	-
Poder Foundation	31,255	-
The Tides Foundation	-	49,469
Other	109,573	208,151
Total	<u>\$ 294,349</u>	<u>\$ 418,170</u>

Note O: Operating Lease Commitments

The Center leases certain facilities and equipment under operating leases expiring at various times through 2012. Future minimum lease payments for the succeeding five years under these committed lease arrangements is approximately: \$1,121,058 in 2013; \$1,108,111 in 2014; \$690,687 in 2015; \$487,956 in 2016, and \$354,698 in 2017. Total rent expense for the years ended December 31, 2012 and 2011 was \$2,098,800 and \$2,038,129, respectively.

San Ysidro Health Center, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note P: Medical Malpractice Claims

The Center is deemed an employee of the federal government and is covered for malpractice insurance under the Federal Tort Claims Act ("FTCA"). The Center also has supplemental Professional Liability coverage for individual claims up to \$2,000,000 and aggregate annual claims up to \$4,000,000. The Center has on-going litigation claims as result of its normal course of operations; however, in the opinion of management, these claims will be fully covered by the Center's insurance coverage and will not have a material adverse effect upon the financial statements.

Note Q: Retirement Plan

The Center sponsors a non-ERISA 403(b) plan covering substantially all of its employees. The accounts are held entirely in the names of the participants without direction from the Center for any of their activities. Contributions to the plans are discretionary. The board of directors decided that no contribution would be made for the years ended December 31, 2012 and 2011.

Note R: Functional Expenses

The Center provides healthcare services primarily to residents within its geographic area. Expenses related to providing these healthcare services are as follows:

	2012	2011
Healthcare services	\$ 59,039,445	\$ 50,554,138
General and administrative	13,401,592	12,638,535
Total	\$ 72,441,037	\$ 63,192,673

Note S: Subsequent Events

On March 19, 2013 the Center issued \$37,730,000 of Insured Revenue Bonds through the California Municipal Finance Authority. The proceeds of the Bonds will be used to (a) finance the acquisition and renovation of an existing building in Chula Vista, California, to consolidate three of the Center's existing clinics into one location over the next 4 years; (b) finance the acquisition and upgrading of a currently leased building located in San Diego, California; (c) refinance a loan associated with the acquisition of an existing building which was demolished to construct a community health center located in San Diego, California, refinance a loan associated with the acquisition of an adjacent building which was demolished to provide parking and finance improvements to that health center; (d) refinance a line of credit associated with acquisition and renovation of a community health center in San Diego, California; (e) refinance a loan associated with the acquisition and renovation of the Center's administration building located in San Diego, California; (f) fund reserve funds for the Bonds; and (g) pay certain of the costs of issuance of the Bonds. The Bonds bear interest at rates ranging from two to five percent, payable semi-annually, commencing September 1, 2013 and are secured by the Center's property.

SINGLE AUDIT REPORTS

San Ysidro Health Center, Inc.
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

Federal Grant / Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Direct Programs:		
Community Health Custer	*93.224	\$ 6,572,116
ARRA – Facility Investment Program	*93.703	4,459,468
Health Care and Other Facilities	93.887	115,104
ACA – Grants for School-Based Health Centers Capital Program	*93.501	451,958
Healthy Tomorrow’s Partnership for Children	93.110	56,415
Women’s Partner Program	93.015	42,097
Ryan White Title III	93.918	702,411
		12,399,569
Passed Through:		
Family Health Centers of San Diego:		
AIDS Prevention	93.939	30,414
County of San Diego:		
Ryan White Care Act: Early Intervention Services - CASA	*93.914	113,800
Ryan White Care Act: Early Intervention Services - Our Place	*93.914	13,593
Ryan White Care Act: Early Intervention Services - Field Outreach	*93.914	79,381
Ryan White Care Act: HIV Case Management	*93.914	281,342
Ryan White Care Act: HIV Case Management South East	*93.914	38,052
Ryan White Care Act: Minority Aids Initiative	*93.914	85,665
Ryan White Care Act: Minority Aids Initiative QM	*93.914	4,297
Ryan White Care Act: Counseling and Testing	*93.914	47,088
Ryan White Care Act: Prevention	93.940	151,192
Ryan White Care Act: Early Intervention Program HCP	93.917	168,878
Ryan White Care Act: Early Intervention Program Bridge Program	93.917	43,234
Ryan White Care Act: Expanded HIV Testing	93.943	203,387
University of California at San Francisco:		
Disparities in Children's Oral Health (GIFVT Project)	93.121	501,690
San Diego State University Research Foundation:		
LUNA Project	93.307	268,530
PRC Project	93.135	6,980
LUCES Project	93.847	107,723
California Family Health Council, Inc.:		
Title X Family Planning Program	93.217	126,876
Total Department of Health & Human Services		\$ 14,671,691

San Ysidro Health Center, Inc.
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

Federal Grant / Program Title	CFDA Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:		
Passed Through:		
California State Department of Health and Human Services Agency: Special Supplemental Food Program for Women, Infants and Children	*10.557	\$ 2,441,852
California State Department of Public Health Network for Healthy California	10.561	66,363
National Cooperative Bank Capital Impact Corporation HRSA Federal Guarantor Program Loan # 37-5414600	*93.UNK	330,797
National Cooperative Bank Capital Impact Corporation HRSA Federal Guarantor Program Loan # 37-5215000	*93.UNK	3,397,343
National Cooperative Bank Capital Impact Corporation HRSA Federal Guarantor Program Loan # 37-52741003	*93.UNK	10,000,000
Total federal financial assistance		<u>\$ 30,908,046</u>

* Denotes major program

San Ysidro Health Center, Inc.
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 San Ysidro Health Center, Inc. (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

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

Board of Directors
San Ysidro Health Center, Inc.
San Ysidro, California

We have audited the financial statements of San Ysidro Health Center, Inc. (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 San Ysidro Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Ysidro Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Ysidro Health Center's 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 San Ysidro Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Board of Directors
San Ysidro Health Center, Inc.
San Ysidro, California

Compliance

We have audited the compliance of San Ysidro Health Center, Inc. (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. San Ysidro Health Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of San Ysidro Health Center's management. Our responsibility is to express an opinion on San Ysidro Health Center's compliance based on our audit.

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

In our opinion, San Ysidro Health Center 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 San Ysidro Health Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered San Ysidro Health 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 San Ysidro Health Center's internal control over compliance.

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

Our consideration of 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

San Ysidro Health Center, Inc.
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
ARRA - Facility Investment Program	93.703
ACA – Grants for School-Based Health Centers Capital Program	93.501
Ryan White Care Act: Early Intervention Services - CASA	93.914
Ryan White Care Act: Early Intervention Services - Our Place	93.914
Ryan White Care Act: Early Intervention Services – Field Outreach	93.914
Ryan White Care Act: HIV Case Management	93.914
Ryan White Care Act: HIV Case Management South East	93.914
Ryan White Care Act: Minority Aids Initiative	93.914
Ryan White Care Act: Minority Aids Initiative QM	93.914
Ryan White Care Act: Counseling and Testing	93.914
Special Supplemental Food Program for Women, Infants and Children	10.557
National Cooperative Bank Capital Impact Federal Guarantor Program	93.UNK
National Cooperative Bank Capital Impact Federal Guarantor Program	93.UNK
National Cooperative Bank Capital Impact Federal Guarantor Program	93.UNK
Dollar threshold used to distinguish Types A and B programs	\$ 515,397
Auditee qualified as low-risk auditee?	_____ <u>X</u> Yes _____ No

San Ysidro Health Center, Inc.
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