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

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying consolidated financial statements of South County Community Health Center, Inc. and Affiliate (SCCHC&A) (a Non-Profit Organization) which comprise the consolidated statement of financial position as of June 30, 2014 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 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 consolidated 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. The financial statements of the affiliate were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCCHC&A as of June 30, 2014 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***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015, on our consideration of SCCHC&A'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 SCCHC&A's internal control over financial reporting and compliance.



Oakland, California  
January 22, 2015

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2014**

Assets	2014
<b>Current assets:</b>	
Cash and cash equivalents (Note 3-A)	\$ 225,268
Cash restricted for capital campaign (Note 3-B )	5,372,408
Patient accounts receivable, net of allowance (Note 4)	975,331
Grants and contributions receivable (Note 5)	950,972
Other receivables, current portion (Notes 6 & 17)	1,079,382
Unconditional promises to give, current portion (Note 7)	3,021,333
Inventories	19,675
Prepays and deposits	185,220
Total current assets	11,829,589
Other receivables, non-current portion (Notes 6 & 17)	497,289
Unconditional promises to give, non-current portion (Note 7)	2,422,347
Property and equipment, net of accumulated depreciation (Note 8)	12,299,570
<b>Total assets</b>	<b>\$ 27,048,795</b>
<b>Liabilities and net assets</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses (Note 11)	\$ 665,979
Accrued salaries and benefits (Note 12)	834,633
Accrued interest (Note 14)	20,938
Other liabilities (Note 13)	381,000
Construction retention payable (Note 8)	231,868
Current portion of notes payable (Note 14)	950,000
Total current liabilities	3,084,418
<b>Long-term liabilities:</b>	
Notes payable (Note 14)	725,000
<b>Total liabilities</b>	<b>3,809,418</b>
<b>Net assets</b>	
Unrestricted	13,140,570
Temporarily restricted (Note 24)	10,098,807
Total net assets	23,239,377
<b>Total liabilities and net assets</b>	<b>\$ 27,048,795</b>

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

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and support</b>				
Patient service revenue (Note 18)	\$ 10,015,480	\$	\$	\$ 10,015,480
Provision for doubtful accounts	(42,606)			(42,606)
Net patient service revenue	9,972,874			9,972,874
Grants	5,761,816			5,761,816
Contributions and donations (Note 24)	823,165	1,611,826		2,434,991
Capital campaign (Notes 7 and 24)		14,152,422		14,152,422
In-kind donations	149,884			149,884
Miscellaneous income	409,617			409,617
Net assets released from restrictions (Note 24)	7,578,460	(7,578,460)		
<b>Total revenues and support</b>	<b>24,695,816</b>	<b>8,185,788</b>		<b>32,881,604</b>
<b>Expenses (Note 25)</b>				
Clinical operations (Note 16)	13,165,022			13,165,022
Resource center operations (Note 16)	108,501			108,501
Management and general	4,618,689			4,618,689
Development	511,405			511,405
<b>Total expenses</b>	<b>18,403,617</b>			<b>18,403,617</b>
<b>Change in net assets</b>	<b>6,292,199</b>	<b>8,185,788</b>		<b>14,477,987</b>
<b>Net assets at beginning of year</b>	<b>6,848,371</b>	<b>1,913,019</b>		<b>8,761,390</b>
<b>Net assets at end of year</b>	<b>\$ 13,140,570</b>	<b>\$ 10,098,807</b>	<b>\$</b>	<b>\$ 23,239,377</b>

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

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2014**

	2014
Cash flows from operating activities:	
Change in net assets	\$ 14,477,987
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	482,456
Decrease (increase) in:	
Patient accounts receivable	201,550
Grants and contributions receivable	(115,884)
Other receivables	(878,926)
Unconditional promises to give	(4,239,805)
Inventories	(258)
Prepays and deposits	6,384
Increase (decrease) in:	
Accounts payable	(181,180)
Accrued salaries and benefits	227,832
Accrued interest	3,750
Construction retention payable	231,868
Other liabilities	(40,000)
	10,175,774
Net cash provided by operating activities	
Cash flows from investing activities:	
Restricted cash from capital campaign	(5,372,408)
Payments on construction in progress	(4,204,347)
Payment towards land improvements	(1,668,388)
Purchase of furniture and equipment	(477,746)
	(11,722,889)
Net cash (used) by investing activities	
Cash flows from financing activities:	
Loan proceeds	1,550,000
	1,550,000
Net cash provided by financing activities	
Net increase in cash and cash equivalents	2,885
Cash and cash equivalents at beginning of year	222,383
Cash and cash equivalents at end of year	\$ 225,268
Supplemental disclosures:	
In-kind donations	\$ 149,884
Cash paid for interest	\$ 6,256

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

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1: NATURE OF ACTIVITIES**

**General**

South County Community Health Center, Inc. (“SCCHC”) (The Parent Corporation) is a private nonprofit public benefit corporation incorporated on June 15, 2000 under the laws of the State of California for the purpose of providing access to primary and preventive care for uninsured and low-income individuals and families living in South San Mateo County. SCCHC is a Federally Qualified Health Center (FQHC) and provides a variety of primary care medical, obstetric, pediatric, dental, behavioral health and health education and enabling services to the community. SCCHC derives its support through public insurance programs, such as Medi-Cal and Medicare, direct federal funding from the Department of Health and Human Services (DHHS), state and local grants, private grants, and contributions.

RFHC Bay/Pulgas Landowner, Inc. (RFHC BPL) (“Affiliate Corporation”) an affiliate of SCCHC is organized as a private nonprofit corporation under the laws of the State of California on April 1, 2014 and is controlled by SCCHC. The majority of the board is comprised of board members of SCCHC, but not exclusively. The purpose of the RFHC BPL is to hold the leasehold interest in the commercial building located at 1885 Bay Road, East Palo Alto, California which is leased to SCCHC. RFHC BPL is operating the site in a manner enabling it to qualify as a Qualified Active low Income Beneficiary (QUALICB) that receives Qualified Low Income Investment (QLICI) loans under New Market Tax Credit (NMTC) transaction (See Notes 9 and 26).

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.

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

**A. Principles of Consolidation**

These consolidated financial statements include the accounts of SCCHC and its controlled affiliate RFHC BPL (collectively referred to as SCCHC&A in these consolidated financial statements).

These financial statements issued for the first-time as consolidated financial statements because SCCHC formed its affiliate on April 1, 2014. During the period from Inception date at April 1, 2014 to June 30, 2014 there have been no operations in the affiliate so there have been no revenues and expenses reported in the affiliate’s financial statements. At June 30, 2014 total of affiliate’s assets and liabilities were \$9,320,170 and \$9,320,170 respectively.



SCCHC has an economic interest through an affiliation in a new market tax credit transaction (see Note 26) and a control evidenced through a majority of the board of directors of RFHC BPL. Inter-corporation transactions and balances have been eliminated in consolidation.

**B. Basis of Accounting and Presentation**

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

The accompanying consolidated 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&A 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&A 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&A. Generally, the donors of these assets permit SCCHC&A 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.

Recent Accounting Guidance

SCCHC&A follows the FASB guidance for Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. The amendments in this update require certain healthcare entities to change the presentation to their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those healthcare entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts), as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

**C. Cash and Cash Equivalents**

SCCHC&A considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents at June 30, 2014. 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&A 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 specified purposes or timing but have not yet been satisfied are recognized as temporarily restricted net assets. When the donors' restrictions are satisfied, 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.

SCCHC&A receives revenues from third-party payors and patients. SCCHC&A has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per service type, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Since the net realizable amounts are estimates, the ultimate settlement may be more or less than the amount included in the consolidated financial statements. The methods of establishing the estimates are continually analyzed, updated and reviewed and the difference between the estimated net realizable amounts and the related actual settlements are recognized in the period the revenues are settled.

While actual revenues could differ from those estimates, management does not expect the variances, if any, to have a material effect on the consolidated financial statements.

SCCHC&A participates in the Federal Medicare and State Medicaid program as a Federally Qualified Health Center (FQHC), which provides for cost reimbursement as an all-inclusive provider. This program provides reimbursement at a single rate for all types of services provided by SCCHC&A on an encounter-reporting basis. SCCHC&A also provides discounted medical services to self-pay patients on a sliding fee scale based on the patient's gross income. Sliding fee discounts are included in net service revenues in the accompanying statements of activities.

#### **G. Receivables**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, SCCHC&A analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, SCCHC&A analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), SCCHC&A records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The allowance for doubtful accounts is maintained at a level believed adequate by management to absorb probable losses in the accounts receivable and grants receivable. Management's determination of the adequacy of the allowance is based on periodic evaluations of its receivables, its composition, past loss experience, current economic conditions, and other relevant factors and circumstances, which may affect the ability of patients to meet their obligations. At June 30, 2014, management determined that allowances for doubtful accounts are adequate to reduce receivables at its net realizable value.

#### **H. 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 purchased by SCCHC&A. In-Kind donations include pharmaceuticals and in-kind rent and services.

**I. 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.

**J. Use of Estimates**

The preparation of consolidated 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.

**K. 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 are subject to examination by federal and state taxing authorities, generally for three years and four years respectively after they are filed.

RFHC BPL though formed under the California Non-Profit Public Benefit Corporation Law as a Non-Profit Organization has not obtained the IRS tax determination letter to be classified as a tax exempt entity. RFHC BPL filed IRS Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code on December 19, 2014. As of the date of consolidated financial statements issuance, the tax determination by IRS is still in progress. Until the exemption is granted, for tax purposes, RFHC BPL is required to file an annual information return (Form 990 – Return of Organization Exempt from Income Tax) while the application for exemption determination is pending.

**NOTE 3: CASH AND RESTRICTED CASH**

**A. Cash and Cash Equivalents**

SCCHC&A 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, 2014 cash balances before reconciling items were \$245,254. 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:

Unrestricted cash	\$ 193,937
Designated cash	<u>31,331</u>
Total	<u>\$ 225,268</u>

Details of designated cash are as follow:

Employee assistance plan	\$ 15,934
Construction of new clinic site	<u>15,397</u>
Total	<u>\$ 31,331</u>

**B. Cash Restricted For Capital Campaign**

SCCHC&A initiated a capital project for a new clinic facility on Bay Road in the City of East Palo Alto, California and started a capital campaign fund raising to finance this project. As of June 30, 2014 the balance of the unused capital campaign fund was \$5,372,408 held with local banks.

**NOTE 4: PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable consist of the following:

Medical services	\$ 798,200
Dental services	<u>314,456</u>
Gross amount	1,112,656
Less Allowance for doubtful accounts	<u>(137,325)</u>
Total Net patient accounts receivable	<u>\$ 975,331</u>

Allowance for doubtful accounts at June 30, 2014 is 11 percent and 1 percent for third party insurance payors and self-pay patients respectively. Allowance for doubtful accounts for third party insurance payors increased from 7 percent of total third party insurance payor accounts receivable at June 30, 2013 to 12 percent of third party insurance payor accounts receivable at June 30, 2014. This increase is due to uncertainty of collecting payment for certain out of period Medi-Cal claims that were re-billed per regulation. In addition, self-pay write-offs increased by \$574 from \$1,140 for fiscal year 2013 to \$1,714 for fiscal year 2014.

**NOTE 5: GRANTS AND CONTRIBUTIONS RECEIVABLE**

Grants and contributions receivable consist of the following:

DHHS CMMS Health Care Innovation Grant	\$ 379,334
Sequoia Healthcare District	250,000
SMC First 5	113,720
Laurel Foundation	40,000
Stanford Hospital & Clinics	100,000
SMC Health Care for the Homeless – Medical	11,222
Susan G. Komen Foundation	23,913
SMC Health Care for the Homeless – Dental	44
SMC Child Psychiatry	2,739
Jeff & Julie Brody	<u>30,000</u>
 Total grants and contributions receivable	 \$ <u><u>950,972</u></u>

**NOTE 6: OTHER RECEIVABLES**

Other receivables consist of the following:

PPS Reconciliation (FY2013-2014)	\$ 1,260,539
PPS Reconciliation (FY2012-2013)	126,551
PPS Reconciliation (FY2011-2012)	77,665
PPS Reconciliation (FY2010-2011)	15,503
Other	<u>96,413</u>
 Total	 1,576,671
 Less Current portion	 <u>(1,079,382)</u>
 Non-current portion	 \$ <u><u>497,289</u></u>

**NOTE 7: UNCONDITIONAL PROMISES TO GIVE**

Pledges receivable reflect Capital Campaign (and other general operating time-restricted) commitments made to SCCHC&A by individuals and foundations. Pledges for which payments are to be received in future years have been discounted to their present value using an interest rate effective on the original date of award. The effect of the present value discount resulted in a decrease in pledges receivable of \$127,781 as of June 30, 2014.

The following is a summary of the discounted pledges receivable as of June 30, 2014:

David Peery (SVCF)	\$	1,000,000
Franklin P. Johnson		25,000
Freidenrich Foundation		800,000
Goar Family Fund		20,000
Gordon Russell		300,000
Jim & Kathy Koshland Philanthropic Fund		50,000
John & Marcia Goldman Foundation		250,000
John A. and Susan Sobrato Fund		1,250,000
Palo Alto Medical Foundation		1,800,000
Sherri Sager		25,000
	\$	<u>5,571,462</u>
Receivable within one year	\$	3,021,333
Receivable after one year		2,550,128
Less: Discount to net present value		<u>(127,781)</u>
Net, long term receivable		<u>2,422,347</u>
Net Unconditional promise to give	\$	<u>5,443,680</u>

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

The above receivables are included in the capital campaign revenue which totaled \$14,152,422 at June 30, 2014.

## **CAPITAL CAMPAIGN**

Revenue from capital campaign consists of the following:

David and Lucile Packard Foundation	\$ 1,000,000
David Peery	1,000,000
Freidenrich Foundation	1,000,000
Gordon Russell	500,000
Jim & Kathy Koshland Philanthropic Fund	50,000
John & Marcia Goldman Foundation	500,000
John A and Susan Sobrato Fund	1,500,000
Kaiser Foundation Health Plan	350,000
Silicon Valley Community Foundation	5,000,000
Mary Lemmon Fund	150,000
Mendelsohn Family Fund	75,000
Palo Alto Medical Foundation	2,000,000
Sue and Dick Levy Fund	1,000,000
Others	<u>139,647</u>
Total capital campaign revenue before discount	14,264,647
Less: unamortized discount	<u>(112,225)</u>
Net capital campaign revenue	<u>\$ 14,152,422</u>

## **NOTE 8: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land and improvements	\$ 3,999,723
Lease improvements - Health Center	1,843,462
Lease improvements - Resource Center	703,687
Lease improvements - Belle Haven	101,094
Lease improvements - Dental Building	1,550,387
Lease improvements - Admin Building	273,512
Lease improvements - 1842 Bay Road	461,469
Furniture & equipment - Health Center	1,330,750
Furniture & equipment - Resource Center	234,472
Furniture & equipment - Belle Haven	263,507
Furniture & equipment - Dental Building	643,646
Furniture & equipment - Admin Building	253,299
Furniture & equipment - 1842 Bay Road	650,647
Furniture & equipment – New Clinic	390,426
Construction in progress – New Clinic	4,204,347
Vehicles	<u>175,545</u>
Total Cost	17,079,974
Less Accumulated Depreciation	<u>(4,780,404)</u>
Total net property and equipment	<u>\$ 12,299,570</u>



Total additions to property and equipment for the year ended June 30, 2014 amounted to \$6,350,480. Total depreciation expense for the year was \$482,456.

Construction in progress at June 30, 2014, primarily relates to costs associated with the new clinic facility at 1885/1891 Bay Road, East Palo Alto CA, which is expected to be completed by April 15 2015. The project is funded by a \$5,000,000 capital development grant from the Department of Health and Human Services which was pledged as part of the total \$38,960,000 from NMTC financing (Note 26).

Total capital commitments expected to paid after June 30, 2014 is \$34,305,227. Retentions withheld from the payments made to the contractors of this project amounted \$231,868 as of June 30, 2014.

SCCHC has \$16,969,826 banking bond on behalf of the contractors that expires in March 2015.

**NOTE 9: AFFILIATION AGREEMENTS**

SCCHC entered with its affiliate into various arrangements and signed numerous agreements as follow:

(1) New Clinic Facility Project

On March 5, 2014, SCCHC started constructing a new 38,000 square-foot clinic facility at 1885/1891 Bay Road, East Palo Alto CA. SCCHC has raised funds through a capital campaign. Subsequently, in order to seek additional funds to finance the construction project, SCCHC is involved in the New Market Tax Credit Program (“NMTC Program”) and formed the affiliate to be the owner of the new clinic property in order to qualify for the Qualified Active Low-Income Community Business pursuant to the requirement of the NMTC Program and IRC §45(d).

(2) New Market Tax Credit Program

In April 2014 SCCHC’s board of directors approved certain resolutions and actions by SCCHC to satisfy the requirements of the NMTC Program. Among other actions, SCCHC formed the affiliate and both parties have mutually entered into several agreements pursuant to which the affiliate assumed all of SCCHC’s former contractual rights and obligations with respect to the property and against all parties engaged in the new clinic construction.

(3) Real Estate Sale and Purchase Agreement

On April 24, 2014, the parties agreed to the conveyance of that certain real property located at 2519 Pulgas Avenue and 1885/1891 Bay Road in East Palo Alto, California with all intangible personal property, to the extent it is transferable, related to the ownership or operation of the Property, including, without limitation, all development rights, permits, warranties, franchises, licenses, certificates of occupancy, soil and other reports and studies, surveys, maps, utility contracts, plans and specifications, engineering plans and studies, floor plans and landscape plans.

The total purchase price for the Property was the greater of (a) Two Million Ninety Thousand Dollars (\$2,090,000), or (b) the current appraised value of the Property which was \$4,710,000.

(4) Development Agreement

Based on the consent of both entities' boards and according to the development agreement signed on April 24, 2014, between SCCHC and the affiliate, SCCHC is allowed to incur cost on behalf of the affiliate and to be reimbursed for the same with affiliate loan proceeds.

(5) Reimbursement Agreement

SCCHC has incurred certain predevelopment costs related to the Property that are not included in or made a part of the Purchase Price, but which predevelopment costs will inure to the benefit of the affiliate. Both parties agreed that SCCHC will not convey the Property without an agreement by the affiliate to reimburse the Reimbursable Costs.

A summary of assets, construction costs capitalized and other related costs transferred to affiliate through June 30, 2014 were as follows:

Cash remittances	\$ 2,805,396
Sale of property	4,710,000
Construction in progress	1,414,348
Furniture and equipment	390,426
Liability assumed	<u>(231,868)</u>
Total assets transferred	<u>\$ 9,088,302</u>

**NOTE 10: OPERATING LEASES**

SCCHC&A 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&A 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, 2014 and for the remaining period and in the aggregate are:

Year ended June 30,	
2015	\$ 242,180
2016	247,100
2017	252,332
2018	188,344
2019	187,391
Thereafter	<u>111,384</u>
Total minimum future rental payments	<u>\$ 1,228,731</u>

SCCHC&A 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&A 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 11: ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable consist of the following:

Third party vendors	\$ 663,286
Accrued expenses	<u>2,693</u>
Total accounts payable and accrued expenses	<u>\$ 665,979</u>

**NOTE 12: ACCRUED SALARIES AND BENEFITS**

Accrued salaries and benefits consist of the following:

Accrued salaries and wages	\$ 345,437
Accrued payroll taxes	22,357
Accrued vacation	<u>466,839</u>
Total accrued salaries and benefits	<u>\$ 834,633</u>

**NOTE 13: OTHER LIABILITIES**

Contingency reserve	\$ 59,581
Health Plan of San Mateo	102,000
Medical-Dental claims payable	<u>219,419</u>
Total other liabilities	<u>\$ 381,000</u>

SCCHC&A is subject to legal proceedings, claims, and billing investigations arising in the ordinary course of business. SCCHC&A 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 14: NOTES PAYABLE**

Following is a summary of long-term notes payable at June 30, 2014:

A. SCCHC&A 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 toxic remediation costs at its 1804 Bay Road land. The subject property was originally held in the name of Roblake, Inc., which was 100% owned by SCCHC until it's dissolution in 2008. 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, 2014 was \$20,938.	\$ <u>125,000</u>
B. A credit agreement was reached between The David and Lucile Packard Foundation (Foundation) and SCCHC&A. The program-related investment made by the Foundation to SCCHC under this agreement will be in the form of a loan in the principal amount of up to eight million dollars (\$8,000,000) which will be used by SCCHC&A to bridge-finance pledge commitments secured by SCCHC&A to pay costs for constructing a new 38,000 square foot, two-story permanent facility in East Palo Alto, California that SCCHC&A will use to provide comprehensive and integrated primary care medical, dental, and behavioral health services for low income families and children. Under this agreement, on January 10, 2014 SCCHC&A obtained an initial advance of \$1,550,000 from the Foundation. This loan bears an annual interest rate by 1% and is payable on monthly basis. The outstanding principal is payable on specified repayment schedule linked with collection of the "unconditional promises to give" receivables with a final maturity date on or before January 31, 2019.	<u>1,550,000</u>
	1,675,000
Less: current maturities included in current liabilities	<u>(950,000)</u>
	\$ <u><u>725,000</u></u>

Following are maturities of long-term debt for each of the next four years

<u>June 30:</u>	
2015	\$ 950,000
2016	200,000
2017	200,000
2018	<u>200,000</u>
	\$ <u><u>1,550,000</u></u>

**NOTE 15: LINE OF CREDIT**

SCCHC&A has two lines of credit with California Bank & Trust for a maximum amount of \$500,000 secured by UCC-1 and \$1,000,000 guaranteed by Lucile Packard Children's Hospital, having a maturity date of April 1, 2015. The lines bear interest of 5.5% and 4.75% respectively. No funds were drawn down from the credit line as of June 30, 2014.

**NOTE 16: 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 17: 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&A has recorded a receivable for estimated settlements expected to be received for Medi-Cal Reconciliation Request Form for the year ended June 30, 2014. Such amounts are recorded on the statement of financial position under other receivables. Following submission of the Medi-Cal Reconciliation Request Form, SCCHC&A 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&A has allocated a portion of the estimated receivable as a non-current asset.

**NOTE 18: PATIENT SERVICE REVENUE**

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

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

Medi-Cal: Medical, dental and behavioral health services rendered to Medi-Cal beneficiaries are paid under a Prospective Payment System, using rates established by SCCHC&A’s “Base Years” cost reports filed under the previous cost-based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in SCCHC&A’s scope of service. SCCHC&A is required to file a payment reconciliation report with the State.

Revenue from patient care service consists of the following:

	Gross charges	Contractual adjustments	Net charges
Medi-Cal	\$ 13,601,199	\$ (7,401,693)	\$ 6,199,506
Medicare	895,424	(487,426)	407,998
Family PACT/CDP	627,609	(601,511)	26,098
County Programs	4,281,733	(2,077,492)	2,204,241
Private Pay	130,755	(66,317)	64,438
Self Pay/Sliding Fee	2,199,342	(1,807,947)	391,395
	<u>\$ 21,736,062</u>	<u>\$ (12,442,386)</u>	9,293,676
Capitation fees			683,249
Performance incentives			<u>38,555</u>
			<u>\$ 10,015,480</u>

**NOTE 19: CONCENTRATION OF CREDIT RISK**

SCCHC&A grants credit without collateral to its patient, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 were as follows:

Medi-Cal	74%
Medicare	6%
Family Pact	13%
County Programs	5%
Private Pay	1%
Others	<u>1%</u>
	<u>100%</u>

**NOTE 20: MEANINGFUL USE INCENTIVE**

Miscellaneous income includes meaningful use incentive of \$289,750 for SCCHC&A's implementation and use of a certified EHR technology.

**NOTE 21: 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&A believes that it has complied with the conditions of the grants and no significant liabilities are expected to result from an audit.

**NOTE 22: MALPRACTICE INSURANCE**

SCCHC&A 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&A 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, 2014.

**NOTE 23: 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&A is subject to similar regulatory reviews. As of the date of this disclosure SCCHC&A management is not aware of any regulatory reviews that would have a material adverse impact upon the ability of SCCHC&A to sustain business operations.

**NOTE 24: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2014 are summarized as follows:

<u>Donor Name</u>	<u>Type of Restriction</u>	<u>Beginning of Year</u>	<u>Awarded during the Year</u>	<u>Released from Restrictions</u>	<u>End of Year</u>
Alain Enthoven	Capital Campaign for New Clinic Facility	\$	\$	\$	\$
Avis Family Foundation	Capital Campaign for New Clinic Facility	50,992		40,187	10,805
California Bank & Trust	Capital Campaign for New Clinic Facility				
David and Lucile Packard Foundation	Capital Campaign for New Clinic Facility		1,000,000	1,000,000	
David Peery	Capital Campaign for New Clinic Facility		1,000,000		1,000,000
Dr. Jaime Chavarria	Capital Campaign for New Clinic Facility		4,000		4,000
Eucalyptus	Capital Campaign for New Clinic Facility		20,000	13,158	6,842
Franklin P. Johnson	Capital Campaign for New Clinic Facility		25,000		25,000
Freidenrich Foundation	Capital Campaign for New Clinic Facility		1,000,000	609,324	390,676
Gallo Family Fund	Capital Campaign for New Clinic Facility	10,000			10,000
Gordon Russell	Capital Campaign for New Clinic Facility		500,000	100,000	400,000
Gordon Russell	Capital Campaign for New Clinic Facility		490		490
Grove Foundation	Capital Campaign for New Clinic Facility	124,986		124,986	
Harvey Cohen	Capital Campaign for New Clinic Facility		2,000	1,836	164
Jim & Kathy Koshland Family Foundation	Capital Campaign for New Clinic Facility	10,000			10,000
Jim & Kathy Koshland Philanthropic Fund	Capital Campaign for New Clinic Facility		50,000		50,000
Joanne Kagle	Capital Campaign for New Clinic Facility	20,000		10,000	10,000
John & Marcia Goldman Foundation	Capital Campaign for New Clinic Facility		500,000	500,000	
John A. & Susan Sobrato Fund	Capital Campaign for New Clinic Facility		1,500,000	750,000	750,000
John A. & Susan Sobrato Fund	Capital Campaign for New Clinic Facility	1,000,000		1,000,000	
Kaiser Foundation Health Plan	Capital Campaign for New Clinic Facility		350,000	350,000	
Koret Foundation	Capital Campaign for New Clinic Facility		5,000	5,000	
Linda Meier	Capital Campaign for New Clinic Facility		26,209	25,196	1,013
Luisa Buada	Capital Campaign for New Clinic Facility	15,231		2,539	12,692
Silicon Valley Community Foundation	Capital Campaign for New Clinic Facility		5,000,000	405,234	4,594,766
Mary Lemmon Fund	Capital Campaign for New Clinic Facility		150,000		150,000
Maya Altman	Capital Campaign for New Clinic Facility	14,000		3,173	10,827
Mendelsohn Family Fund	Capital Campaign for New Clinic Facility		75,000	75,000	
Merk Family Charitable Fund	Capital Campaign for New Clinic Facility		10,000	5,000	5,000
Palo Alto Medical Foundation	Capital Campaign for New Clinic Facility		2,000,000	123,131	1,876,869
Patricia Bresssee	Capital Campaign for New Clinic Facility	20,000			20,000
Rob Freelen	Capital Campaign for New Clinic Facility				
Sand Hill Foundation	Capital Campaign for New Clinic Facility				
Sherri Sager	Capital Campaign for New Clinic Facility		25,000	3,354	21,646
Sobrato Family Foundation	Capital Campaign for New Clinic Facility	239,318		207,963	31,355
St. Goar Family Fund	Capital Campaign for New Clinic Facility	30,000		8,104	21,896
Sue and Dick Levy Fund	Capital Campaign for New Clinic Facility		1,000,000	1,000,000	
Tate Family Fund	Capital Campaign for New Clinic Facility		10,000	10,000	
The O'Brien Family Trust	Capital Campaign for New Clinic Facility		10,000		10,000
Interest on Capital Accounts	Capital Campaign for New Clinic Facility		1,948	43	1,905
Total capital campaign contributions before discounting the unconditional promise to give beyond one year		1,534,527	14,264,647	6,373,228	9,425,946
Discount to net present value			(112,225)		(112,225)
Net capital campaign contributions		1,534,527	14,152,422	6,373,228	9,313,721

"continued"



Donor Name	Type of Restriction	Beginning of Year	Awarded during the Year	Released from Restrictions	End of Year
Battle Creek Foundation	General Support with Timing Restriction	17,663		17,663	
Blue Shield of California Foundation	General Support with Timing Restriction		15,000	12,500	2,500
California Healthcare Foundation	General Support with Timing Restriction		20,000	15,000	5,000
California Primary Care Association	General Support with Timing Restriction				
California Wellness Foundation	General Support with Timing Restriction	28,980		28,980	
City of East Palo Alto	Health Services & Educational Interventions	5,642		5,642	
Community Health Partnership	General Support with Timing Restriction		25,000	12,279	12,721
Flora Family Foundation	General Support with Timing Restriction	50,703		31,383	19,320
Genentech Foundation	Dental Pediatrics Support				
George H. Sandy Foundation	General Support with Timing Restriction		15,000	7,500	7,500
Grove Foundation	General Support with Timing Restriction		50,000	4,167	45,833
Grove Foundation	General Support with Timing Restriction		50,000	41,667	8,333
Hurlbut-Johnson Fund	General Support with Timing Restriction	46,196	80,000	86,196	40,000
Jeff and Julie Brody	General Support with Timing Restriction		30,000		30,000
Kaiser Foundation Hospital Fund	Quality Improvement Initiative				
Kaiser Foundation Hospitals	2012 Public Benefit Pilot				
Kaiser Permanente	Patient Safety Pharmacy Practice				
Laurel Foundation	RFHC Bay Pulgas Clinic Construction	4,183	80,000	37,516	46,667
Leslie Family Foundation	General Support with Timing Restriction		45,000	45,000	
Lucile Packard Children's Hospital	Core Support - Pediatric Dental	26,157	150,000	152,754	23,403
Lucile Packard Children's Hospital	Core Support - Pediatric Services	25,000	219,000	207,500	36,500
Lucile Packard Children's Hospital	EHR System Support	144		144	
Mary Lemmon Fund	Core Support - IBHS		150,000	15,125	134,875
Menlo Park Surgical Hospital	Core Support -Timing Restriction		150,000	75,000	75,000
Palo Alto Community Fund	General Support with Timing Restriction	7,215	10,000	10,065	7,150
San Disk Corporation	Oral Health Support		15,000	11,250	3,750
San Francisco Foundation	General Support - Enrollment Outreach	28,694	35,000	33,189	30,505
Stanford Hospital and Clinics	Volunteer and Referral Staff Support	40,000		40,000	
Stanford Hospital and Clinics	Volunteer and Referral Staff Support		150,000	49,434	100,566
Susan G Komen Foundation	Breast Cancer Prevention		47,826	6,944	40,882
Tipping Point Community	General Support with Timing Restriction	93,750	275,000	254,169	114,581
Tipping Point Community	Motivational Training	4,165		4,165	
Total core support contributions		<u>378,492</u>	<u>1,611,826</u>	<u>1,205,232</u>	<u>785,086</u>
		\$ <u>1,913,019</u>	\$ <u>15,764,248</u>	\$ <u>7,578,460</u>	\$ <u>10,098,807</u>

"concluded"

**NOTE 25: TOTAL EXPENSES**

Total expenses incurred are as follows:

	Program Services				Supporting Services			
	Clinical Operations		Resource Center Operations	Total	Management and General	Development	Total	Totals
	Medical Operations	Dental Operations						
Salaries	\$ 5,695,830	\$ 1,403,662	\$	\$ 7,099,492	\$ 3,032,617	\$ 388,481	\$ 3,421,098	\$ 10,520,590
Fringe benefits	705,016	138,491		843,507	335,778	56,869	392,647	1,236,154
Payroll taxes	556,260	134,395		690,655	398,199	15,890	414,089	1,104,744
Payroll fees					75,475		75,475	75,475
Contract services	1,940,365	196,849	17,565	2,154,779	252,384	8,603	260,987	2,415,766
Depreciation	352,463	129,993		482,456				482,456
Occupancy	279,724	58,920	38,673	377,317	78,000		78,000	455,317
Equipment rental	150			150	444		444	594
Storage rent	1,407			1,407	58,862		58,862	60,269
Supplies	255,638	202,030	2,078	459,746	46,467	1,718	48,185	507,931
Pharmaceuticals	390,163	6,849		397,012	1,200		1,200	398,212
Laboratory and radiology	59,138			59,138				59,138
Building maintenance	20,923	24,912	2,838	48,673	5,051		5,051	53,724
Utilities	86,669	22,618	40,245	149,532	22,402		22,402	171,934
Telephone	130,410	47,290	3,412	181,112	20,762		20,762	201,874
Printing	9,389	1,032		10,421	32,152	24,698	56,850	67,271
Postage	4,424	227		4,651	3,618	50	3,668	8,319
Insurance	(2,701)		3,690	989	78,465		78,465	79,454
Education, training and workshops	27,636	3,208		30,844	21,508	567	22,075	52,919
Recruitment	7,914	2,241		10,155	3,557	1,496	5,053	15,208
Dues and memberships	8,903	4,470		13,373	52,233	1,925	54,158	67,531
Marketing and public relations	4,729	400		5,129	3,991	1,398	5,389	10,518
Special events					4,125		4,125	4,125
Travel	35,253	3,463		38,716	20,297	2,382	22,679	61,395
Board expense	1,575	4,050		5,625	20,888	825	21,713	27,338
License and permits	151,527	9,717		161,244	45,973	6,503	52,476	213,720
Bank charges	16,166			16,166	2,163		2,163	18,329
Interest	8,652			8,652	1,353		1,353	10,005
Donation		4,414		4,414	725		725	5,139
Miscellaneous	15,696	2,472		18,168				18,168
<b>Total expenses</b>	<b>\$ 10,763,319</b>	<b>\$ 2,401,703</b>	<b>\$ 108,501</b>	<b>13,273,523</b>	<b>\$ 4,618,689</b>	<b>\$ 511,405</b>	<b>\$ 5,130,094</b>	<b>\$ 18,403,617</b>

**NOTE 26: EVALUATION OF SUBSEQUENT EVENTS**

SCCHC&A has reviewed the results of operations for the period of time from its year end June 30, 2014 through January 22, 2015 the date which the consolidated financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

**NEW MARKET TAX CREDIT TRANSACTION**

On November 6, 2014, SCCHC and RFHC BPL entered in to a transaction which generated “New Markets Tax Credits” (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended (Section 45D). The transaction was initiated by Chase Community Equity (Investor Member) who contributed \$13,047,060 to an investment fund established for the transaction.

The investment fund also secured a loan from SCCHC totaling \$25,852,940. The combined contributions and loan proceeds were used to pay certain transaction fees and the remaining funds were contributed in varying amounts to three third-party Qualified Community Development Entities (CDEs) as the Qualified Equity Investment (QEI) under Section 45D. The CDEs then utilized the respective QEIs to fund loans totaling \$37,534,000 to RFHC BPL, the Qualified Active Low Income Community Business (QALICB) under Section 45D. The transaction was structured as 30-year debt-financing with a 7-year NMTC compliance period, at the end of which time Chase Community Equity will have a put option and SCCHC will have the call option to acquire all membership interest owned by Chase Community Equity in the investment fund, thereby obtaining indirect ownership of the CDEs, and thus eliminating the CDE loans debt through a related party discharge of indebtedness.

RFHC BPL used \$4,710,000 of the loan proceeds to purchase “Real Property” (Property) as described in the Purchase and Sale Agreement from SCCHC. Loan proceeds were also used to reimburse SCCHC for previously acquired equipment and other related construction hard and soft costs in the amount of \$1,572,905 as described in the Reimbursement Agreement First Amendment, Exhibit A. The remaining loan proceeds are to be used for the two story building addition of approximately 38,000 sq.ft. of clinical space for use by SCCHC, as well as purchase 2509-2511 Bay Road land parcel. The Property is located at 1885 Bay Road, East Palo Alto, CA. The debt is guaranteed and secured by the Property. The Property qualifies as low income property under Section 45D. As such, the financing arrangements between RFHC BPL and the lenders qualify as a “qualified low-income community investment” (QLICI) and generates NMTCs.

SCCHC also contributed network equipment from Cisco Systems, Inc. totaling approximately \$1,115, 937 directly to RFHC BPL. SCCHC and RFHC BPL entered into a Master Lease Agreement on November 6, 2014, for which SCCHC rents the building from RFHC BPL. Rent Payments will be made as described in the Master Lease Agreement.

**SUPPLEMENTARY INFORMATION**

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

<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>Department of Health and Human Services</u></b>			
<b>Direct Programs:</b>			
Health Center Cluster	93.527		\$ 1,326,687
Health Center Cluster	93.224		1,224,634
Health Care for Homeless	93.224		55,000
Health Center Cluster- Outreach & Enrollment Supplemental	93.224		<u>84,161</u>
			<u>2,690,482</u>
 Health Care Innovation Challenge	 93.610		 <u>2,440,485</u>
<i>Pass-through program from:</i>			
County of San Mateo			
Health Care for the Homeless	93.224	10-C220	<u>124,486</u>
Total Department of Health and Human Services			<u>5,255,453</u>
Total expenditures of federal awards			<u>\$ 5,255,453</u>

**Note 1. Basis of Presentation**

The above schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of SCCHC&A under programs of the federal government for the year ended June 30, 2014. 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 SCCHC&A, it is not intended to and does not present the financial position, changes in net assets or cash flows of SCCHC&A.

**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. and Affiliate  
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 consolidated financial statements of South County Community Health Center, Inc. and Affiliate (SCCHC&A) (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated 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 22, 2015. The financial statements of the affiliate were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered SCCHC&A'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCCHC&A's internal control. Accordingly, we do not express an opinion on the effectiveness of SCCHC&A'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 consolidated 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 SCCHC&A's consolidated 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.

*Peter A. Brown, LLP*

Oakland, California  
January 22, 2015

**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. and Affiliate  
East Palo Alto, California

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

We have audited South County Community Health Center, Inc. and Affiliate's (SCCHC&A) 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 SCCHC&A's major federal programs for the year ended June 30, 2014. SCCHC&A's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The affiliate does not have any federal programs. Accordingly, we did not audit the affiliate in accordance with compliance requirements described in the OMB Circular A-133 compliance supplement.

***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 SCCHC&A'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 SCCHC&A'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 SCCHC&A's compliance.



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

In our opinion, SCCHC&A 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, 2014.

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

Management of SCCHC&A 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 SCCHC&A '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 SCCHC&A'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.



Oakland, California  
January 22, 2015

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

***Financial Statements***

Type of auditor’s report issued:	<i>Unmodified</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>Unmodified</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>
93.527	Health Center Cluster
93.224	Health Center Cluster
93.224	Health Care for Homeless
93.224	Health Center Cluster- Outreach & Enrollment Supplemental

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**SOUTH COUNTY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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. AND AFFILIATE  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

No findings were reported in the prior year.