

West County Health Centers, Inc.

AUDITED FINANCIAL STATEMENTS

For The Years Ended December 31, 2012 and 2011

West County Health Centers, Inc.

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

Board of Directors
West County Health Centers, Inc.
Guerneville, California

Report on the Financial Statements

We have audited the accompanying financial statements of West County Health Centers, Inc. (the "Center"), which comprise the balance sheets as of December 31, 2012 and 2011 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West County Health Centers, Inc. as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2013, on our consideration of the entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

TCA Partners, LLP

Fresno, California

June 30, 2013

West County Health Centers, Inc.
Balance Sheets
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,328,259	\$ 680,595
Investments	632,877	448,969
Patient accounts receivable, net	900,151	934,708
Estimated third-party payor settlements	-	-
Grants, contracts and other receivables	358,793	716,833
Inventories	166,743	123,354
Prepaid assets	107,608	129,667
Total current assets	3,494,431	3,034,126
Property and equipment, net	2,903,794	3,001,613
Total assets	\$ 6,398,225	\$ 6,035,739
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 28,853	\$ 54,757
Accrued compensation	633,353	562,839
Long-term debt, current portion	41,524	46,344
Estimated third-party payor settlements	438,666	128,004
Deferred revenue	20,197	57,208
Total current liabilities	1,162,593	849,152
Long-term debt	628,487	670,011
Total liabilities	1,791,080	1,519,163
Net Assets:		
Unrestricted net assets	4,607,145	4,516,576
Total net assets	4,607,145	4,516,576
Total liabilities and net assets	\$ 6,398,225	\$ 6,035,739

See accompanying Notes to the Financial Statements

West County Health Centers, Inc.
Statements of Operations and Changes in Net Assets
For the years ended December 31, 2012 and 2011

	2012	2011
Change in Unrestricted Net Assets:		
Revenue and other support:		
Patient and third party revenue, net	\$ 8,509,868	\$ 5,881,293
Grant revenue	2,550,005	2,801,913
Contributions and other	164,662	130,149
Interest	10,549	8,620
Net assets released from restrictions	-	-
Total unrestricted revenue and other support	11,235,084	8,821,975
Expenses:		
Salaries and benefits	7,893,001	6,735,915
Medical supplies and drugs	1,301,176	256,339
Medical contractual services	452,893	266,037
Purchased services	166,671	160,861
Facility costs	257,514	220,813
Other	365,830	307,009
Depreciation and amortization	189,183	203,786
Office and other consumable supplies	148,792	103,981
Repairs and maintenance	70,200	63,361
Communications	101,992	72,013
Travel, conferences and meetings	113,817	111,750
Insurance	38,940	46,791
Minor equipment	11,799	40,347
Interest	32,707	26,885
Total expenses	11,144,515	8,615,888
Change in unrestricted net assets	90,569	206,087
Net Assets:		
Net assets, beginning of year	4,516,576	4,310,489
Net assets, end of year	\$ 4,607,145	\$ 4,516,576

See accompanying Notes to the Financial Statements

West County Health Centers, Inc.
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 90,569	\$ 206,087
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	189,183	203,786
Changes in operating assets and liabilities:		
Change in patient accounts receivable	34,557	118,911
Change in grants and contracts receivables	358,040	(459,018)
Change in inventories	(43,389)	(74,482)
Change in prepaid assets	22,059	15,356
Change in accounts payable and accrued expenses	(25,904)	(149,073)
Change in accrued compensation	70,514	70,772
Change in estimated third-party payor settlements	310,662	177,675
Change in deferred revenue	(37,011)	(58,961)
Net cash provided by operating activities	969,280	51,053
Cash flows from investing activities:		
Change in investments	(183,908)	(82,058)
Acquisition of property and equipment	(91,364)	(827,726)
Net cash used in investing activities	(275,272)	(909,784)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	592,500
Principal payments on long-term debt	(46,344)	(58,458)
Net cash provided by (used in) financing activities	(46,344)	534,042
Net increase (decrease) in cash and cash equivalents	647,664	(324,689)
Cash and Cash Equivalents:		
Cash at beginning of year:	680,595	1,005,284
Cash at end of year:	\$ 1,328,259	\$ 680,595
Supplemental disclosure of cash flow information:		
Interest paid	\$ 32,707	\$ 26,885

See accompanying Notes to the Financial Statements

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 1: Summary of Accounting Policies

Organization and Operations

West County Health Centers, Inc (the "Center"), is a California not-for-profit organization, resulting from the January 1, 2000 merger of the Occidental Area Health Center into the Russian River Health Center. In addition to its principal healthcare clinics in Occidental, Guerneville, and Sebastopol the Center also has a teen clinic and wellness center in Forestville. The Center provides a variety of medical, dental, mental health and confidential teen services at six sites throughout western Sonoma County.

The Center derives its support through grants and contracts with the U.S. Department of Health and Human Services ("DHHS"), the State of California, and various other entities. Additionally, revenues are derived from patient fees and third party charges.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Of the cash balances, per the various financial institutions as of December 31, 2012 and 2011, \$1,327,240 and \$679,726, respectively was covered by federal depository insurance and \$1,019 and \$869, respectively was uninsured.

Investments:

Investments, which consist primarily of Certificate of Deposits, Mutual Funds, and Pooled Funds are measured at fair value in the balance sheet as discussed in note 2. Investment income, including realized gains and losses on investments, interest, and dividends, is included in operating income (loss) unless restricted by donor or law. Unrealized gains or losses on investments, if any are excluded from operating income (loss). Of the investment balances, per the various financial institutions as of December 31, 2012 and 2011, \$555,381 and \$333,845, respectively was covered by federal depository insurance and \$77,497 and \$115,124, respectively was uninsured.

Accounts Receivable:

Accounts receivable are recorded at gross value along with a corresponding allowance for doubtful accounts. Allowance accounts are estimated for each type of receivable based on the Center's experience in collecting those receivables.

Third-Party Contractual Agreements:

The Center has agreements with Medicare that provide payments under a cost-based reimbursement system and with Medi-Cal that provide payments under the Prospective Payment System ("PPS"). In the case of Medicare, reasonable estimates are made and reported in the period services are rendered, and differences between the estimates and actual receipts are included in the statement of operations in the period in which they are determined. In the case of Medi-Cal, payments under the PPS system are final, unless the number of reimbursable visits is changed as a result of an audit by the State of California, Department of Healthcare Services. In addition, under the Medi-Cal PPS, the Center may apply for a change-in-scope of services annually. This process may result in additional Medi-Cal reimbursement for the Center.

Donated Services and Facilities:

Donated services are those services that have been received, valued and recorded. Contributed services are those services that are received but not valued or recorded. It is the policy of the Center to encourage contributions.

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 1: Summary of Significant Accounting Policies (Continued)

Charity Care:

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Center does not pursue collection of amounts determined to qualify as charity care and they are not reported as revenue.

Inventories:

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

Property, Building and Equipment:

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

Temporarily and Permanently Restricted Net Assets:

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

Income Taxes:

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

Revenue Recognition:

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

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates:

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

Reclassifications:

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

Capitation:

The Center has arrangements with various Health Maintenance Organizations (HMOs) to provide medical services to participating patients. Under these arrangements, the Center receives a monthly per month per member capitation payments, regardless of services actually performed by the Center. The HMOs may also make fee-for-services payments to the Center for certain carved out services based upon discounted fee schedules.

Note 2: Fair Value of Financial Instruments

The following methods and assumptions were used by the Center in estimating the fair value of financial instruments:

Cash and cash equivalents - The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable - The carrying amount reported in the balance sheet for accounts receivable approximates its fair value.

Grants, contracts, and other receivables - The carrying amount reported in the balance sheet for grants receivable approximates its fair value.

Accounts payable and accrued compensation - The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements - The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Deferred revenue and long term debt - The carrying amount reported in the balance sheet for deferred revenue and long term debt approximates its fair value.

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 2: Fair Value of Financial Instruments (Continued)

Investment Securities - The Center has adopted Statement of Financial Accounting standard 820, *Fair Value Measurements*. This standard requires the fair value of financial assets and liabilities to be determined using a specific fair-value hierarchy. The objective of the fair value measurement of financial instruments is to reflect the hypothetical amounts at which the Center could sell assets or transfer liabilities in an orderly transaction between market participants at the measurement date. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

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

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

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

Pursuant to FASB ASC 820, the Center's investments are classified within Level 1 and Level 2 of the fair-value hierarchy. The types of securities valued based on Level 1 inputs include money market funds, certificates of deposits, and stocks. The types of securities valued based on Level 2 inputs include fixed funds, mutual funds, and pooled funds. The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
December 31, 2012:				
Money market funds	\$ 349,471	\$ 349,471	\$ -	\$ -
Certificate of deposits	555,381	555,381	-	-
Fixed funds	57,890	-	57,890	-
Pooled funds	14,704	-	14,704	-
Stocks	4,902	4,902	-	-
Total	\$ 982,348	\$ 909,754	\$ 72,594	\$ -
December 31, 2011:				
Money market funds	\$ 234,111	\$ 234,111	\$ -	\$ -
Certificate of deposits	333,845	333,845	-	-
Fixed funds	50,348	-	50,348	-
Mutual funds	46,400	-	46,400	-
Pooled funds	13,576	-	13,576	-
Stocks	4,800	4,800	-	-
Total	\$ 683,080	\$ 572,756	\$ 110,324	\$ -

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 3: Grants Receivables

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

	<u>2012</u>	<u>2011</u>
County of Sonoma DHS –HIV program	\$ 50,267	\$ 94,422
Community health cluster – 330 grant	60,703	77,367
Federal HITECH	191,250	510,000
Other grants	56,573	35,044
Total	<u>\$ 358,793</u>	<u>\$ 716,833</u>

Note 4: Property and Equipment

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

	<u>2012</u>	<u>2011</u>
Land	\$ 520,926	\$ 520,926
Building and improvements	2,639,808	2,627,362
Leasehold improvements	783,417	783,417
Equipment	920,142	841,224
Subtotal	<u>4,864,293</u>	<u>4,772,929</u>
Accumulated depreciation	<u>(1,960,499)</u>	<u>(1,771,316)</u>
Total	<u>\$ 2,903,794</u>	<u>\$ 3,001,613</u>

Depreciation expense for fiscal year 2012 and 2011 amounted to \$189,183 and \$203,786, respectively.

Note 5: Deferred Revenue

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

	<u>2012</u>	<u>2011</u>
Blue Shield of California Foundation	\$ 13,333	\$ 16,666
Tides Foundation	-	35,000
Other	6,864	5,542
Total	<u>\$ 20,197</u>	<u>\$ 57,208</u>

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 6: Long-term Debt

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

	2012	2011
Note payable - The Center entered into a loan agreement with California Health Facilities Financing Authority – Help II program in September 1, 1998. The loan is secured by real property and payable in monthly installments of \$2,072 including principal and interest at three percent per annum. The final maturity is July 1, 2013.	\$ 18,416	\$ 42,334
Notes payable - The Center entered into a loan agreement with California Health Facilities Financing Authority – Help II program in April 1, 2005. The loan is secured by real property and payable in monthly installments of \$2,047 including principal and interest at three percent per annum. The final maturity is June 1, 2015.	59,095	81,521
Notes payable - The Center entered into a loan agreement with the Hopper Family Revocable Living Trust on March 2, 2012. The loan is secured by real property and payable in monthly interest-only installments of \$2,469 at five percent per annum until April 9, 2014, at which time payments of \$3,704.79 including principal and interest. The final maturity is June 9, 2036.	592,500	592,500
Total long-term debt	670,011	716,355
Less: current portion	(41,524)	(46,344)
	\$ 628,487	\$ 670,011

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

Year	Principal	Interest	Total
2013	\$ 41,524	\$ 31,313	\$ 72,837
2014	35,124	30,192	65,316
2015	27,932	28,808	56,740
2016	16,563	27,895	44,458
2017	17,410	27,048	44,458
Thereafter	531,458	279,874	811,332
Total	\$ 670,011	\$ 425,130	\$1,095,141

Note 7: Line of Credit

The Center has available to them a \$800,000 revolving line of credit through Wells Fargo Bank that expires October 5, 2013. As of December 31, 2012 and 2011 the outstanding amount on the line of credit was zero.

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 8: Accrued Payroll and Related Liabilities

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

	2012	2011
Accrued payroll	\$ 295,234	\$ 263,465
Accrued vacation	235,155	187,525
Accrued other liabilities	102,964	111,849
Total	\$ 633,353	\$ 562,839

Note 9: Retirement Plan

The Center sponsors a tax-sheltered annuity plan under Internal Revenue Code Section 403(b). Employees are eligible for the employer discretionary contributions after a thirty day qualified period, effective the first day of the following quarter. Employees are vested at twenty percent for each calendar year they have worked 832 hours. Employees who were hired prior to 2002 were credited with vesting for their prior years of services. During 2012 and 2011, the employer contribution was two percent of gross wages and salaries. The pension expense for the years ending December 31, 2012 and 2011 is \$111,646 and \$89,192, respectively. The Center received forfeitures from the plan administrator of unvested contributions from prior years which reduced the expenses in 2012 and 2011.

Note 10: Concentration of Credit Risk

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

Payor Class	2012	2011
Medicare	11%	17%
Medi-Cal	50%	50%
Other third-party payors	17%	17%
Private pay	22%	16%
Total	100%	100%

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 11: Net Patient Revenue

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

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

Medi-Cal - Medical and dental services rendered to Medi-Cal beneficiaries are paid under the Prospective Payment System (PPS) using rates established by the Center's "Base Year" cost report filed under the previous cost based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center's scope of service.

Insurance - The Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Note 12: Commitments and Contingencies

Operating leases - The Center leases certain facilities and equipment under operating leases expiring at various times through 2015. Future minimum lease payments for the succeeding years under these lease arrangements are approximately: \$61,137 in 2013; \$13,782 in 2014; and \$2,214 in 2015. Total net rent expense for the years ended December 31, 2012 and 2011 was \$159,935 and \$128,557, respectively.

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

Third-party settlement - Medicare and Medi-Cal reimburse the Center at a tentative rate with a final settlement determined after the audit of the annual cost report submitted by the Center. Depending on the result of the audit, the Center might be obligated to refund part of the reimbursement to Medicare and Medi-Cal or vice versa. As of December 31, 2012 and 2011, the Center has recorded a liability related to third-party settlements in the amounts of \$438,666 and \$128,004, respectively.

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

West County Health Centers, Inc.
Notes to the Financial Statements
For the years ended December 31, 2012 and 2011

Note 13: Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Healthcare services	\$ 9,341,135	\$ 7,149,457
General and administrative	1,717,299	1,387,572
Fundraising	86,081	78,859
Total	<u>\$11,144,515</u>	<u>\$ 8,615,888</u>

SINGLE AUDIT REPORTS

West County Health Centers, Inc.
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

Federal Grant / Program Title	Federal CFDA Number	12/31/12
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES:		
Direct Programs:		
Community Health Custer	*93.224	\$ 899,957
Ryan White Part C Outpatient EIS Program	93.918	348,422
		<u>1,248,379</u>
Passed Through:		
Santa Rosa Community Health Centers:		
Part A-Title I & Tile II Ryan White HIV Care Consortium	93.914	346,273
Homeless Grant	*93.224	54,757
		<u>54,757</u>
Total federal financial assistance		<u>\$ 1,649,409</u>

* Denotes major program

West County Health Centers, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

Note 1: Basis of Presentation

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

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

Note 2: Basis of Accounting

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

Note 3: Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

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

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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

Independent Auditor's Report

Board of Directors
West County Health Centers, Inc.
Guerneville, California

We have audited, 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, the financial statements of West County Health Centers, Inc. (the "Center"), which comprise the balance sheets as of December 31, 2012 and 2011 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

TCA Partners, LLP

Fresno, California
June 30, 2013

TCA Partners, LLP

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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Independent Auditor's Report

Board of Directors
West County Health Centers, Inc.
Guerneville, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, West County Health Centers, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of West County Health Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

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

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

We have audited the financial statements of the Center as of and for the year ended December 31, 2012, and have issued our report thereon dated June 30, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

7CA Partners, LLP

Fresno California

June 30, 2013

West County Health Centers, Inc.
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012

I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Major Programs

	<u>CFDA Number</u>
Community Health Custer	93.224
Homeless Grant	93.224

Dollar threshold used to distinguish Types A and B programs	\$ 300,000	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

West County Health Centers, Inc.
Schedule of Findings and Questioned Costs
For the year ended December 31, 2012

II. Financial Statement Findings

None Reported

III. Federal Award Findings And Questioned Costs

None Reported

III. Prior Year Audit Findings and Questioned Costs

2011-01 Sliding Fee Discount Determination - Corrected