VENICE FAMILY CLINIC

(A NONPROFIT ORGANIZATION)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2012
AND
SUPPLEMENTAL SCHEDULES REQUIRED
BY *OMB CIRCULAR A-133* AND
THE STATE OF CALIFORNIA DEPARTMENT OF EDUCATION
FOR THE YEAR ENDED
JUNE 30, 2012

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONTENTS
June 30, 2012

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONTENTS
June 30, 2012

SingerLewak LLP
www.SingerLewak.com
Los Angeles
Orange County
Woodland Hills
Monterey Park
Silicon Valley
San Francisco
50+ YEARS SINCE 1959

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Venice Family Clinic
Venice, California

We have audited the accompanying consolidated statement of financial position of Venice Family Clinic and affiliate (the "Clinic") as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Clinic's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year's summarized comparative information has been derived from the Clinic's 2011 financial statements and, in our report dated December 3, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Venice Family Clinic and affiliate as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 on our consideration of the Clinic's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

10960 Wilshire Blvd., 7th Floor Los Angeles, CA 90024 T: 310.477.3924 F: 310.478.6070
877.754.4557

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by US 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position, statement of activities and cash flows of the individual organizations and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
December 7, 2012

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2012
(with Comparative Totals at June 30, 2011)

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	$ 1,694,224	$ 1,627,699
Short-term investments	1,193,301	191,323
Accounts receivable, net of allowance for doubtful accounts of $343,379 and $835,745, respectively	2,549,300	2,467,161
Grants and contributions receivable – short-term, net of allowance for doubtful accounts of $25,000 and $25,000, respectively	3,560,895	3,521,144
Pharmaceutical inventories	800,707	1,206,369
Prepaid expenses and other assets	114,959	114,773
Total current assets	9,913,386	9,128,469
Long-term investments	3,891,030	5,416,875
Contributions receivable – long-term, net of discount	2,103,541	1,832,078
Beneficial interest in charitable remainder trusts	473,484	519,104
Property and equipment, net	6,481,308	6,846,347
Total assets	**$ 22,862,749**	**$ 23,742,873**

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities		
Lines of credit	$ 3,000,000	$ 1,000,000
Notes payable, current	203,093	144,717
Accounts payable and accrued expenses	228,231	861,609
Total current liabilities	3,431,324	2,006,326
Notes payable, net of current portion	554,733	487,954
Pledge liabilities	-	557,646
Total liabilities	3,986,057	3,051,926
Commitments and contingencies (Note 13)		
Net assets		
Unrestricted	7,498,085	8,128,189
Temporarily restricted	6,104,550	8,338,701
Permanently restricted	5,274,057	4,224,057
Total net assets	18,876,692	20,690,947
Total liabilities and net assets	**$ 22,862,749**	**$ 23,742,873**

The accompanying notes are an integral part of these consolidated financial statements.

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012
(with Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Revenues, gains and other support					
Private and community support	$ 5,148,261	$ 1,517,749	$ 1,050,000	$ 7,716,010	$ 9,332,050
Government support	5,180,344	-	-	5,180,344	6,386,061
Third-party reimbursement for services, net of contractual allowances and discounts	9,416,713	-	-	9,416,713	9,774,680
Provision for bad debts	(113,446)	-	-	(113,446)	(85,344)
Net Third-party reimbursement for services net of provision for bad debts	9,303,267	-	-	9,303,267	9,689,336
Interest and dividend income	9,297	203,712	-	213,009	213,493
Realized and unrealized gains (losses) on Investments	(260)	(326,403)	-	(326,663)	454,452
Gain on sale of donated property	594,067	-	-	594,067	-
Net assets released from restriction	3,217,806	(3,217,806)	-	-	-
Total revenue, gains and other support	23,452,782	(1,822,748)	1,050,000	22,680,034	26,075,392
Expenses					
Program services					
Health care	15,473,491	-	-	15,473,491	14,848,485
Children First Program	2,538,283	-	-	2,538,283	2,764,146
Education and outreach	1,030,312	-	-	1,030,312	1,061,478
Total program services	19,042,086	-	-	19,042,086	18,674,109
Support services					
Management and general	3,519,252	-	-	3,519,252	3,612,785
Fundraising	1,521,548	-	-	1,521,548	1,562,758
Total supporting services	5,040,800	-	-	5,040,800	5,175,543
Total expenses	24,082,886	-	-	24,082,886	23,849,652
In-kind contributions					
Revenue	4,154,948	14,217,335	-	18,372,283	17,668,263
Net assets released from restrictions	14,628,738	(14,628,738)	-	-	-
Total revenues and other support	18,783,686	(411,403)	-	18,372,283	17,668,263
Expenses (in-kind)					
Program services					
In-kind laboratory and x-ray services	1,668,422	-	-	1,668,422	1,168,422
Physician and other clinical volunteers	1,998,007	-	-	1,998,007	1,776,489
Children First Program volunteers	12,579	-	-	12,579	15,176
In-kind pharmaceutical & lab supplies	14,628,738	-	-	14,628,738	14,171,506
Other in-kind supplies and services	244,005	-	-	244,005	350,966
In-kind insurance	231,935	-	-	231,935	233,884
Total expenses	18,783,686	-	-	18,783,686	17,716,443
Net in-kind contributions	-	(411,403)	-	(411,403)	(48,180)
Change in net assets	(630,104)	(2,234,151)	1,050,000	(1,814,255)	2,177,560
Net assets, beginning of year	8,128,189	8,338,701	4,224,057	20,690,947	18,513,387
Net assets, end of year	**$ 7,498,085**	**$ 6,104,550**	**$ 5,274,057**	**$ 18,876,692**	**$ 20,690,947**

The accompanying notes are an integral part of these consolidated financial statements.

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012
(with Comparative Totals for the Year Ended June 30, 2011)

	Program Services				Supporting Services			
	Health Care	Children First Program	Education and Outreach	Total	Management and General	Fundraising	2012 Total	2011 Total
Salaries	$ 9,108,708	$ 1,266,947	$ 619,506	$ 10,995,161	$ 1,872,195	$ 608,926	$ 13,476,282	$ 12,878,068
Employee benefits	3,501,207	503,413	213,560	4,218,180	673,447	211,745	5,103,372	4,526,463
Professional and contractual fees	690,747	153,877	100,328	944,952	94,428	148,425	1,187,805	1,831,285
Utilities and rent	290,151	101,967	12,502	404,620	74,274	3,149	482,043	516,761
Repairs and maintenance	337,326	35,067	10,841	383,234	86,571	10,433	480,238	541,940
Fundraising event expenses	-	-	-	-	-	447,089	447,089	405,700
Computer/software/office supplies	297,505	36,016	8,168	341,689	56,903	8,442	407,034	300,586
Medical supplies and medical waste removal	269,361	-	1,119	270,480	-	-	270,480	361,154
Licenses, fees and dues	20,614	2,409	33	23,056	181,309	13,806	218,171	247,930
Insurance	-	8,227	-	8,227	200,899	-	209,126	190,474
Pharmaceutical and lab supplies	198,077	-	3,223	201,300	-	-	201,300	317,164
Telephone	19,673	19,276	-	38,949	121,434	223	160,606	138,732
Travel, training and workshops	20,433	111,783	2,193	134,409	17,146	1,376	152,931	155,964
Postage, printing and subscriptions	81,560	13,888	8,736	104,184	12,335	34,042	150,561	167,497
Child care	-	147,254	-	147,254	390	-	147,644	148,306
Laboratory, x-ray and dental services	75,258	-	-	75,258	-	-	75,258	79,033
Interest	-	-	-	-	68,037	-	68,037	19,789
Miscellaneous	8,246	11,680	11,425	31,351	17,061	15,751	64,163	83,072
Participant supplies/activities/incentives	13,163	41,613	6,183	60,959	-	-	60,959	82,923
Transportation of patients/clients	29,655	8,087	100	37,842	-	-	37,842	55,079
Equipment and supplies	3,247	2,021	1,509	6,777	296	-	7,073	149,961
Total before depreciation and amortization	14,964,931	2,463,525	999,426	18,427,882	3,476,725	1,503,407	23,408,014	23,197,881
Depreciation and amortization	508,560	74,758	30,886	614,204	42,527	18,141	674,872	651,771
Total functional expenses, excluding in-kinc	15,473,491	2,538,283	1,030,312	19,042,085	3,519,252	1,521,548	24,082,886	23,849,652
In-kind expenses	18,529,578	254,108	-	18,783,686	-	-	18,783,686	17,716,443
Total functional expenses	**$ 34,003,069**	**$ 2,792,391**	**$ 1,030,312**	**$ 37,825,771**	**$ 3,519,252**	**$ 1,521,548**	**$ 42,866,572**	**$ 41,566,095**

The accompanying notes are an integral part of these consolidated financial statements.

VENICE FAMILY CLINIC

(A NONPROFIT ORGANIZATION)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

(with Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (1,814,255)	$ 2,177,560
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	674,872	651,771
(Recovery) Provision for allowance for doubtful accounts	(492,366)	(612,662)
Net realized and unrealized (gains) losses on long-term investments	326,663	(454,452)
Contributions to endowment funds	(1,050,000)	-
Gain on disposal of donated property	(594,067)	-
Changes in operating assets and liabilities		
Accounts receivable	410,227	(839,509)
Grants and contributions receivable	(311,214)	(1,807,551)
Pharmaceutical inventories	405,662	60,796
Prepaid expenses and other assets	(186)	(2,631)
Accounts payable and accrued expenses	(633,378)	(269,049)
Net cash used in operating activities	(3,078,042)	(1,095,727)
Cash flows from investing activities		
Purchases of property and equipment	(310,090)	(766,648)
Purchases of long-term investments	(1,400,000)	(500,000)
Net proceeds from sale of donated property	1,430,458	-
Net proceeds from sale of investments	249,044	964,470
Net cash used in investing activities	(30,588)	(302,178)
Cash flows from financing activities		
Line of credit proceeds	2,000,000	250,000
Proceeds from note payable	269,872	750,000
Payments on note payable	(144,717)	(117,329)
Contributions to endowment funds	1,050,000	-
Net cash provided by financing activities	3,175,155	882,671
Net increase (decrease) in cash and cash equivalents	66,525	(515,234)
Cash and cash equivalents, beginning of year	1,627,699	2,142,933
Cash and cash equivalents, end of year	**$ 1,694,224**	**$ 1,627,699**
Supplemental disclosure of cash flow information		
Interest paid	**$ 68,037**	**$ 19,789**

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – NATURE OF OPERATIONS

Venice Family Clinic and affiliate (the “Clinic”) is a private, nonprofit, community-based free clinic founded in 1970 to meet the health care needs of the low-income residents of Venice, California and the surrounding community. The Clinic’s mission is to “provide free, quality health care to people in need.”

The consolidated financial statements include the accounts of the Venice Family Clinic (“VFC”) and the Venice Family Clinic Foundation (the “Foundation”), collectively, the Clinic.

VFC serves as a medical home, providing coordinated and comprehensive medical, dental and mental health services that include pediatrics, general adult medicine, women’s, senior, homeless and chronic care services, prenatal care, specialty clinics in cardiology, dermatology, ear/nose/throat, gastroenterology, gynecology, neurology, ophthalmology, optometry, orthopedics and podiatry, psychological services, diagnostic tests and medications. Health care is provided five days and four evenings per week, with 79,154 primary health care visits, 7,160 specialty care visits, 4,464 dental visits, 7,509 mental health care visits and 7,982 health education visits provided during the year ended June 30, 2012 (unaudited).

During the year ended June 30, 2012, VFC provided services to 23,802 patients (unaudited), primarily the uninsured working poor, unemployed and homeless and the vast majority of those who have incomes below the poverty level and no health insurance. A high proportion of VFC’s children and adult patients are minority group members. VFC’s primary service area includes Venice, Santa Monica, Palms, Mar Vista, Inglewood, Culver City and Midtown, all in Los Angeles County.

VFC is affiliated with the UCLA School of Medicine. As part of this affiliation, UCLA provides payroll and personnel services, personnel training services and workers’ compensation insurance to VFC at minimal charge and medical malpractice insurance at no charge. VFC contributes to the University of California Retirement Plan (“UCRP” or the “Plan”), a multi-employer retirement system that acts as a common investment and administrative agent.

VFC trains medical residents from eleven residency programs at UCLA, Santa Monica-UCLA Medical Center and Orthopaedic Hospital, Kaiser Permanente-Sunset, Cedars-Sinai Medical Center and the Veterans Administration. Approximately 2,500 people volunteered in fiscal year 2012 (unaudited), including approximately 500 physicians (unaudited). The Clinic estimates that it received 64,100 (unaudited) total volunteer hours, including 8,500 (unaudited) general and administrative volunteer hours; such general and administrative hours are not represented in the financial statements.

NOTE 1 – NATURE OF OPERATIONS (Continued)

VFC provides services to eligible patients under Medi-Cal, Healthy Families, Healthy Kids and Medicare programs, which represents approximately 38% of the total patients served. Under the Prospective Payment System ("PPS") program, VFC receives a fixed rate reimbursement from Medi-Cal. The rate is adjusted every October for annual Medicare Economic Indexes ("MEI") increases. Medicare services are reimbursed on a fee schedule, subject to certain limitations.

In 1995, VFC applied for and was awarded an Early Head Start grant ("The Children First Program"). The Early Head Start grant is contingent upon the availability of federal funds and satisfactory performance under the terms and conditions of the Head Start grant in the current budget period. The goals of the program are to strengthen the development of the child and promote the social and economic self-sufficiency of the family. Funding of $2,734,433 per year is provided for this program, which is composed of the regular fund and expansion fund. VFC renewed its funding from the Early Head Start through December 2012. In June 2012, VFC received a section 330E Community Health Center grant in the amount of $975,000 over 18 months, and funding is expected to continue into future years.

The Foundation was incorporated, received its tax-exempt status from both the Internal Revenue Service and the State Franchise Tax Board and began operations on July 30, 2010. The Foundation's specific purpose is to support, through financial and in-kind contributions, provision of services and community outreach, the mission of the Clinic, to provide free, quality health care to people in need. In addition, the Foundation holds the annual Venice Art Walk to raise funds for the Clinic.

<u>Cash Used in Operating Activities and Management's Plans</u>
For the year ended June 30, 2012, the Clinic utilized more than $3,000,000 of its cash balance for operating activities and financed such by raising its line of credit by $2,000,000. Management intends to seek new sources of financing and modify its operating plans by managing payroll and other costs in order to generate positive cash flow while continuing to serve the community.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>
The consolidated financial statements are presented utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Clinic's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)
All significant intercompany transactions between VFC and the Foundation have been eliminated in consolidation.

Classes of Net Assets
The Clinic reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets are either not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Clinic to use or expend the assets as specified as the restrictions are satisfied either by the passage of time or by actions of the Clinic.
- Permanently restricted net assets ("endowment funds") contain donor-imposed restrictions that stipulate the resources must be maintained in perpetuity. Income from permanently restricted investments is recorded as unrestricted, except where the instructions of the donor specify otherwise.

Private and Community Support Revenue
Contributions are recorded in unrestricted net assets and are considered to be available for use unless specifically restricted by the donor. Donor restricted contributions received and expended in the same reporting periods are recorded as unrestricted support. Conditional contributions are recognized as revenue and recorded in unrestricted net assets when the conditions on which they depend have been substantially met.

Unconditional promises to give ("pledges") are recorded as receivables and contributions, distinguishing between contributions received for each net asset class in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided, if necessary, based on management's judgment, including such factors as prior collection history, type of contribution, nature of fundraising activity and when time requirements are expected to be met.

The Clinic records contributions as temporarily restricted if donor stipulations limit their use either through purpose or time. When donor restrictions expire, that is, when a time period ends or a purpose is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government Support 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.

Third-party Reimbursement for Services

VFC provides primary care services to patients covered under the Medi-Cal managed care program. Under this program, VFC is paid at a negotiated fixed fee on a per-member-per-month basis regardless of the medical services provided to the member. However, as a Federally Qualified Health Center ("FQHC"), VFC is entitled to additional reimbursements through a reconciliation of the differences between its all-inclusive rate per visit against the capitation or fee-for-service it receives from health maintenance organizations ("HMOs") and the Code 18 rate paid by the State. VFC is not responsible for services rendered to members outside its clinics.

VFC also has agreements with third-party payers that provide for payments to VFC at amounts different from its established fee for service rates. VFC is reimbursed for patient services by Medi-Cal by means of an all-inclusive rate for each visit, with final settlement determined on the Medi-Cal Managed Care services after submission of annual reconciliation reports and audits thereof by the State Financial Audits Branch. VFC's Medi-Cal Managed Care reconciliation reports have been audited and finalized through 2008.

In 2000, the Medicare, Medicaid and State Children's Health Insurance Program Benefits Improvement and Protection Act ("BIPA") was passed. This legislation included a provision establishing a minimum Medicaid per-visit rate for each FQHC using a Prospective Payment System ("PPS") methodology. Annually, thereafter, the per-visit rate is adjusted using the Medicare Economic Index ("MEI") for primary care and any change in scope of services. BIPA also repeals the phase-out and elimination of the reasonable cost-based reimbursement methodology system under the Balanced Budget Act of 1997 as amended by the Federal Balanced Budget Refinement Act of 1999. Under BIPA, however, states may select an alternative payment methodology as long as the methodology reimburses FQHCs at least what they would receive under PPS and is agreed to by the FQHC. With the approval of California State plan amendment ("SPA") No. 01-010, effective January 1, 2001, the state has chosen to implement an optional alternative payment methodology and has established base rates (on a per-visit basis) using as-reported cost-based rates for fiscal year 2000, updated to reflect increases in the MEI.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Third-party Reimbursement for Services (Continued)
As an FQHC participating under the California Section 1115 Medicaid Demonstration Project for Los Angeles County (effective July 1, 2000 to June 30, 2005), VFC has the option of continuing under the cost-based reimbursement system or converting to PPS under BIPA. The clinic sites continue to be reimbursed for services under the regular federal PPS methodology.

Third-party Reimbursement for Services, net of contractual allowances and discounts (but before the provision for bad debts), recognized from third-party payers for the years ended June 30, 2012 and 2011 amounted to $9,303,267 and $9,689,336, respectively.

Incentive-based Revenue
Under the provisions of the American Recovery and Reinvestment Act ("ARRA") of 2009, physicians are eligible for financial incentives by demonstrating "meaningful use" of an electronic health record system ("EHR"). Providers can qualify for incentives either through the Medicare program or through the Medi-Cal program. VFC has chosen the latter.

Medi-Cal providers who meet certain patient volume thresholds will qualify for up to a maximum of $63,750 per provider paid out over six years. Medi-Cal providers can receive $21,250 in incentives on year one for adopting, implementing or upgrading their EHR system, with five subsequent payments of $8,500 for demonstrating meaningful use of their EHR. The Clinic calculates the annual incentive amount by multiplying the scheduled payment by the number of eligible providers on staff. The incentives are similar to bonus payments (not reimbursements) and can be used at the Clinic's discretion.

During the fiscal year ended June 30, 2011, $637,500 of revenue was earned under this program, and a receivable of the same amount from the state of California was recorded as part of accounts receivable. The total uncollected receivable at June 30, 2012 of $276,250 was fully collected subsequent to year end, however, the Clinic has not recorded any revenue or receivable for the fiscal year ended June 30, 2012. The Clinic will record further revenue related to this incentive program once it is able to demonstrate meaningful use.

Charity Care
The Clinic defines "charity care" as services rendered for which the patient shall not be held liable. The Clinic is committed to providing free, quality health care for certain members of its community, including the poor and underserved who cannot afford health insurance, copays and deductibles. During the years ended June 30, 2012 and 2011, the Clinic provided charity care of $8,817,736 and $7,809,604, respectively, to its patients, which has been calculated as the difference between total health care costs less net third party reimbursements for services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents
For the purpose of the statement of cash flows, the Clinic considers all temporary, short-term, highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

Investments
Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based on quoted market prices, in the statement of financial position. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the statement of activities.

Investments received through gifts are recorded at estimated fair value at the date of donation.

Dividend and interest income are accrued when earned. Dividend and interest income earned from investments in all net asset classifications is allocated based on the individual investment asset as a percentage of total investment assets. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise.

Patient Accounts Receivable
Patient accounts receivable are recorded based on an all-inclusive rate for each visit, with final settlement accounts receivable determined on the Medi-Cal Managed Care services after submission of annual reconciliation reports. Amounts collected on patient accounts receivable are included in net cash provided by operating activities in the statements of cash flows. The Clinic maintains an allowance for doubtful accounts for estimated losses inherent in its patient accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivable aging and existing industry and national economic data. The Clinic reviews its allowance for doubtful accounts annually. Past-due balances over ninety days and over a specified amount are reviewed individually for collectibility.

Allowance for doubtful accounts recognized for third party payers for the years ended June 30, 2012 and 2011 amounted to $343,379 and $296,000, respectively.

Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Clinic does not have any off-balance sheet credit exposure related to its patients.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pharmaceutical Inventories
Purchased inventories are stated at the lower of cost FIFO ("first-in, first-out method") or market. Donated inventories are stated at acquisition prices at the date of contribution. Acquisition prices are based on the federal 340B Drug Pricing Program which provides access to reduced price prescription drugs to eligible FQHC entities such as the Clinic.

Beneficial Interests
Donors have established and funded trusts, which are administered and controlled by organizations other than the Clinic. Under the terms of these trust agreements, the Clinic has the irrevocable right to receive all or a portion of the income earned on the trusts in perpetuity. The Clinic recognizes its beneficial interests in these trusts as temporarily restricted net assets based on the fair value of the assets. Distributions of investment income from these trusts are included in interest and other investment income in the accompanying statement of activities and reflected as unrestricted net assets, unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

Property and Equipment
Property and equipment are stated at cost or, for those assets acquired by gift or bequest, the estimated fair market value at the date of contribution. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Building and improvements	30 years
Furniture and equipment, including software	5 years
Leasehold improvements	Shorter of initial lease period or useful life of asset

The Clinic capitalizes assets $5,000 and over that meet the capitalization criteria.

Long-lived Assets
The Clinic accounts for its long-lived assets with definite useful lives in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC") Topic No. 360, "Accounting for the Impairment or Disposal of Long-lived Assets." Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Clinic first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Clinic determined that none of its long-lived assets were impaired during the year ended June 30, 2012.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind Contributions
In-kind contributions are recorded at their estimated fair market value at the time services are pledged or rendered or goods are received. They include donations of laboratory and diagnostic services provided primarily by hospitals, time donated by physicians and other health care volunteers, drugs for clinical activities and donations of goods and services in connection with the operations of the Clinic.

Income Taxes
The Clinic has been designated as tax-exempt under Internal Revenue Code Section 501(c)(3) and is also exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code.

Effective July 1, 2009, the Clinic adopted FASB ASC Topic No. 740, "Uncertainty in Income Taxes" ("ASC 740"). In accordance with ASC 740, the Clinic recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Clinic has not recorded any uncertain tax positions. The Clinic recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the year ended June 30, 2012, the Clinic did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

VFC's income tax returns remain subject to examination for all tax years ended on or after June 30, 2009 with regard to all tax positions and the results reported. The Foundation's income tax return remains subject to examination for the tax years ended on or after June 30, 2011 with regard to all tax positions and results reported.

Estimated Fair Value of Financial Instruments
The Clinic accounts for the fair value of its financial instruments in accordance with FASB ASC Topic No. 820, "Fair Value Measurements and Disclosures" ("ASC 820"). ASC 820 defines fair value and requires enhanced disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date (i.e. the exit price).

ASC 820 requires enhanced disclosures about financial instruments that are measured and reported at fair value. ASC 820 establishes a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring fair value. Market price observability is impacted by a number of factors, including the type of instrument, the characteristics specific to the instrument and the state of the marketplace (including the existence and transparency of transactions between market participants). Instruments with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments (Continued)
Instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. The type of instruments that would generally be included in Level 1 includes listed equity securities.

Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date but are other than quoted prices in active markets as in Level 1. The types of instruments that would generally be included in Level 2 include publicly traded securities with restrictions on disposition.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The types of instruments that would generally be included in Level 3 include debt and equity securities issued by private entities and real estate.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement.

The Clinic's financial instruments include cash and cash equivalents, accounts receivables, grants receivables, pledges receivables, accounts payables, accrued expenses, notes payable and lines of credit. The carrying values for cash and cash equivalents, accounts receivable and grants receivable due in less than one year and accounts payable and accrued expenses approximate fair values due to the short maturity of these instruments. The carrying values for long-term pledges receivable have been discounted using an appropriate discount rate to approximate fair value. The carrying values of investments are reflected at estimated fair value as described in Note 3 to the financial statements. The carrying amount of the lines of credit and notes payable approximates its fair value as these financial instruments earn or are charged interest based on the prevailing rate.

Concentration of Credit Risk
Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject the Clinic to concentrations of credit risk consist primarily of cash and cash equivalents, investments (including the beneficial interest held by others) and pledges and receivables.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk (Continued)
The Clinic places its cash and cash equivalents with high-credit, quality financial institutions. These account balances usually exceed amounts insured by the Federal Deposit Insurance Corporation (the "FDIC"). From December 31, 2010 through December 2012, all non-interest-bearing transaction accounts are fully insured, regardless of the balance of the account and the ownership capacity of the funds. For funds held in other types of deposit accounts, the FDIC will insure up to $250,000 under the FDIC's general deposit insurance rules. However, the Clinic has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Government reimbursement programs are subject to statutory and regulatory changes, retroactive rate adjustments, administrative rulings and government funding restrictions, all of which could materially decrease the services covered or the rates paid to the Clinic for its services.

The Clinic received approximately 45.9% and 48.4% in 2012 and 2011, respectively, of its third-party reimbursement revenue from providing services to Medi-Cal patients. Reimbursement for such services is currently based on PPS rates with final settlement after submission of annual reconciliation reports to the state.

A majority of the Clinic's annual funding, $5,180,344 or 23.3% and $5,748,561 or 22.5%, in 2012 and 2011, respectively, of total operating revenues is derived from grant agreements with federal and nonfederal government agencies. The Clinic has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect the Clinic's ability to finance ongoing operations.

Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated statements of financial position.

The Clinic holds significant investments in the form of short-term and long-term investment pools held by the UCLA Foundation. Credit risk is the failure of another party to perform in accordance with the contract terms. The Clinic is exposed to credit risk for the amount of the investments. The Clinic has never sustained a loss on any investment due to non-performance and does not anticipate any non-performance by the users of the securities.

With respect to pledges and receivables, the Clinic routinely assesses the financial strength of its debtors and believes that the pledges and receivables credit risk exposure is limited.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses
Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation by management.

Use of Estimates
The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements
In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820)" ("ASU 2010-06"). This guidance amends the disclosure requirements related to recurring and nonrecurring fair value measurements and requires new disclosures on the transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using Level 3 measurements.

The guidance became effective for the reporting period beginning July 1, 2010, except for the disclosure on the rollforward activities for Level 3 fair value measurements, which became effective for the reporting period beginning July 1, 2011. The adoption of ASU 2010-06 did not have a material impact on the Clinic's financial position, statements of activities or cash flows.

In August 2010, the FASB issued ASU No. 2010-23, "Health Care Entities (Topic 954): Measuring Charity Care for Disclosure" ("ASU 2010-23"). ASU 2010-23 requires all health care entities to measure the amount of charity care provided based on direct and indirect costs incurred in providing such care; no other measurement basis is considered acceptable. In addition, both the method used to identify or estimate the amount of charity care costs and the amount of any funds received to subsidize charity care services must be disclosed.

The guidance became effective for the reporting period beginning December 15, 2010, with early adoption permitted. It is to be applied retrospectively and requires disclosure of change in accounting principle (reason for the change and the method used). The adoption of ASU 2010-23 did not have a material impact on the Clinic's financial position, statements of activities or cash flows.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (Continued)
In July 2011, the FASB issued ASU 2011-07, "Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities," to provide greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The amended guidance changes the presentation of the statement of operations and adds new disclosures of patient service revenue as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. For nonpublic entities, the amended guidance must be applied prospectively for annual periods beginning after December 15, 2012, with early adoption permitted. The adoption of ASU 2011-7 did not have a material financial impact on the Clinic's financial position, statements of activities or cash flows.

Recently Issued Accounting Pronouncements
In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," to converge the guidance in U.S. GAAP and International Financial Reporting Standards ("IFRS"). The amended guidance changes several aspects of the fair value measurement guidance in ASC Topic 820. In addition, the amended guidance includes several new fair value disclosure requirements, including, among other things, information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and a narrative description of Level 3 measurements' sensitivity to changes in unobservable inputs. For nonpublic entities, the amended guidance must be applied prospectively for annual periods beginning after December 15, 2011. The Clinic is in the process of assessing the effect that the guidance will have on its financial statements.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with ASC 820, the following table represents the Clinic's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2012:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 1,694,224	$ 1,694,224	$ -	$ -
U.S. Treasury bills and government agency fixed income	3,522	3,522	-	-
Endowed investment pools	3,885,786	-	-	3,885,786
Regents STIP	1,193,301	-	-	1,193,301
Beneficial interests	473,484	-	-	473,484
Total	**$ 7,250,317**	**$ 1,697,746**	**$ -**	**$ 5,552,571**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Endowed Investment Pool has a long-term investment horizon and consists principally of equity securities, bonds, mutual funds and alternative investments, which are managed in a unitized investment pool. The alternative instruments include hedge funds, private equity and venture capital. Monthly investment income and realized and unrealized gains and losses are allocated equitably based on the units owned by each participant at the beginning of each month. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. At each month-end, a fair value unit price is established based on the value of endowed pool assets (end of month) divided by the total number of pool units at the beginning of the month. Investors who wish to purchase units or sell existing units can only do so at month-end at the aforementioned fair value price. The Endowed Investment Pool is considered as Level 3 due to unobservable markets. Management established the fair value of Level 3 investments through monitoring of fund activities for the investments held by the UCLA Foundation. There are no restrictions on the redemptions of these investments, but the redemption must be approved by the board of directors.

Investments in the Regent's Short-term Investment Pool ("Regent's STIP") are carried at cost, which approximates fair value.

The Clinic has a beneficial interest in two trusts and two annuities that have been presented at the net present value using an estimated discount rate and annual yield over the remaining life expectancy of the donors.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) consist of the following:

	EIP Investments	STIP Investments	Beneficial Interest	Total
Beginning, June 30, 2011	$ 4,016,569	$ 267,836	$ 519,104	$ 4,803,509
Investment income/ increase in fair value	(77,071)	8,437	(45,620)	(114,254)
Contributions	-	1,400,000	-	1,400,000
Distributions	(203,712)	(200,000)	-	(403,712)
Transfer in (out) Level 3	150,000	(282,972)	-	(132,972)
Total	**$ 3,885,786**	**$ 1,193,301**	**$ 473,484**	**$ 5,552,571**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table summarizes the Clinic's financial assets that are valued using the fair value approach described in Note 2.

	Fair Value, June 30, 2012	Redemption Frequency	Redemption Notice Period
Endowed Investment Pool	$ 3,885,786	monthly	10 days
Regent's STIP	1,193,301	monthly	N/A
Total	**$ 5,079,087**		

Investments classified as Level 1 include the Clinic's investments in marketable securities with readily determinable fair values based on quoted market prices.

Investments classified as Level 3 include the Clinic's investments in the UCLA Foundation's Endowed Investment Pool and its Regent's STIP (see Note 6).

NOTE 4 – ACCOUNTS RECEIVABLE

The Clinic's accounts receivable consisted of the following at June 30:

	2012	2011
Third-party reimbursable contract receivable	$ 2,586,858	$ 2,112,575
Other accounts receivable	305,821	1,190,331
	2,892,679	3,302,906
Less allowance for doubtful accounts	(343,379)	(835,745)
Total	**$ 2,549,300**	**$ 2,467,161**

The third-party reimbursement receivables from Medi-Cal include amounts requested from the state through the completion of the Medi-Cal Reconciliation Request Report. As an FQHC, the Clinic is entitled to additional reimbursements through a reconciliation of the differences between its all-inclusive rate per visit against capitation revenues received from health maintenance organizations.

At June 30, 2012, the total unpaid FQHC settlement receivable was $2,586,858, and the Clinic has recorded an allowance of $343,379. The settlement was for revenue generated from 2009 to 2012, the years for which the state had not yet completed the relevant audit.

NOTE 5 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as grants and contributions receivable. Promises to give due in one year or more are recorded after discounting to the present value of the future cash flows at rates ranging from less than 1% to 2.93% at June 30, 2012.

Unconditional promises to give are expected to be realized in the following periods:

	2012	2011
Amounts due		
In less than one year	$ 3,585,895	$ 3,546,144
In one to five years	1,197,066	1,979,675
In more than five years	1,000,000	1,817
Total gross contributions receivable	5,782,961	5,527,636
Less present value discount	(93,525)	(149,414)
Less allowance for doubtful accounts	(25,000)	(25,000)
Total contributions receivable, net	5,664,436	5,353,222
Less current portion of contributions receivable, net	(3,560,895)	(3,521,144)
Contributions receivable, net of current portion	**$ 2,103,541**	**$ 1,832,078**

NOTE 6 – INVESTMENTS

The Clinic's investments consisted of the following at June 30:

	2012	2011
Cash and cash equivalents	$ 211,468	$ 152,464
U.S. Treasury bills and government agency fixed income	5,244	5,770
Endowed investment pool	3,885,786	4,016,569
Regent's STIP	1,193,301	191,323
Subtotal	5,295,799	4,366,126
Donated real estate	-	1,394,040
Total	**$ 5,295,799**	**$ 5,760,166**

NOTE 6 – INVESTMENTS (Continued)

Investments with readily determinable fair values are classified as Level 1 in the fair value hierarchy. Investments with the UCLA Foundation are classified as Level 3 in the fair value hierarchy. Donated real estate was valued at fair value at the date of the donation (see Note 11). Regents STIP investments are classified as short term investments.

NOTE 7 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

The Clinic's beneficial interest in charitable remainder trusts consisted of the following at June 30:

	2012	2011
S & M Richards 1997 Charitable Unitrust	$ 141,783	$ 144,199
Anonymous 2003 Charitable Gift	114,409	130,328
Anonymous 2007 Charitable Gift	190,299	217,322
Anonymous Charitable Remainder Unitrust	26,993	27,255
Total	**$ 473,484**	**$ 519,104**

The Clinic's beneficial interest in charitable remainder trusts has been valued at the net present value discounted using an estimated discount rate and annual yield over the remaining life expectancy of the donors.

S & M Richards 1997 Charitable Unitrust – In 1997, the Clinic became a beneficiary of the Richards Charitable Unitrust. During the life time of the donors/recipients, the Unitrust shall pay 7% of net fair market value of the assets for the Unitrust valued as of the first day of each taxable year of the Unitrust. Upon the death of the survivor of the donors, all remaining principal and income of the Unitrust shall be distributed to the Clinic.

Anonymous 2003 Charitable Gift – Anonymous donors had trusted $400,000 in cash for the benefit of California Community Foundation ("CCF"). It was agreed that, during the lifetime of the donors, the CCF will pay an annual amount of $25,600 to the donors. Upon the death of the donors, the remainder of this annuity shall be added to a fund of the CCF for the benefit of the Clinic, of which 5% will be disbursed to CCF for its general purpose and 95% to the Clinic.

Anonymous 2007 Charitable Gift – Anonymous donors had trusted $500,000 in cash for the benefit of CCF. It was agreed that, during the lifetime of the donors, the CCF will pay an annual amount of $33,000 to the donors. Upon the death of the donors, of the remainder of this annuity, 5% shall be distributed to the CCF for its general purpose and 95% to the Clinic.

NOTE 7 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS (Continued)

Anonymous Charitable Remainder Unitrust – Anonymous donor had a unitrust for the benefit of the donor. It was agreed that, during the lifetime of the donor, the CCF will distribute at 6% annually of the fair market value of the trust estate to the donor. Upon the death of the donor, of the remainder of the trust, disbursements to the Clinic will be made in accordance with CCF spending policies.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2012	2011
Land	$ 1,363,223	$ 1,363,223
Buildings and improvements	6,002,656	5,991,008
Leasehold improvements	4,842,898	4,805,276
Furniture and equipment	2,246,767	1,988,472
	14,455,544	14,147,979
Less accumulated depreciation and amortization	7,974,236	7,301,632
Property and equipment, net	**$ 6,481,308**	**$ 6,846,347**

Property and equipment acquired with federal and/or state funds is considered to be owned by the Clinic while used in the program(s) for which it was purchased or in other future authorized programs. Disposition of such property and equipment and the ownership of any proceeds there from is subject to federal and state regulations. During the fiscal year ended June 30, 2012, the Clinic did not purchase any property and equipment with federal or state funds. Depreciation and amortization expense for the years ended June 30, 2012 and 2011 amounted to $674,872 and $651,771, respectively.

NOTE 9 – LINES OF CREDIT

The Clinic has a $2,000,000 line of credit with Comerica Bank. Advances under the line of credit bear interest at the bank's prime rate plus 0.5% (3.75% at June 30, 2012) and are secured by properties owned by the Clinic. Under the terms of the line of credit agreement, the Clinic is required to, and complied with, certain covenants. At June 30, 2012, the Clinic had an outstanding balance of $2,000,000. As of December 7, 2012, the line of credit has not been repaid; however, the Clinic has been making the required interest payments on the outstanding balance.

NOTE 9 – LINES OF CREDIT (Continued)

In November of 2011, the Clinic received a $2,000,000 line of credit facility from The William Gumpert Foundation. Advances under the line of credit bear interest at the current prime rate plus one quarter percent per annum (3.5% at June 30, 2012) and are secured by property held by the Clinic. At June 30, 2012, the Clinic had an outstanding balance of $1,000,000. Subsequent to the fiscal year ended June 30, 2012, the Clinic paid off the $1,000,000 balance in full, and the accrued interest was gifted back to the Clinic.

NOTE 10 – NOTES PAYABLE

On July 1, 2010, the Clinic entered into a loan agreement with California Health Facilities Financing Authority for a principal amount of $750,000 to purchase a Practice Management and Electronic Health Record system. This note payable bears interest at a rate of 3.0% per annum and matures on August 1, 2015. Pursuant to the agreement, the Clinic is required to make 60 payments, each in the aggregate amount of $13,476 on the 1st of each calendar month, commencing September 1, 2010, until the maturity date. The loan contains certain restrictive covenants with which the Clinic was in compliance at June 30, 2012. The Clinic's equipment and gross revenue pledges serve as collateral on the note payable. During the year, the Clinic made repayments of $144,717 on the outstanding principal balance.

During the fiscal year ended June 30, 2012, the Clinic received an interest free loan in the amount of $269,872 from The UCLA Foundation. The term of repayment is 5 years. The Clinic did not make any repayments on the outstanding principal balance during the fiscal year ended June 30, 2012.

Long-term debt at June 30, 2012 and 2011 was as follows:

	2012	2011
Notes payable	$ 757,824	$ 632,671
Less current portion	203,093	144,717
Long-term debt, less current portion	**$ 554,731**	**$ 487,954**

NOTE 10 – NOTES PAYABLE (Continued)

At June 30, 2012, the future maturities of long-term debt are as follows:

Years Ending June 30,	
2013	$ 203,093
2014	207,629
2015	212,302
2016	80,826
2017	53,974
Total	**$ 757,824**

NOTE 11 – NET ASSETS

Temporarily Restricted Net Assets
Temporarily restricted net assets included the following at June 30:

	2012	2011
Drugs and dispensary supplies	$ 764,145	$ 1,175,548
Capital improvement funds	390,000	-
Unappropriated endowment funds	-	182,591
Operating program funds	4,950,405	6,144,168
Subtotal	6,104,550	7,502,307
Donated real estate	-	1,394,040
Amounts payable to others (pledge liabilities)	-	(557,646)
Net donated real estate	-	836,394
Total	**$ 6,104,550**	**$ 8,338,701**

The drug and dispensary supplies represent mainly pharmaceuticals donated to the Clinic through various drug companies' patient assistance programs. These pharmaceuticals are expected to be used by the Clinic through the normal course of its operations.

NOTE 11 – NET ASSETS (Continued)

Temporarily Restricted Net Assets (Continued)
Real estate was donated to the Clinic through a charitable remainder trust and was recorded at fair value when received. The proceeds from the future sale of the property would become available for use by the Clinic in future periods. This property was subject to use by the donors until their death. Upon the death of the last surviving donor, up to 40% of the property value was to be distributed to other qualified charitable organizations. In the prior year, the pledge liability shown on the accompanying statement of financial position represented the amounts payable to these organizations, recorded at the percentage of the related real estate value. The related real estate was included in investments, and the liabilities were separately presented on the statement of financial position. During the fiscal year ended June 30, 2012, the donor passed away. The Clinic sold the property for gross proceeds of $2,384,101 and distributed 40% of the proceeds, net of expenses, to a qualified charitable organization and recognized a gain of $594,067 on the sale.

Permanently Restricted Net Assets
Permanently restricted net assets include restricted contributions to the following funds:

- The Colen Physician Endowment Fund – established to provide for a permanent family practice physician and receives contributions from various individuals. During the fiscal year of 2007, the Clinic received tribute gifts to continue Irma Colen's legacy; family members established these gifts as additions to the Colen Physician endowment fund.
- The Milken Physician Endowment Fund – established by the Milken Family Foundation for a permanent family practice physician.
- The Lee Physician Endowment Fund – established by Norman and Sadie Lee for a permanent family practice physician.
- The Skirball Physician Endowment Fund – established to fund the salary of the Clinic's medical director.
- The Weisman Psychosocial Endowment Fund – established to provide ongoing support to the mental health programs.
- The Karsten Endowment Fund – established to provide for a domestic violence program. The income from the endowment will be used exclusively to support the Clinic's program of psychosocial services.
- The Briskin Endowment Fund – established to provide for the women's health care program. The income from the endowment will be used exclusively to support the Clinic's women's health care services.
- The Resnick Endowment Fund – established to provide mental health care services. The income from the endowment will be used exclusively to support the Clinic's program of mental health services.
- The Ziegler Endowment Fund – established to be used for the general support and operations of the Clinic.

NOTE 11 – NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)
The balances of the permanently restricted net assets consisted of the following at June 30:

	2012	2011
The Colen Physician Endowment Fund	$ 862,334	$ 862,334
The Milken Physician Endowment Fund	637,329	637,329
The Lee Physician Endowment Fund	364,207	314,207
The Skirball Physician Endowment Fund	750,000	750,000
The Weisman Psychosocial Endowment Fund	745,510	745,510
The Karsten Endowment Fund	112,677	112,677
The Briskin Endowment Fund	250,000	250,000
The Resnick Endowment Fund	500,000	500,000
The Ziegler Endowment Fund	1,000,000	-
Other funds	52,000	52,000
Total	**$ 5,274,057**	**$ 4,224,057**

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$ -	$ 182,593	$ 4,224,057	$ 4,406,650
Net investment return				
Interest and dividends	-	203,712	-	203,712
Net realized/unrealized Gain/(loss) on investment	-	(277,913)	-	(277,913)
Total net investment returns	-	(74,201)	-	(74,201)
Contribution	-	-	1,050,000	1,050,000
Appropriation of endowment asset for expenditures	(95,320)	(108,392)	-	(203,712)
Balance, end of year	**$ (95,320)**	**$ -**	**$ 5,274,057**	**$ 5,178,737**

NOTE 11 – NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)
From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor requires the Clinic to retain as a fund of perpetual duration. In accordance with the provisions of ASC Topic no. 958, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2012, there was a deficiency of $95,320 in the endowment fund.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The permanently restricted net assets consist of several donor-restricted perpetual endowment funds with a total amount of $5,274,057 at June 30, 2012. In accordance with the donors' stipulations and that of the ASC Topic no. 958, the historic value of $5,274,057 must be maintained in the funds, and all interest income, dividend income and net appreciation is unrestricted to be used for the purpose of the funds.

During the year ended June 30, 2012, investment income was recorded as temporarily restricted revenue in accordance FASB ASC Topic no. 958.

Effective in fiscal year 2010, the Clinic adopted the UCLA Foundation's endowment policy. The following is a description of the UCLA Foundation's endowment policy.

UCLA Foundation's Endowment Policy
The purpose of the UCLA Foundation's Endowment is to support the educational mission of the University of California, Los Angeles by providing a reliable source of funds for current and future use. The income/payout from each individual endowment fund is used to support the purpose established by the donor in the gift instrument. However, endowment funds are commingled for investment purposes in the UCLA Foundation's Endowment Pool to maximize returns and minimize investment and administrative costs.

The Endowment seeks to maximize long-term total returns consistent with prudent levels of risk. Investment returns are expected to preserve or enhance the real value of the endowment to provide adequate funds to sufficiently support designated University activities. The Endowment Investment Pool assets have an indefinite time horizon that runs concurrent with the endurance of the University in perpetuity. As such, the investment portfolio assumes a time horizon that may extend beyond a normal market cycle and therefore may assume an appropriate level of risk as measured by the standard deviation of annual returns.

The Endowment's portfolio is expected to generate a total annualized rate of return, net of fees and spending, that is greater than the rate of inflation as measured by the National Consumer Price Index over a rolling five-year period. The UCLA Foundation accomplishes these objectives by engaging a number of professional managers who are assigned specific investment mandates for equities, fixed income and alternative investments.

NOTE 11 – NET ASSETS (Continued)

UCLA Foundation's Endowment Policy (Continued)
The UCLA Foundation follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the State of California in January 2009. UPMIFA does not set specific expenditure limits; instead, a charity can spend the amount the charity deems prudent after considering the donor's intent that the endowment continue permanently, the purpose of the fund and relevant economic factors. The UCLA Foundation's spending policy governs the rate at which funds are released to fund holders for current spending. The UCLA Foundation's spending policy is based on a target rate set as a percentage of a 36-month rolling average market value. The current rate is 5.3% for fiscal years 2011 – 2012.

The board of directors of the UCLA Foundation reviews and approves this rate annually. Investment returns earned in excess of the approved spending rate are retained in the endowment principal to protect from the effects of inflation and to allow for growth.

Endowments are managed in a unitized investment pool. Transactions within each individual endowment in the pool are based on the unit market value at the end of the month during which the transaction takes place for withdrawals and additions. It is the goal of the UCLA Foundation that the total return from endowment investments should be adequate to meet the following objectives:

- Preserve investment capital and its purchasing power
- Generate sufficient resources to meet spending needs (payout)
- Attain reasonable capital appreciation through prudent acceptance of risk to enhance the future purchasing power of the investment capital

NOTE 12 – PRIVATE AND COMMUNITY SUPPORT

Private and community support consisted of the following at June 30:

	2012	2011
Community, university and private foundation grants	$ 3,601,722	$ 6,071,849
Artwalk and other events	780,989	711,976
Gifts from individuals and corporations	1,809,197	988,503
Silver Circle	1,012,558	1,087,387
Patient donations	394,205	363,765
Other	117,339	108,570
Total private and community support	**$ 7,716,010**	**$ 9,332,050**

In 2011, additional private funds were raised as a result of a capital and special gifts campaign which concluded in 2011.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Insurance

The Clinic maintains general liability and malpractice insurance through UCLA on a claims-made basis covering losses of $1,000,000 per occurrence and $3,000,000 in the aggregate per year.

Facility Lease

The Clinic has an agreement with the County of Los Angeles for the use of a building located at 2509 Pico Boulevard in Santa Monica for forty years, effective April 2000, rent-free. In exchange for free rent, the Clinic agreed to maintain, repair and obtain appropriate insurance coverage for the building and grant County of Los Angeles employees open access to the building. The Clinic is also required to achieve a minimum number of patient services for each year covered under the agreement. The Clinic did not recognize this in-kind donation due to the service requirement and the amount of leasehold improvements required to make the building habitable. At June 30, 2012, total leasehold improvements incurred for this building amounted to $4,149,392.

The Clinic leased a space for dental services at 12756 Washington Blvd, Los Angeles, CA. The lease amount for the dental service space was based on the number of days of services provided to the patients. The Clinic terminated this lease effective 7/1/2011. Total rent expense for this facility for the years ended June 30, 2012 and 2011 amounted to $0 and $48,000, respectively.

The Clinic has a noncancelable operating lease agreement for the use of a parking lot located at 612 Rose Avenue, Venice, CA, which will expire in December 2012. The Clinic expects to finalize an extension for another five year period.

The Clinic has a noncancelable operating lease agreement for the use of the Irma Colen Health Center facility and office space located at 4700 Inglewood Blvd, Los Angeles, CA that is payable in monthly installments of $8,330 per month and which will expire in August 2018.

The Clinic has a noncancelable operating lease agreement for the use of the Children First Early Head Start expansion site located at 111 N. La Brea Avenue, Inglewood, CA that is payable in monthly installments of $3,790 per month and which will expire in October 2014, as per an amendment to the original lease executed during the fiscal year ended June 30, 2012.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Facility Lease (Continued)
The future minimum lease payments required for the above leases at June 30, 2012 are as follows:

Fiscal Year	Parking Lot	Irma Colen Health Center	Early Head Start
2013	$ 17,312	$ 114,608	$ 52,764
2014	-	119,398	52,764
2015	-	124,403	13,191
2016	-	129,634	-
2017	-	135,101	-
Thereafter	-	163,082	-
Total	**$ 17,312**	**$ 786,226**	**$ 118,719**

The Clinic entered into various office equipment leases, with monthly lease payments ranging from approximately $150 to $400. Total operating equipment lease expense relating to these leases for the years ended June 30, 2012 and 2011 amounted to $52,799 and $45,991, respectively.

The future minimum lease payments required under the facilities and equipment leases at June 30, 2012 are as follows:

Fiscal Year	Facilities	Equipment
2013	$ 184,684	$ 35,621
2014	172,162	30,616
2015	137,594	5,240
2016	129,634	646
2017	135,101	-
Thereafter	163,082	-
Total	**$ 922,257**	**$ 72,123**

NOTE 14 – UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

The Clinic's employees are eligible to receive benefits under a multi-employer pension plan, which is administered by UCLA. The Clinic contributes to the University of California Retirement Plan ("UCRP" or the "Plan"), a multi-employer retirement system that acts as a common investment and administrative agent. The Plan is a defined benefit plan under which benefits are determined by formulas (factors include the member's salary, age and years of UCRP service). The Clinic contributes 7% of total payroll in accordance with the provisions of the plan. Information regarding the Clinic's proportionate share of the actuarial computed value of vested benefits over the total of the pension plan's net assets is not available from the plan's administrators. For the year ended June 30, 2012, the Clinic contributed $887,638 to the plan.

The Multi-Employer Pension Plan Amendments Act of 1980 (the "Act") significantly increased the pension responsibilities of participating employers. Under the provisions of the Act, if the plan terminates or the Clinic withdraws, and if the act applies, the Clinic could be subject to a substantial withdrawal liability. The Clinic has no plans to withdraw from the plan as of June 30, 2012.

NOTE 15 – RELATED PARTY TRANSACTIONS

For the fiscal year ended June 30, 2012, the Clinic received gifts and pledges from its board of directors in the amount of $375,046. As of June 30, 2012, $472,076 of gifts and pledges remained unpaid.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 7, 2012, which is the date the financial statements were available to be issued. The following events have occurred during this period that require disclosure in the consolidated financial statements:

On September 17, 2012, the Clinic sold its 613 Rose Avenue property for gross proceeds of $1,950,000 million less $94,897 in commissions and fees. The carrying amount of this property was $246,711 at the time of the sale, which resulted in a gain of $1,608,392 upon the sale.

SUPPLEMENTAL INFORMATION – CONSOLIDATING SCHEDULES

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION BY ENTITY
June 30, 2012

	Venice Family Clinic	Venice Family Clinic Foundation	Eliminating	Total
Current assets				
Cash and cash equivalents	$ 1,414,783	$ 279,441	$ -	$ 1,694,224
Short-term investments	1,193,301	-	-	1,193,301
Accounts receivable, net	2,530,237	19,063	-	2,549,300
Grants and contributions receivable – short-term, net	3,560,895	-	-	3,560,895
Pharmaceutical inventories	800,707	-	-	800,707
Prepaid expenses and other assets	114,959	-	-	114,959
Total current assets	9,614,882	298,504	-	9,913,386
Long-term investments	3,891,030	-	-	3,891,030
Long-term contributions receivable, net of discount	2,103,541	-	-	2,103,541
Beneficial interest in charitable remainder trusts	473,484	-	-	473,484
Property and equipment, net	6,481,308	-	-	6,481,308
Total assets	**$ 22,564,245**	**$ 298,504**	**$ -**	**$ 22,862,749**
Current liabilities				
Lines of credit	$ 3,000,000	$ -	$ -	$ 3,000,000
Notes payable, current	203,093	-	-	203,093
Accounts payable and accrued expenses	188,433	39,798	-	228,231
Total current liabilities	3,391,526	39,798	-	3,431,324
Notes payable, net of current portion	554,733	-	-	554,733
Pledge liabilities	-	-	-	-
Total liabilities	3,946,259	39,798	-	3,986,057
Net assets				
Unrestricted	7,239,379	258,706	-	7,498,085
Temporarily restricted	6,104,550	-	-	6,104,550
Permanently restricted	5,274,057	-	-	5,274,057
Total net assets	18,617,986	258,706	-	18,876,692
Total liabilities and net assets	**$ 22,564,245**	**$ 298,504**	**$ -**	**$ 22,862,749**

The accompanying notes are an integral part of these consolidated financial statements.

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF ACTIVITIES BY ENTITY
For the Year Ended June 30, 2012

	Venice Family Clinic	Venice Family Clinic Foundation	Eliminating	Total
Revenues, gains and other support				
Private and community support	$ 7,331,647	$ 534,363	$ (150,000)	$ 7,716,010
Government support	5,180,344	-	-	5,180,344
Third-party reimbursement for services, less the provision for bad debts	9,303,267	-	-	9,303,267
Interest and dividend income	213,009	-	-	213,009
Realized and unrealized gains (losses) on long-term investments	(326,663)	-	-	(326,663)
Gain on sale of donated property	594,067	-	-	594,067
Net assets released from restriction	-	-	-	-
Total revenue, gains and other support	22,295,671	534,363	(150,000)	22,680,034
Expenses				
Program services				
Health care	15,473,491	-	-	15,473,491
Children First Program	2,538,283	-	-	2,538,283
Education and outreach	1,030,312	-	-	1,030,312
Total program services	19,042,086	-	-	19,042,086
Support services				
Management and general	3,519,252	-	-	3,519,252
Fundraising	1,278,939	392,609	(150,000)	1,521,548
Total supporting services	4,798,191	392,609	(150,000)	5,040,800
Total expenses	23,840,277	392,609	(150,000)	24,082,886
In-kind contributions				
Revenue	18,372,283	-	-	18,372,283
Net assets released from restrictions	-	-	-	-
Total revenues and other support	18,372,283	-	-	18,372,283
Expenses (in-kind)				
In-kind laboratory and X-ray services	1,668,422	-	-	1,668,422
Physician and other clinical volunteers	1,998,007	-	-	1,998,007
Children First Program volunteers	12,579	-	-	12,579
In-kind pharmaceutical and lab supplies	14,628,738	-	-	14,628,738
Other in-kind supplies and services	244,005	-	-	244,005
In-kind insurance	231,935	-	-	231,935
Total expenses	18,783,686	-	-	18,783,686
Net in-kind contributions	(411,403)	-	-	(411,403)
Change in net assets	(1,956,009)	141,754	-	(1,814,255)
Net assets, beginning of year	20,573,995	116,952	-	20,690,947
Net assets (deficit), end of year	**$ 18,617,986**	**$ 258,706**	**$ -**	**$ 18,876,692**

The accompanying notes are an integral part of these consolidated financial statements.

SUPPLEMENTAL INFORMATION – *OMB CIRCULAR A-133*

SingerLewak LLP

www.SingerLewak.com

Los Angeles
Orange County
Woodland Hills
Monterey Park
Silicon Valley
San Francisco

50+ YEARS SINCE 1959

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Venice Family Clinic
Venice, California

We have audited the financial statements of Venice Family Clinic (a nonprofit organization) (the "Clinic") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

<u>Internal Control over Financial Reporting</u>
Management of Venice Family Clinic is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Clinic's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clinic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Venice Family Clinic's internal control over financial reporting.

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

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

<u>Compliance and Other Matters</u>
As part of obtaining reasonable assurance about whether Venice Family Clinic'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*.

10960 Wilshire Blvd., 7th Floor Los Angeles, CA 90024 T: 310.477.3924 F: 310.478.6070

877.754.4557

We noted certain matters that we reported to management of Venice Family Clinic in a separate letter dated December 7, 2012.

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

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
December 7, 2012

SingerLewak LLP

www.SingerLewak.com

Los Angeles
Orange County
Woodland Hills
Monterey Park
Silicon Valley
San Francisco

50+ YEARS SINCE 1959

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

To the Board of Directors
Venice Family Clinic
Venice, California

Compliance

We have audited the compliance of Venice Family Clinic (a nonprofit organization) 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 June 30, 2012. Venice Family Clinic'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 Venice Family Clinic's management. Our responsibility is to express an opinion on Venice Family Clinic'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 Venice Family Clinic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Venice Family Clinic's compliance with those requirements.

In our opinion, Venice Family Clinic complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of Venice Family Clinic is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

10960 Wilshire Blvd., 7th Floor Los Angeles, CA 90024 T: 310.477.3924 F: 310.478.6070

877.754.4557

In planning and performing our audit, we considered Venice Family Clinic'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 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 Venice Family Clinic's internal control over compliance.

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

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

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

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
December 7, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal Catalog Number	Agency or Pass-through Number	Contract Period	Contract Amount	Total Exp. for FY 11-12
FEDERAL AWARDS					
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT					
Pass-through County of L.A. – Homeless Development Authority	14.235	CA0476B9D000802	Aug. 1, 2010 – Jul. 31, 2011	$ 108,905	$ 6,853
Dual Diagnosis Outreach Collaborative	14.235	CA0476B9D001003	Aug. 1, 2011 – Jul. 31, 2012	108,905	102,998
				217,810	109,851
Santa Monica Dual Diagnosis Collaborative	14.235	CA0460B9D001003	Jul. 1, 2011 – Jun. 30, 2012	284,842	273,352
Total 14.235				502,652	383,203
DEPARTMENT OF HEALTH & HUMAN SERVICES					
Administration for Children & Families – Early Head Start	93.600	09CH9072/05	Jan. 1, 2011 – Dec. 31, 2011	2,075,149	1,063,520
Comprehensive Child Development Program	93.600	09CH9072/05	Jan. 1, 2012 – Dec. 31, 2012	2,479,317	1,143,163
Total 93.600				4,554,466	2,206,683
Administration for Children & Families – Early Head Start					
Early Head Start ARRA Expansion	93.709	09SA9072/02	Sep. 30, 2010 – Sep. 29, 2011	756,000	253,736
Total 93.709				756,000	253,736
Pass-through Northeast Valley Health Corporation	93.224	H80-CS-00139	Dec. 1, 2010 – Nov. 30, 2011	505,953	207,600
Health Care for the Homeless	93.224	H80-CS-00139	Dec. 1, 2011 – Nov. 30, 2012	533,816	328,871
				1,039,769	536,471
Health Resources & Services Administration	93.224	6 H80CS04217-07-02	Mar. 1, 2011 – Nov. 30, 2011	397,633	204,367
Health Center Cluster (Mar Vista Housing Grant)	93.224	6 H80CS04217-08-03	Dec. 1, 2011 – Nov. 30, 2012	563,476	311,422
Health Center Cluster (OPCC Access Center, Rose Site, Levine Site)	93.224	3 H80CS04217-08-03	Dec. 1, 2011 – Nov. 30, 2012	975,000	54,167
				1,936,109	569,956
Total 93.224				2,975,878	1,106,427
Health Resources & Services Administration					
OP Early Intervention Service with respect to HIV Disease	93.918	6H76HA00207-14-01	Jul. 1, 2011 – Jun. 30, 2012	362,076	362,076
Total 93.918				362,076	362,076
Health Resources & Services Administration					
Health Center Cluster (Mar Vista Housing Grant – CIP) – ARRA	93.703	4 C81CS14304-01-02	Jun. 29, 2009 – Dec. 31, 2011	294,310	47,082
Total 93.703				294,310	47,082
Health Resources & Services Administration					
Dental Equipment Grant	93.887	1C76HF16449-01-00	Sep. 01, 2009 – Aug. 31, 2013	141,570	-
Total 93.887				141,570	-
Pass-through Clare Foundation, Inc.					
Substance Abuse and Mental Health Services Administration	93.243	5H79TI017896-05	Sep. 30, 2010 – Sep. 29, 2011	15,000	3,750
Community Bridges: Integrated Services for Homeless People	93.243	1UD1TI023570-01	Sep. 30, 2011 – Sep. 29, 2012	30,000	21,294
Total 93.243				45,000	25,044
Family Planning Services – Basic Contraceptives/Male Services	93.217	2858-5320-71209-11	Jan. 1, 2011 – Dec. 31, 2011	150,167	73,345
Family Planning Services – Basic Contraceptives/Male Services	93.217	2858-5320-71209-12	Jan. 1, 2012 – Dec. 31, 2012	145,662	76,582
Total 93.217				295,829	149,927
Total federal awards				9,927,781	4,534,178

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal Catalog Number	Agency or Pass-through Number	Contract Period	Contract Amount	Total Exp. for FY 11-12
STATE AWARDS					
STATE OF CALIFORNIA DEPARTMENT OF HEALTH SERVICES					
Pass-through L.A. County					
Outreach, Enrollment, Utilization and Retention Services	N.A.	H-300269	Jul. 1, 2011 – Jun. 30, 2012	151,822	151,822
Pass-through First 5 LA/Dental Health Foundation	N.A.	07534	Jul. 1, 2011 – Dec. 31, 2011	25,000	25,000
	N.A.	07534	Jan. 1, 2012 – Jun. 30, 2012	25,000	25,000
				50,000	50,000
Pass-through County of L.A.Department of Mental Health/ St. Joseph Center					
Venice Chronic Homeless Intervention Project	N.A.	MH120671	Nov. 18, 2011 – Jun. 30, 2012	$ 30,000	$ 28,400
Mental Health Services Act Innovation Program	N.A.	MH-120712	Feb. 7, 2012 – Jun. 30, 2012	48,159	18,803
STATE OF CALIFORNIA DEPARTMENT OF EDUCATION					
Child Development Services – Infant Toddler Resource	93.575	CCTR-1146	Jul. 1, 2011 – Jun. 30, 2012	23,515	23,515
Child Development Services – General Child Care & Dev Programs	93.596	CCTR-1146	Jul. 1, 2011 – Jun. 30, 2012	42,717	42,717
	N.A.	CCTR-1146	Jul. 1, 2011 – Jun. 30, 2012	126,711	126,711
				192,943	192,943
Total state awards				472,924	441,968
TOTAL FEDERAL AND STATE AWARDS				**$ 10,400,705**	**$ 4,976,146**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Clinic and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133*, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 2 – PASS-THROUGH AWARDS

The Clinic receives certain federal and state awards from pass-through agencies. The total amount of such pass-through awards is included on the schedule of expenditures of federal and state awards.

NOTE 3 – SUB-RECIPIENTS

Of the federal expenditures presented in the schedule, the Clinic, under the Santa Monica Dual Diagnosis program, provided federal awards to sub-recipients as follows:

Program Title	Amount
Ocean Park Community Center	$ 100,432
Edmund D. Edelman Westside MHC	69,548
	$ 169,980

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	unqualified	
Internal control over financial reporting		
Material weakness(es) identified?	___ yes	_X_ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes	_X_ none reported
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Type of auditor's report issued on compliance for major programs	unqualified	
Internal control over major programs		
Material weakness(es) identified?	___ yes	_X_ no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes	_X_ none reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of *OMB Circular A-133*?	___ yes	_X_ no

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
93.600 & 93.709	Head Start and Early Head Start Cluster (includes ARRA funding)
14.235	Dual Diagnosis Outreach Collaborative and Santa Monica Dual Diagnosis Collaborative Program

Dollar threshold used to distinguish between type A and type B programs	$300,000	
Auditee qualified as low-risk?	_X_ yes	___ no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2012

Venice Family Clinic did not have any audit findings for the year ended June 30, 2011.

SUPPLEMENTAL INFORMATION – CHILD DEVELOPMENT PROGRAM

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CHILD DEVELOPMENT PROGRAM
GENERAL INFORMATION
For the Year Ended June 30, 2012

---

1. Name of agency .... Venice Family Clinic

2. Program name and contract number

   General Center Child Care CCTR-1146

3. Type of agency .... nonprofit organization

4. Address of agency headquarters .... 604 Rose Avenue
   Venice, California 90291

5. Name and address of president and name of finance director

   Elizabeth Forer, Executive Director
   Loreto Melo, Finance Director
   604 Rose Avenue
   Venice, California 90291

6. Telephone number .... (310) 392-8630

7. Period covered by examination .... July 1, 2011 through June 30, 2012

8. Number of operating days .... 246 days

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CHILD DEVELOPMENT PROGRAM
COMBINING SCHEDULE OF ADMINISTRATIVE COSTS
For the Year Ended June 30, 2012

Expenditures	General Center Child Care CCTR-1146	Total
Certified salaries	$ -	$ -
Classified personnel salaries	6,690	6,690
Employee benefits	2,162	2,162
Books and supplies	-	-
Services and other operating expenses	4,441	4,441
Indirect costs (8%)	14,544	14,544
Total	**$ 27,837**	**$ 27,837**

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CHILD DEVELOPMENT PROGRAMS
COMBINING SCHEDULE OF EXPENDITURES BY STATE CATEGORIES
For the Year Ended June 30, 2012

	Expenditures	General Center Child Care CCTR-1146	Total Reimbursable	Total Non-reimbursable
-	Direct payment to providers	$ 134,897	$ 134,897	$ -
2000	Classified personnel salaries	29,921	29,921	-
3000	Employee benefits	10,202	10,202	-
4000	Books and supplies	-	-	-
5000	Services and other operating expenses	6,792	6,792	-
-	Indirect cost rate 8%	14,544	11,131	3,413
	Total	**$ 196,356**	**$ 192,943**	**$ 3,413**

We have examined the claims filed for reimbursement and the original supporting records covering the transactions under this contract to an extent considered necessary to ensure ourselves that the amounts claimed by the agency were proper.

AUDITED ATTENDANCE AND FISCAL REPORT

for Child Development Programs

Agency Name: VENICE FAMILY CLINIC   Vendor No. 19V419

Fiscal Year Ended: June 30, 2012   Contract No. CCTR-1146

Independent Auditor's Name: SingerLewak LLP

SECTION I - CERTIFIED CHILDREN DAYS OF ENROLLMENT	COLUMN A CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	COLUMN B AUDIT ADJUSTMENTS	COLUMN C CUMULATIVE FISCAL YEAR PER AUDIT	COLUMN D ADJUSTMENT FACTOR	COLUMN E ADJUSTED DAYS OF ENROLLMENT PER AUDIT
Infants (up to 18 months)					
Full-time-plus				2.006	-
Full-time	723		723	1.700	1,229.100
Three-quarters-time	102		102	1.275	130.050
One-half-time	19		19	0.935	17.765
FCCH Infants (up to 18 months)					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
Toddlers (18 up to 36 months)					
Full-time-plus	223		223	1.652	368.396
Full-time	3,101		3,101	1.400	4,341.400
Three-quarters-time	555		555	1.050	582.750
On-half-time	-		-	0.770	-
Three Years and Older					
Full-time-plus	11		11	1.180	12.980
Full-time	46		46	1.000	46.000
Three-quarters-time	19		19	0.750	14.250
One-half-time	-		-	0.550	-
Exceptional Needs					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
Limited and Non-English Proficient					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
At Risk of Abuse or Neglect					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
Severely Disabled					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	4,799	-	4,799		6,742.691
DAYS OF OPERATION	246	-	246		
DAYS OF ATTENDANCE	4,556	-	4,556		

☑ NO NONCERTIFIED CHILDREN - Check this box, omit page 2, and continue to Section III if no noncertified children were enrolled

Comments - If necessary, attach additional sheets to explain adjustments:

AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs

Agency Name: VENICE FAMILY CLINIC   Vendor No. 19V419

Fiscal Year End: June 30, 2012   Contract No. CCTR-1146

Insert Any Commingled Contract No. None

SECTION III - REVENUE	COLUMN A CUMULATIVE FISCAL YEAR	COLUMN B AUDIT ADJUSTMENT	COLUMN C CUMULATIVE FISCAL YEAR PER
RESTRICTED INCOME			
Child Nutrition Programs	$0	$0	$0
County Maintenance of Effort (EC § 8279)			0
Uncashed Checks to Providers			0
Other (Specify):			0
Subtotal	$0	$0	$0
Transfer from Reserve Contract #			0
Contract #			0
Family Fees for Certified Children Contract # CCTR-1146	1,599		1,599
Contract #			0
Interest Earned on Apportionments Contract #			0
Contract #			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children			0
Other (Specify):			0
TOTAL REVENUE	$1,599	$0	$1,599
SECTION IV - REIMBURSABLE EXPENSES			
Direct Payments to Providers (FCCH Only)	$134,897	$0	$134,897
1000 Certificated Salaries			0
2000 Classified Salaries	29,921		29,921
3000 Employee Benefits	10,202		10,202
4000 Books and Supplies			0
5000 Services and Other Operating Expenses	6,792		6,792
6100/6200 Other Approved Capital Outlay			0
6400 New Equipment (*program-related*)			0
6500 Replacement Equipment (*program-related)*			0
Depreciation or Use Allowance			0
Start-Up Expenses (service level exemption)			0
Budget Impasse Credit Contract #			0
Contract #			0
Indirect Costs. Rate: 8.00% (Rate is Self-Calculating)	14,544		14,544
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	$196,356	$0	$196,356
TOTAL ADMINISTRATIVE COSTS (included in section IV above)	$27,837	$0	$27,837
FOR CDE-A&I USE ONLY:			

Independent Auditor's Assurances on Agency's compliance with Contract Funding Terms and Conditions and Program Requirements of the California Department of Education, Child Development Division:

Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):

- [x] YES
- [ ] NO - Explain any discrepancies.

COMMENTS - If necessary, attach additional sheets to explain adjustments:

eligible for reimbursement, reasonable, necessary,

- [x] YES
- [ ] NO - Explain any discrepancies.

- [ ] NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit page 4 if there are no supplemental revenues or expenses to report.

AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs

Agency Name: VENICE FAMILY CLINIC   Vendor No. 19V419

Fiscal Year End: June 30, 2012   Contract No. CCTR-1146

Insert Any Commingled Contract Number None

SECTION V - SUPPLEMENTAL REVENUE	COLUMN A CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	COLUMN B AUDIT ADJUSTMENT INCREASE OR (DECREASE)	COLUMN C CUMULATIVE FISCAL YEAR PER AUDIT
Enhancement Funding	$0	$0	$0
Other (Specify): EHS Child Development Fund	76,997		76,997
			0
			0
TOTAL SUPPLEMENTAL REVENUE	$76,997	$0	$76,997

SECTION VI - SUPPLEMENTAL EXPENSES			
EXPENSES RELATED TO SUPPLEMENTAL REVENUE			
1000 Certificated Salaries	$0	$0	$0
2000 Classified Salaries	44,991		44,991
3000 Employee Benefits	13,944		13,944
4000 Books and Supplies			0
5000 Services and Other Operating Expenses	12,358		12,358
6000 Equipment/Other Capital Outlay			0
Depreciation or Use Allowance			0
Indirect Costs	5,704		5,704
Other (Specify):			0
NONREIMBURSABLE EXPENSES			
6100-6500 Nonreimbursable Capital Outlay			0
Other: e.g., Entertainment Expenses			0
Other (Specify):			0
			0
TOTAL SUPPLEMENTAL EXPENSES	$76,997	$0	$76,997

COMMENTS - If necessary, attach additional sheets to explain adjustments:

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CHILD DEVELOPMENT PROGRAMS
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Total Child Development Programs	Other Local Grants (Non-CDE)	Federal Grant – Early Head Start	Other Federal Grants	Non-Government Health Care Services Programs	Grand Total
Support, revenues and gains						
Government support	$ 192,943	$ 415,638	$ 2,460,419	$ 2,073,759	$ 37,585	$ 5,180,344
Private and community support	1,814	-	-	-	7,714,196	7,716,010
Third-party reimbursement for services	1,599	-	-	-	9,301,668	9,303,267
Interest and dividend income	-	-	-	-	213,009	213,009
Realized and unrealized gain (loss)	-	-	-	-	(326,663)	(326,663)
Gain on sale of donated property	-	-	-	-	594,067	594,067
	196,356	415,638	2,460,419	2,073,759	17,533,862	22,680,034
In-kind revenue	-	-	-	-	18,372,283	18,372,283
Total support revenues and gains	196,356	415,638	2,460,419	2,073,759	35,906,145	41,052,317
Expenses						
Salaries	29,921	305,071	1,218,530	1,179,314	10,743,446	13,476,282
Employee benefit	10,202	80,795	490,458	432,013	4,089,904	5,103,372
Small equipment	-	-	12,995	-	(5,922)	7,073
Utilities and rent	-	2,705	66,562	-	412,775	482,042
Pharmaceutical and lab	-		-	4,954	196,346	201,300
Telephone	-		19,002	-	141,604	160,606
Professional and contractual fees	5,504	-	154,861	314,986	712,453	1,187,804
Postage, printing and subscriptions/newsletter	66	1,330	12,774	-	136,390	150,560
Computer/software/office supplies	1,222	397	36,196	47,837	321,382	407,034
Medical supplies and medical waste removal	-	8,299	-	-	262,181	270,480
Travel, training and workshops	-	5,012	112,222	-	35,697	152,931
Child care	134,897		12,357	-	390	147,644
Repairs and maintenance/janitorial and gardening	-		14,132	-	466,106	480,238
Insurance	-		-	-	209,126	209,126
Licenses, fees and dues	-		1,810	-	216,360	218,170
Transportation of patients/clients	-		483		37,359	37,842
Lab/dental/ X-ray services	-		-	46,807	28,451	75,258
Family ER assistance	-		-	-	-	-
Participant supplies/activities/incentives	-	-	47,713	4,410	8,836	60,959
Interest	-		-	-	68,037	68,037
Miscellaneous	14,544	12,029	260,324	43,438	(266,169)	64,166
Bad debts	-		-	-	-	-
Fundraising	-	-	-	-	447,090	447,090
Total before depreciation and amortization	196,356	415,638	2,460,419	2,073,759	18,261,842	23,408,014
Depreciation and amortization	-	-	-	-	674,872	674,872
In-kind expenses	-	-	-	-	18,783,686	18,783,686
Total expenses	196,356	415,638	2,460,419	2,073,759	37,720,400	42,866,572
Excess (deficiency) of revenue over expenses	**$ -**	**$ -**	**$ -**	**$ -**	**$ (1,814,255)**	**$ (1,814,255)**

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CHILD DEVELOPMENT PROGRAMS
SCHEDULE OF RENOVATION AND REPAIR EXPENDITURES
For the Year Ended June 30, 2012

Unit cost under $10,000 per item	
Leasehold improvement	
Roof repairs	$ -
Remodeling cabinets	-
Carpet repairs	-
Other repairs	-
Subtotal	-
Unit cost $10,000 or more per item	
With prior written approval	
Item	
None	-
Subtotal	-
Unit cost $10,000 or more per item	
Without prior approval	
Item	
None	-
Subtotal	-
Total	**$ -**

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CHILD DEVELOPMENT PROGRAMS
SCHEDULE OF EQUIPMENT EXPENDITURES
For the Year Ended June 30, 2012

Unit cost under $7,500 per item	
Item	
None	$ -
Subtotal	-
Unit cost over $7,500 per item	
With prior written approval	
Item	
None	-
Subtotal	-
Unit cost over $7,500 per item	
Without prior approval	
Item	
None	-
Subtotal	-
Total	**$ -**

NOTE 1 – NATURE OF OPERATIONS

The Clinic is a private, nonprofit, community-based free clinic, founded in 1970 to meet the health care needs of the low-income residents of Venice, California and the surrounding community. The Clinic's mission is to provide affordable, accessible and appropriate health care for those who have no other access to such. As part of its mission, the Clinic has been awarded grants by the California Department of Education in connection with the Clinic's child development program.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedules of revenue and expenditures of California Department of Education awards for the child development program present the amount of revenues and expenditures related to the child development program administered by the Clinic in connection with grants awarded by the California Department of Education.

The revenue and expenditures included in the accompanying schedules are reported on the accrual basis of accounting.

State Child Development Program

Venice Family Clinic did not have any audit findings for the year ended June 30, 2012.

State Child Development Program

Venice Family Clinic did not have any audit findings for the year ended June 30, 2011.

SingerLewak LLP

www.SingerLewak.com

Los Angeles
Orange County
Woodland Hills
Monterey Park
Silicon Valley
San Francisco

To the Audit Committee and Management
Venice Family Clinic
Venice, California

In connection with our audit of the consolidated financial statements of Venice Family Clinic (the "Clinic") as of and for the year ended June 30, 2012, we identified deficiencies in internal control over financial reporting ("control deficiencies").

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 and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

1. INVENTORY

Condition
During our testing of in-kind inventory, we noted there were data entry errors that resulted in audit adjustments. Further, SingerLewak noted the Clinic did not update the fair value prices used to value donated inventory.

Recommendation
We recommend the Clinic appoint a second pharmacist to check the data entered for accuracy. Further, we recommend the Clinic use the acquisition prices provided by its third-party inventory provider to value inventory as it is received.

10960 Wilshire Blvd., 7th Floor Los Angeles, CA 90024 T: 310.477.3924 F: 310.478.6070

877.754.4557

<u>Management Response</u>

A volunteer will conduct the monthly count, and a pharmacy technician will sign off to ensure the count was conducted accurately. The Clinic has updated the value of its donated inventory by using the acquisition prices provided by its third-party inventory provider.

2. BANK RECONCILIATIONS

<u>Condition</u>

During our testing of cash, we noted that there were old outstanding checks on the bank reconciliation that were over six months old.

<u>Recommendation</u>

Tracking outstanding checks is an important control procedure that ensures that all outgoing checks are accounted for. We recommend the Clinic implement a policy for investigating outstanding checks that are more than six months old as a part of tight control over cash disbursements. These outstanding checks should be investigated, be adjusted for separately, have payment stopped at the bank and/or be escheated to the State, as necessary.

<u>Management Response</u>

Consistent with UCLA's policies, the Clinic's policies and procedures state that it will write off checks that are more than three years old that have not cleared the Clinic's bank. All stale checks that are written off within the same fiscal year as they were written shall be credited to the same expense or asset account that was debited when the check was written, or the expenditure incurred. For stale checks written off in the fiscal year subsequent to the year in which the check was written, the credit shall be to miscellaneous income.

This communication is intended solely for the information and use of management, the board of directors, others within the organization and governmental authorities and is not intended to be and should not be used by anyone other than these specified parties.

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
December 7, 2012