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**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2013, 2012 AND 2011**

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 **Patel &  
Associates**  
Certified Public Accountant

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**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.**

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**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
South County Community Health Center, Inc.  
East Palo Alto, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of South County Community Health Center, Inc. (a Non-Profit Organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

We believe that the audit evidence 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 South County Community Health Center, Inc. as of June 30, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Comparative Information for prior years*

The prior years summarized comparative information has been derived from South County Community Health Center, Inc.'s 2012 and 2011 financial statements, and in our reports dated February 11, 2013 and December 7, 2011, we expressed an unqualified opinion on these financial statements.

### *Other Information*

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, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014, on our consideration of South County Community Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South County Community Health Center, Inc.'s internal control over financial reporting and compliance.

*Patricia A. Asanuma*  
Oakland, California  
January 6, 2014

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013**  
**(summarized totals for 2012 and 2011)**

Assets	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets:			
Cash (Note 3)	\$ 222,383	\$ 2,649,243	\$ 899,460
Patient accounts receivable, net of allowance (Note 4)	1,176,881	854,455	832,370
Grants and contributions receivable (Note 5)	835,088	1,137,254	770,335
Other receivables, current portion (Notes 6 & 16)	460,525	365,725	749,287
Unconditional promises to give, current portion (Note 7)	678,200	584,800	643,400
Inventories	19,417	19,229	10,948
Prepaids and deposits	<u>191,604</u>	<u>186,660</u>	<u>156,202</u>
Total current assets	<u>3,584,098</u>	<u>5,797,366</u>	<u>4,062,002</u>
Other receivables, non-current portion (Notes 6 & 16)	237,220	78,134	55,620
Unconditional promises to give, non-current portion (Note 7)	525,675	217,729	708,816
Property and equipment, net of accumulated depreciation (Note 8)	<u>6,431,545</u>	<u>5,006,737</u>	<u>5,005,006</u>
Total assets	<u>\$ 10,778,538</u>	<u>\$ 11,099,966</u>	<u>\$ 9,831,444</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable (Note 10)	\$ 847,159	\$ 335,091	\$ 787,423
Accrued salaries and benefits (Note 11)	606,801	553,274	697,369
Contingency reserve (Note 12)	421,000	250,000	
Accrued interest (Note 13)	<u>17,188</u>	<u>13,438</u>	<u>9,688</u>
Total current liabilities	<u>1,892,148</u>	<u>1,151,803</u>	<u>1,494,480</u>
Long-term liabilities:			
Note payable (Note 13)	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>
Total liabilities	<u>2,017,148</u>	<u>1,276,803</u>	<u>1,619,480</u>
Net assets			
Unrestricted	6,848,371	6,967,734	5,683,248
Temporarily restricted (Note 22)	<u>1,913,019</u>	<u>2,855,429</u>	<u>2,528,716</u>
Total net assets	<u>8,761,390</u>	<u>9,823,163</u>	<u>8,211,964</u>
Total liabilities and net assets	<u>\$ 10,778,538</u>	<u>\$ 11,099,966</u>	<u>\$ 9,831,444</u>

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

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2013**  
**(summarized totals for 2012 and 2011)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
				2013	2012	2011
Revenues and support						
Grants	\$ 4,903,244	\$	\$	\$ 4,903,244	\$ 3,448,366	\$ 3,311,540
Contributions (Note 22)	268,121	1,692,500		1,960,621	3,654,549	2,028,103
Capital campaign (Notes 7 & 22)	274,634	1,200,000		1,474,634	128,394	1,632,386
Net patient service revenue (Note 17)	7,835,499			7,835,499	8,326,191	6,691,078
Donations	255,495			255,495	361,424	330,420
In-kind donations	249,413			249,413	361,840	303,209
Interest income	58			58	68	44
Miscellaneous income	168,214			168,214	624,300	105,706
Net assets released from restrictions (Note 22)	<u>3,834,910</u>	<u>(3,834,910)</u>				
Total revenues and support	<u>17,789,588</u>	<u>(942,410)</u>		<u>16,847,178</u>	<u>16,905,132</u>	<u>14,402,486</u>
Expenses (Note 23)						
Clinical operations (Note 15)	13,490,998			13,490,998	11,718,695	10,517,243
Resource center operations (Note 15)	125,500			125,500	93,688	173,997
Management and general	3,727,153			3,727,153	2,890,816	1,909,706
Development	<u>565,300</u>			<u>565,300</u>	<u>590,734</u>	<u>517,884</u>
Total expenses	<u>17,908,951</u>			<u>17,908,951</u>	<u>15,293,933</u>	<u>13,118,830</u>
Change in net assets	(119,363)	(942,410)		(1,061,773)	1,611,199	1,283,656
Net assets at beginning of year	<u>6,967,734</u>	<u>2,855,429</u>		<u>9,823,163</u>	<u>8,211,964</u>	<u>6,928,308</u>
Net assets at end of year	<u>\$ 6,848,371</u>	<u>\$ 1,913,019</u>	<u>\$</u>	<u>\$ 8,761,390</u>	<u>\$ 9,823,163</u>	<u>\$ 8,211,964</u>

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

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2013**  
**(summarized totals for 2012 and 2011)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:			
Change in net assets	\$ (1,061,773)	\$ 1,611,199	\$ 1,283,656
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities:			
Depreciation	455,608	408,245	405,624
Decrease (increase) in:			
Patient accounts receivable	(322,426)	(22,085)	(316,420)
Grants and contributions receivable	302,166	(366,919)	(185,941)
Other receivables	(253,886)	361,048	(345,825)
Unconditional promises to give	(401,346)	549,687	(602,216)
Inventories	(188)	(8,281)	(10,768)
Prepays and deposits	(4,944)	(30,458)	(38,767)
Increase (decrease) in:			
Accounts payable	512,068	(452,332)	138,442
Accrued salaries and benefits	53,527	(144,095)	(7,875)
Contingency reserve	171,000	250,000	
Accrued interest	3,750	3,750	3,750
Net cash (used)/provided by operating activities	<u>(546,444)</u>	<u>2,159,759</u>	<u>323,660</u>
Cash flows from investing activities:			
Payment towards land improvements	(637,699)	(46,074)	(52,450)
Payment towards leasehold improvements	(509,401)	(102,071)	(171,868)
Purchase of furniture and equipment	(707,319)	(261,831)	(184,507)
Purchase of vehicle	(25,997)		(21,741)
Net cash used by investing activities	<u>(1,880,416)</u>	<u>(409,976)</u>	<u>(430,566)</u>
Net (decrease)/increase in cash	(2,426,860)	1,749,783	(106,906)
Cash at beginning of year	<u>2,649,243</u>	<u>899,460</u>	<u>1,006,366</u>
Cash at end of year	\$ <u><u>222,383</u></u>	\$ <u><u>2,649,243</u></u>	\$ <u><u>899,460</u></u>
Supplemental disclosures:			
In-kind donations	\$ <u><u>249,413</u></u>	\$ <u><u>361,840</u></u>	\$ <u><u>303,209</u></u>

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

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1: NATURE OF ACTIVITIES**

**General**

South County Community Health Center, Inc. (SCCHC) does business under the names of Ravenswood Family Health Center, adopted on April 1, 2003, Ravenswood Family Health Center at Belle Haven and Ravenswood Family Dentistry. SCCHC's mission is to increase access to primary and preventive care for uninsured and low-income individuals and families living in South San Mateo County. Revenues are generated primarily from government and foundation grants, contracts and third party medical insurance.

On September 5, 2006 SCCHC opened a clinic formerly operated by San Mateo County in Menlo Park, California now known as Ravenswood Family Health Center at Belle Haven.

On April 29, 2010, SCCHC opened its Center for Health Promotion and Ravenswood Family Dentistry. The two facilities are conjoined, sharing a common reception area. The Center for Health Promotion houses the entire Health Education team and insurance enrollment specialists. Ravenswood Family Dentistry is a full service dental clinic, with separate pediatric and surgery units.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting recognizing revenues when earned and expenses when incurred.

**B. Financial Statement Presentation**

The accompanying financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of SCCHC and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of SCCHC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.



Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by SCCHC. Generally, the donors of these assets permit SCCHC to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets during the current year.

**C. Cash and Cash Equivalents**

SCCHC considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents at June 30, 2013. Cash and cash equivalents includes deposits in checking and money market accounts, deposits in transit and petty cash funds held for operating purpose.

**D. Unconditional Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received.

**E. Property and Equipment**

Property, equipment and vehicles with a unit cost of \$5,000 or more is capitalized whether purchased or donated. Property, equipment and vehicles of SCCHC are recorded at cost when purchased or at estimated fair value at the date of donation. Depreciation of property, equipment and vehicles is computed on the straight-line method over the estimated useful lives of the individual assets. The lives of the assets range between 3 and 25 years. Repairs and maintenance are charged to operations and major improvements are capitalized.

**F. Revenues and Support**

Grant revenue is funded primarily by a Federal grant, which generally restricts the use of such funds to cover the operating expenses directly related to providing primary care services. These grants are recognized as revenue over the periods specified in the related grant award agreements.

Other grants and contributions that have been awarded for a specified purpose but have not yet been spent are recognized as temporarily restricted net assets. When the services have been rendered, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors and others for services rendered. Revenue under third-party payor agreement is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

**G. In-Kind Donation**

Donated assets are recorded at their estimated fair values at the date of donation. Donated services are recognized as contributions, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchase by SCCHC. In-Kind donations include pharmaceuticals and in-kind rent and services.

**H. Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities by fund. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**I. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**J. Tax Exempt Status**

SCCHC is exempt from income taxes under Section 501 C (3) of the Internal Revenue Code and 23701d of the California Revenue and Taxation Code. SCCHC files the necessary informational returns.

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by SCCHC in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. SCCHC's returns for the years ended June 30, 2012, 2011 and 2010 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

**K. Comparative Financial Information**

The 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 SCCHC's financial statements for the years ended June 30, 2012 and June 30, 2011, from which summarized information was derived.

**L. Reclassification**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**NOTE 3: CASH**

SCCHC maintains its cash balances in various financial institutions located in Northern California. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2013, 2012 and 2011, cash balances before reconciling items were \$574,030, \$2,824,701 and \$1,068,040. It is the opinion of the management that the solvency of the financial institutions is not of particular concern at this time. Cash consists of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Unrestricted cash	\$ 197,249	\$ 1,090,424	\$ 899,460
Restricted cash	<u>25,134</u>	<u>1,558,819</u>	<u>          </u>
Total	<u>\$ 222,383</u>	<u>\$ 2,649,243</u>	<u>\$ 899,460</u>

Restricted cash is allotted for construction of new clinic site \$24,986 and \$445,000 for 2013 and 2012 respectively, and implementation and maintenance of Electronic Health Records (EHR) system \$148 and \$1,113,819 for 2013 and 2012 respectively.

**NOTE 4: PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medical services	\$ 1,042,360	\$ 847,402	\$ 812,822
Dental services	<u>229,240</u>	<u>153,448</u>	<u>165,943</u>
Gross amount	1,271,600	1,000,850	978,765
Less Allowance for doubtful accounts	<u>94,719</u>	<u>146,395</u>	<u>146,395</u>
Net realizable value	<u>\$ 1,176,881</u>	<u>\$ 854,455</u>	<u>\$ 832,370</u>

**NOTE 5: GRANTS AND CONTRIBUTIONS RECEIVABLE**

Grants and contributions receivable consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
California Medi-Cal Meaningful Use Incentive	\$	\$ 510,000	\$
DHHS CMMS Health Care Innovation Grant	292,889		
Sequoia Healthcare District	250,000	125,000	125,000
Kaiser Foundation Hospital Fund		75,000	
California Wellness Foundation		66,000	133,000
Sobrato Family Foundation	157,500		105,000
Tides Foundation Community Clinics Initiative			90,000
Kaiser Foundation Hospitals		60,000	
SMC First 5	51,425		

Flora Family Foundation	30,000		60,000
Grove Foundation		50,000	
City of East Palo Alto	24,500	49,005	
Health Plan of San Mateo (HPSM)		41,270	
Stanford Hospital & Clinics			40,000
SMC Nutrition Grant		39,584	
SMC Family Health Services & Nutrition			33,809
HRSA Patient Navigator Grant		30,000	75,000
Kaiser Permanente		20,000	
Stanford University Office of Community Health			15,000
SMC Health Care for the Homeless – Medical	15,616	16,335	15,975
Susan G. Komen Foundation		12,500	25,000
Tipping Point Community		9,320	
SMC Health Care for the Homeless – Dental	13,158	8,646	13,856
Community Health Partnership Phase Project		7,200	
California Healthcare Foundation		6,250	12,500
Regents of University of California			11,704
SMC Child Psychiatry		5,478	2,739
SMC Health		5,000	
Latino Community Foundation			5,000
Job Train			5,000
Expanded Access to Primary Care (EAPC)			1,419
Total grants and contributions receivable	\$ 835,088	\$ 1,137,254	\$ 770,335

**NOTE 6: OTHER RECEIVABLES**

Other receivables consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
PPS Reconciliation (FY2012-2013)	\$ 108,838	\$	\$
PPS Reconciliation (FY2011-2012)	190,202	157,844	
PPS Reconciliation (FY2010-2011)	197,066	37,490	37,490
PPS Reconciliation (FY2009-2010)	99,587	208,362	322,043
PPS Reconciliation (FY2008-2009)	23,946	34,529	34,529
PPS Reconciliation (FY2002-2003)			21,109
PPS Reconciliation (FY2001-2002)			10,593
HPSM (Code 19 Reconciliation)			246,450
EHR Provider Incentive	46,000		
ACE Pharmaceuticals	7,912		128,162
Others	24,194	5,634	4,531
Total	<u>697,745</u>	<u>443,859</u>	<u>804,907</u>
Less Current portion	<u>(460,525)</u>	<u>(365,725)</u>	<u>(749,287)</u>
Non-current portion	<u>\$ 237,220</u>	<u>\$ 78,134</u>	<u>\$ 55,620</u>

**NOTE 7: UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
John A and Susan Sobrato Fund	\$ 1,000,000	\$	\$
Gordon Russell		250,000	500,000
Sand Hill Foundation		166,000	333,000
Avis Family Foundation		200,000	250,000
Grove Foundation	100,000		
Laurel Foundation		30,000	60,000
St. Goar Family Fund	30,000	30,000	
Others	89,431	138,031	236,830
	<u>1,219,431</u>	<u>814,031</u>	<u>1,379,830</u>
Receivable in less than one year (current)	678,200	584,800	643,400
Receivable after one year	541,231	229,231	736,430
Less: Unamortized discount	(15,556)	(11,502)	(27,614)
	<u>525,675</u>	<u>217,729</u>	<u>708,816</u>
Net receivable after one year (non-current)			
	<u>525,675</u>	<u>217,729</u>	<u>708,816</u>
Total unconditional promises to give	\$ <u>1,203,875</u>	\$ <u>802,529</u>	\$ <u>1,352,216</u>

Unconditional promises to give receivable in more than one year are discounted at 3%.

The above receivables are included in the capital campaign revenue which totaled \$1,474,634, \$128,394 and \$1,632,386 at June 30, 2013, 2012 and 2011, respectively.

**CAPITAL CAMPAIGN**

Revenue from capital campaign consists of the following:

Donor:	<u>2013</u>	<u>2012</u>	<u>2011</u>
John A and Susan Sobrato Fund	\$ 1,000,000	\$	\$
Sand Hill Foundation			500,000
Sue & Dick Levy Fund			500,000
Valentine Foundation	252,743		
Grove Foundation	200,000		
Avis Family Foundation			250,000
Laurel Foundation			60,000
St. Goar Family Fund			50,000
Joanne Kagle			50,000
Patricia Bresee Fund			50,000
Jaffe Family Foundation			50,000
Grove Foundation		50,000	
Others	25,945	78,394	150,000
	<u>1,478,688</u>	<u>128,394</u>	<u>1,660,000</u>
Total capital campaign revenue before discount			
	<u>1,478,688</u>	<u>128,394</u>	<u>1,660,000</u>
Less: unamortized discount	(4,054)		(27,614)
	<u>1,474,634</u>	<u>128,394</u>	<u>1,632,386</u>
Net capital campaign revenue	\$ <u>1,474,634</u>	\$ <u>128,394</u>	\$ <u>1,632,386</u>

**NOTE 8: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 2,331,336	\$ 1,693,637	\$ 1,647,563
Lease improvements - Health Center	1,836,462	1,791,703	1,779,704
Lease improvements - Resource Center	703,687	703,687	703,687
Lease improvements - Belle Haven	101,094	97,254	90,886
Lease improvements - Dental Building	1,550,387	1,550,387	1,516,707
Lease improvements - Admin Building	273,512	274,179	224,155
Lease improvements - 1842 Bay Road	461,469		
Furniture & equipment - Health Center	1,321,963	1,256,216	1,168,103
Furniture & equipment - Resource Center	234,472	220,258	220,258
Furniture & equipment - Belle Haven	263,507	247,106	227,233
Furniture & equipment - Dental Building	635,001	635,001	547,639
Furniture & equipment - Admin Building	253,299	230,101	163,618
Furniture & equipment - 1842 Bay Road	587,759		
Vehicles	<u>175,545</u>	<u>149,548</u>	<u>149,548</u>
Total Cost	10,729,493	8,849,007	8,439,101
Less Accumulated Depreciation	<u>4,297,948</u>	<u>3,842,340</u>	<u>3,434,095</u>
Net Book Value	<u>\$ 6,431,545</u>	<u>\$ 5,006,737</u>	<u>\$ 5,005,006</u>

Total additions to property and equipment for the year ended June 30, 2013 amounted to \$1,880,416, \$409,976 and \$430,556 and total depreciation expense for the three years was \$455,608, \$408,245 and \$405,624 respectively.

**NOTE 9: OPERATING LEASES**

SCCHC leases land in East Palo Alto from the City of East Palo Alto for \$1 per year and the modular units located at Bay Road, East Palo Alto from an outside vendor. SCCHC also leases dental clinic, office space and storage space on Bay Road, East Palo Alto from other outside vendors. Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of June 30, 2013 and for the remaining period are:

Year ended June 30,	
2014	\$ 237,020
2015	242,180
2016	247,100
2017	252,332
2018	188,344
Thereafter	<u>298,775</u>
Total minimum future rental payments	<u>\$ 1,465,751</u>

SCCHC also uses a clinic space in Menlo Park owned by the City of Menlo Park for free, in consideration of the health care services provided by SCCHC to the residents of the City of Menlo Park. The term of the lease is month-to-month until terminated by either party. The fair value of the lease is recorded as an in-kind donation.

**NOTE 10: ACCOUNTS PAYABLE**

Accounts payable consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Third party vendors	\$ 812,007	\$ 286,953	\$ 681,645
Sub-contractors	35,152		28,437
PPS Reconciliation (FY2008-2009)			4,803
PPS Reconciliation (FY2007-2008)		48,138	72,538
	<u>\$ 847,159</u>	<u>\$ 335,091</u>	<u>\$ 787,423</u>

**NOTE 11: ACCRUED SALARIES AND BENEFITS**

Accrued salaries and benefits consist of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Accrued salaries and wages	\$ 219,313	\$ 194,583	\$ 356,569
Accrued payroll taxes	12,508	11,827	27,093
Accrued vacation	374,980	346,864	313,707
	<u>\$ 606,801</u>	<u>\$ 553,274</u>	<u>\$ 697,369</u>

**NOTE 12: CONTINGENCY RESERVE**

SCCHC is subject to legal proceedings, claims, and billing investigations arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management has established a contingency reserve and does not expect that costs to resolve these matters will have a material adverse effect on its financial position, results of operations, or cash flows.

**NOTE 13: NOTE PAYABLE**

SCCHC borrowed \$125,000 from the County of San Mateo through the Community Development Block Grant (CDBG) program. The fund was used to assist SCCHC with the acquisition of a clinic modular facility, including toxic remediation costs at its 1804 Bay Road land held for future expansion. The subject property was originally held in the name of Roblake, Inc., which was 100% owned by SCCHC until its dissolution in 2008. The land was subsequently deeded by Roblake, Inc. to SCCHC in 2009 (see Note 1). The term of the note is 30 years from the date of the Deed of Trust, which is December 19, 2008. The note bears a non-compounding annual interest of 3%. No payment is due until maturity, at which time payment in full plus any accrued interest shall be due. Prepayments may be made at any time without penalty. Any payment made during the term of the note will be first applied to outstanding interest and then to principal. Interest expense for the year related to this note payable amounted to \$3,750, and the amount of accrued interest as of June 30, 2013, 2012 and 2011 were \$17,188, \$13,438 and \$9,688, respectively.

**NOTE 14: LINE OF CREDIT**

On April 18, 2013, SCCHC renewed their line of credit with California Bank & Trust for a maximum of \$500,000, with a maturity date of April 1, 2014. No funds were drawn down from the credit line as of June 30, 2013, 2012 and 2011.

**NOTE 15: CLINICAL OPERATIONS**

Clinical operations include expenses incurred for primary and dental care and behavioral health services for all ages. Operations include patient education and referrals addressing domestic violence and substance abuse.

**RESOURCE CENTER OPERATIONS**

Resource center operations primarily include expenses incurred for the rental and maintenance of local non-profit organizations including: El Concilio of San Mateo County, Nuestra Casa and One East Palo Alto (OEPA).

**NOTE 16: FQHC REIMBURSEMENTS**

As a Federally Qualified Health Center (FQHC), SCCHC is required to submit an annual Medi-Cal Reconciliation Request Form to the California Department of Health Care Services for purposes of determining whether it was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits. Reimbursement for covered services is based on a per visit rate established by the State under the federally mandated Prospective Payment System (PPS). SCCHC has recorded a receivable for estimated settlements expected to be received for Medi-Cal Reconciliation Request Form for the year ended June 30, 2013. Such amounts are recorded on the statement of financial position as other receivables. Following submission of the Medi-Cal Reconciliation Request Form,



SCCHC will generally receive a tentative settlement from the Medi-Cal program with a final settlement made within three years of the date of submission. Tentative settlement is determined after a review has been made on the completed Medi-Cal Reconciliation Request Form submitted to the Department of Health Services. Due to the timing of the interim and final settlement processes, SCCHC has allocated a portion of the estimated receivable as a non-current asset.

**NOTE 17: CONCENTRATION OF CREDIT RISK**

SCCHC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013, 2012 and 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medi-Cal	47%	49%	45%
Medicare	6%	16%	9%
Dental	18%	15%	17%
Family Pact	21%	1%	2%
ACE	5%	15%	22%
HPSM	1%	2%	2%
Private Pay	1%	1%	1%
Others	<u>1%</u>	<u>1%</u>	<u>2%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

**NOTE 18: CONTINGENT GRANT EXPENDITURE ADJUSTMENTS**

Grants and contracts require the fulfillment of conditions, as set forth in the terms of the grant or contract agreements, and are subject to audit by the grantor. Failure to comply with these conditions could result in the return of funds to the grantor. Although this is a possibility, SCCHC believes that it has complied with the conditions of the grants and no significant liabilities are expected to result from an audit.

**NOTE 19: MALPRACTICE INSURANCE**

SCCHC as an eligible Federally Qualified Health Center (FQHC) is covered under the Federal Tort Claims Act (FTCA) through submission of an annual renewal deeming application to the U.S. Department of Health and Human Services, Health Resources and Services Administration, Bureau of Primary Health Care. The health center, their employees, and eligible contractors are considered federal employees for medical malpractice claims while acting within the scope of their employment. In addition to coverage under the FTCA, SCCHC insures privately for professional liability coverage for any claims that may not be covered under FTCA. Under the policy, insurance premiums cover those claims asserted within policy limits. Management does not believe there are any material uninsured malpractice costs at June 30, 2013, 2012 and 2011.

**NOTE 20: CONTINGENCIES**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. SCCHC is subject to similar regulatory reviews. As of the date of this disclosure SCCHC management is not aware of any regulatory reviews that would have a material adverse impact upon the ability of SCCHC to sustain business operations.

**NOTE 21: EVALUATION OF SUBSEQUENT EVENTS**

SCCHC has reviewed the results of operations for the period of time from its year end June 30, 2013 through January 6, 2014 the date which the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

**NOTE 22: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2013, 2012 and 2011 are summarized as follows:

	Beginning of Year	Awarded during the Year	Released from Restrictions	End of Year		
				2013	2012	2011
Alain Enthoven - New Clinic Facility	\$ 1,000	\$	\$ 1,000	\$	\$ 1,000	\$
Avis Family Foundation - Capital Campaign	191,431		140,439	50,992	191,431	241,431
Blue Shield of California Foundation - General Operating Support		15,000	15,000			40,000
Bob Freelen - New Clinic Facility	15,000		15,000		15,000	
California Bank & Trust - Construction Project	10,000		10,000		10,000	
California Healthcare Foundation - Health Care Services		20,000	20,000			10,826
California Primary Care Association - Airborne Settlement	25,148		25,148		25,148	68,542
California Wellness Foundation - Core Support	86,942		57,962	28,980	86,942	162,579
City of East Palo Alto - Health Services & Educational Interventions	49,005		43,363	5,642	49,005	
Community Health Partnership - Core Support						5,000
Flora Family Foundation - Comprehensive and Integrated Primary Care Services	22,500	60,000	31,797	50,703	22,500	52,500
Gallo Family Fund - Capital Campaign	20,000		10,000	10,000	20,000	30,000
Genentech Foundation - Dental Pediatrics Support	8,350		8,350		8,350	
Gordon Russell - Capital Campaign	250,000		250,000		250,000	492,719
Grove Foundation - General Operating Support	58,330		58,330		58,330	
Grove Foundation - Construction Project		200,000	75,014	124,986		
Hurlbut-Johnson Fund - Clinic & Dental Core Support	40,000	80,000	73,804	46,196	40,000	
Jewish Community Federation of San Francisco - Capital Campaign	14,567		4,567	10,000	14,567	19,143
Joanne Kagle - Capital Campaign	30,000		10,000	20,000	30,000	40,000
John & Marcia Goldman Foundation - Core Support						50,000
John & Susan Sobrato Fund - Construction Project		1,000,000		1,000,000		
Kaiser Foundation Hospital Fund - Quality Improvement Initiative	81,686		81,686		81,686	
Kaiser Foundation Hospitals - 2012 Public Benefit Pilot	60,000		60,000		60,000	
Kaiser Foundation Health Plan, Inc. - Membership Support						31,235
Kaiser Permanente - Family Wellness Program	20,000		20,000		20,000	
Kellogg Foundation/Battle Creek - General Operating Support		25,000	7,337	17,663		
Latino Community Foundation - Family Planning Support						9,760
Laurel Foundation - Capital Campaign	12,885		8,702	4,183	12,885	59,126
Leslie Family Foundation - Dental Care and Oral Health Education		25,000	25,000			
Lucile Packard Children's Hospital - EHR System Support	956,163		956,019	144	956,163	
Lucile Packard Children's Hospital - Ped Services / Mobile Clinic						374,106
Lucile Packard Children's Hospital - Ped Services / Nutrition Counseling	41,667	150,000	166,667	25,000	41,667	
Lucile Packard Children's Hospital - Ped Services - Dental	8,337	150,000	132,180	26,157	8,337	
Luisa Buada - Capital Campaign	21,067		5,836	15,231	21,067	27,140
Mary Lemmon Fund - Construction	100,000		100,000		100,000	
Maya Altman - Capital Campaign	20,394		6,394	14,000	20,394	27,394
Palo Alto Community Fund - Pediatric Oral Health Support		10,000	2,785	7,215		8,232
Patricia Bressee - Capital Campaign	29,135		9,135	20,000	29,135	38,286
Regents of the University of California - Core Support						11,704
San Francisco Foundation - Behavioral Health Support						32,013
San Francisco Foundation - Public Health Coverage Programs	30,000	35,000	36,306	28,694	30,000	
Sand Hill Foundation - Capital Campaign	500,000		500,000		500,000	495,165
Sequoia Healthcare District - Clinical Operations & Service Expansion - BH		500,000	500,000			
Sobrato Family Foundation - General Operating Support		307,500	68,182	239,318		
St. Goar Family Fund - Capital Campaign	30,000			30,000	30,000	39,126
Stanford Hospital & Clinics - SPIN Project		40,000		40,000		40,870
Stanford University School of Medicine - Core Support						15,000
Susan G Komen Foundation - Breast Cancer Prevention	22,917		22,917		22,917	44,319
Tipping Point Community - General Support	72,919		72,919		72,919	
Tipping Point Community - General Support	16,666		16,666		16,666	
Tipping Point Community - General Support		225,000	131,250	93,750		
Tipping Point Community - Motivational Interviewing	9,320	50,000	55,155	4,165	9,320	
Tipping Point Community - Dental Core Support						62,500
	<u>\$ 2,855,429</u>	<u>\$ 2,892,500</u>	<u>\$ 3,834,910</u>	<u>\$ 1,913,019</u>	<u>\$ 2,855,429</u>	<u>\$ 2,528,716</u>

**NOTE 23: TOTAL EXPENSES**

Total expenses incurred are as follows:

	Program Services			Total	Supporting Services			Totals		
	Clinical Operations		Resource Center Operations		Management and Development		Total	2013	2012	2011
	Medical Operations	Dental Operations			General	Development				
Salaries	\$ 5,230,636	\$ 1,126,999	\$	\$ 6,357,635	\$ 2,677,045	\$ 367,338	\$ 3,044,383	\$ 9,402,018	\$ 7,624,241	\$ 6,897,690
Fringe benefits	665,513	124,498		790,011	259,167	52,923	312,090	1,102,101	930,477	736,834
Payroll taxes	763,115	65,741		828,856	81,947	22,070	104,017	932,873	723,871	583,896
Payroll fees					61,572		61,572	61,572	53,716	44,959
Contract services	2,623,885	273,531	15,890	2,913,306	311,766	36,175	347,941	3,261,247	2,624,214	2,070,325
Depreciation	326,275	129,333		455,608				455,608	408,245	405,624
Occupancy	241,344	63,360	55,915	360,619	83,880		83,880	444,499	389,008	355,183
Equipment rental					333	1,399	1,732	1,732	5,620	6,967
Storage rent	35,280			35,280	153		153	35,433	27,864	20,295
Supplies	331,624	139,369	6,531	477,524	27,740	12,144	39,884	517,408	870,433	397,147
Pharmaceuticals	582,680	147		582,827	290		290	583,117	520,943	697,719
Laboratory and radiology	30,730			30,730				30,730	46,153	25,031
Building maintenance	40,754	9,639	3,958	54,351	2,894		2,894	57,245	48,575	95,727
Utilities	74,904	23,024	38,303	136,231	16,089		16,089	152,320	121,003	115,856
Telephone	106,291	30,569	3,693	140,553	13,319	20	13,339	153,892	127,146	114,067
Printing	10,417	1,995		12,412	25,960	33,790	59,750	72,162	16,823	33,503
Postage	8,093	1,073		9,166	1,720	252	1,972	11,138	14,849	12,698
Insurance	37,842	6,204	1,210	45,256	37,627		37,627	82,883	83,380	76,424
Education, training and workshops	103,030	3,927		106,957	24,836	(154)	24,682	131,639	147,295	156,618
Recruitment	14,109	2,252		16,361	2,657	3,402	6,059	22,420	28,255	9,688
Dues and memberships	9,736	1,157		10,893	46,060	3,954	50,014	60,907	53,858	55,391
Marketing and public relations	4,573			4,573	2,358	17,652	20,010	24,583	41,665	39,585
Special events	50			50		5,750	5,750	5,800	26,917	1,832
Travel	49,838	4,205		54,043	11,485	915	12,400	66,443	61,761	67,466
Board expense	6,021	3,085		9,106	28,762	1,990	30,752	39,858	18,715	2,219
License and permits	134,500	9,292		143,792	5,913	5,680	11,593	155,385	248,689	60,159
Bank charges	10,513			10,513	3,130		3,130	13,643	11,302	12,691
Interest	3,965			3,965				3,965	3,738	4,085
Donation	1,744	9,420		11,164	450		450	11,614	510	6,020
Miscellaneous	12,575	2,141		14,716				14,716	14,667	13,131
<b>Total expenses</b>	<b>\$ 11,460,037</b>	<b>\$ 2,030,961</b>	<b>\$ 125,500</b>	<b>\$ 13,616,498</b>	<b>\$ 3,727,153</b>	<b>\$ 565,300</b>	<b>\$ 4,292,453</b>	<b>\$ 17,908,951</b>	<b>\$ 15,293,933</b>	<b>\$ 13,118,830</b>

**SUPPLEMENTARY INFORMATION**

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Health and Human Services:</u></b>			
Community Health Centers	93.224		\$ 1,481,132
Community Health Centers	93.527		<u>1,005,018</u>
			<u>2,486,150</u>
 Patient Navigator Outreach and Chronic Disease Prevention Program	 93.191		 <u>32,437</u>
<i>Pass-through program from:</i>			
DHHS Centers for Medicare and Medicaid Services Health Care Innovation Challenge	93.610	1C1CMS330972-01-00	<u>1,954,349</u>
<i>Pass-through program from:</i>			
County of San Mateo Health Care for the Homeless	93.224	10-C220	<u>131,924</u>
Total U.S. Department of Health and Human Services			<u>4,604,860</u>
<b><u>U.S. Department of Housing and Urban Development:</u></b>			
<i>Pass-through from:</i>			
County of San Mateo Community Development Block Grant (CDBG) Note Payable	14.218	B-09-UC-06-0006	<u>125,000</u>
Total U.S. Department of Housing and Urban Development			<u>125,000</u>
Total expenditures of federal awards			<u>\$ 4,729,860</u>

**Note 1. Basis of Presentation**

The above schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of South County Community Health Center, Inc. under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of South County Community Health Center, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of South County Community Health Center, Inc.

**Note 2. Summary of Significant Accounting**

Expenditures reported on the schedule are reported on the accrual basis of accounting.

**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**

The Board of Directors  
South County Community Health Center, Inc.  
East Palo Alto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South County Community Health Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South County Community Health Center, 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 South County Community Health Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of South County Community Health Center, Inc.'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 South County Community Health Center, 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.

  
Oakland, California  
January 6, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

The Board of Directors  
South County Community Health Center, Inc.  
East Palo Alto, California

**Report on Compliance for Each Major Federal Program**

We have audited South County Community Health Center, Inc.'s 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 South County Community Health Center, Inc.'s major federal programs for the year ended June 30, 2013. South County Community Health Center, Inc.'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 South County Community Health Center, Inc.'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 South County Community Health Center, Inc.'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 South County Community Health Center, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, South County Community Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

Management of South County Community Health Center, 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 South County Community Health Center, Inc.'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 South County Community Health Center, Inc.'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.

*PwC*  
PwC & Associates  
Oakland, California  
January 6, 2014

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

***Financial Statements***

Type of auditor’s report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.610	Health Care Innovation Challenge Grant

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II- FINANCIAL STATEMENT FINDINGS**

**FINDING:**

No matters were reported.

**SECTION III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**FINDING:**

No matters were reported.

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC.  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

No findings were reported in the prior year.