

October 2011

To Our Friends and Supporters:

This fiscal year was a challenging, yet rewarding, one for East Valley Community Health Center.

Operations were greatly impacted by the time and effort involved in the system design and software installation of NextGen Electronic Medical Records software (EMR). The previous year experienced the installation of the Patient Management portion of the software. Many hours were devoted to these two projects by a team composed of clinical as well as administrative staff. Throughout the process, extensive trainings were conducted at all levels on all aspects of the software.

To enable the providers and their support staff time to acclimate themselves to the new system, the scheduling of patient visits was reduced from three per hour to, initially, one per hour. This number gradually increased as the providers grew more and more adept with the software and new operating procedures. After a period of approximately five months, all schedules were returned to normal levels.

The disruption of services, while definitely necessary, proved to be quite costly. Patient service revenue for the six months ending June 30th was approximately \$1,000,000 less than for the comparable period in the prior year.

The efforts of many have been rewarded as the software is now performing well beyond expectations and operations are returning to historical levels.



Alicia Mardini  
Chief Executive Officer

*OUR MISSION:*

*To provide quality and accessible comprehensive healthcare and health education services to the low-income and underserved populations of the East San Gabriel and Pomona Valleys.*

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
(a California Nonprofit Corporation)

Independent Auditors' Reports, Financial Statements  
and Supplementary Information

For the Years Ended June 30, 2011 and 2010

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**

**JUNE 30, 2011 AND 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
East Valley Community Health Center, Inc.  
West Covina, California

We have audited the accompanying statements of financial position of East Valley Community Health Center, Inc. (the Clinic) (a nonprofit organization), as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of East Valley Community Health Center's management. Our responsibility is to express an opinion on the 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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the East Valley Community Health Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Valley Community Health Center, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7 of the financial statements, the Clinic's outstanding balance on its line of credit is \$999,996 at June 30, 2011. Full payment of the outstanding balance is due on January 31, 2012. Additionally, the Clinic was not in compliance with certain covenants relating to its line of credit at June 30, 2011. A waiver has been approved by the bank.

As described in Note 1 of the financial statements, the Clinic changed accounting policies related to the Method of Accounting for Agency Transactions.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011, on our consideration of East Valley Community Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information on page 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and, accordingly, we express no opinion on it.

*Vavrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
October 7, 2011

## **FINANCIAL STATEMENTS**

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**  
**Statements of Financial Position**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 132,179	\$ 370,479
Patient accounts receivable - net	432,016	805,806
Grants receivable	530,837	678,600
Other receivables	272,756	796
Pledge receivables	300,000	-
Inventory	35,028	177,887
Estimated third-party payor settlements	281,959	-
Prepays and deposits	67,140	63,391
<b>TOTAL CURRENT ASSETS</b>	<b>2,051,915</b>	<b>2,096,959</b>
<b>PROPERTY AND EQUIPMENT - NET</b>	<b>11,608,614</b>	<b>11,329,237</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 13,660,529</u></b>	<b><u>\$ 13,426,196</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 481,978	\$ 406,670
Accrued expenses	608,980	465,502
Deferred revenue	41,231	157,180
Current portion long-term debt	1,206,969	418,079
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,339,158</b>	<b>1,447,431</b>
<b>LONG-TERM DEBT</b> -less current portion	<b>5,153,659</b>	<b>5,358,990</b>
<b>TOTAL LIABILITIES</b>	<b><u>7,492,817</u></b>	<b><u>6,806,421</u></b>
<b>NET ASSETS</b>		
Unrestricted	5,867,712	6,619,775
Temporarily Restricted	300,000	-
	<b><u>6,167,712</u></b>	<b><u>6,619,775</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 13,660,529</u></b>	<b><u>\$ 13,426,196</u></b>

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

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**  
**Statements of Activities**  
**Year Ended June 30, 2011 and 2010**

<b>UNRESTRICTED NET ASSETS</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>SUPPORT AND REVENUES</b>		
Net Patient Service Revenue	\$ 6,726,910	\$ 7,023,874
Grant Revenue	5,753,614	6,758,473
Other Income	25,961	7,783
Net Assets Released from Temporary Restrictions	-	10,090
	<u>12,506,485</u>	<u>13,800,220</u>
<b>EXPENSES:</b>		
Program Services:		
OB/GYN	2,728,868	2,582,722
Primary Care	6,708,755	6,324,522
Mental Health	198,827	170,287
Dental	834,067	744,868
HIV	966,136	938,995
Outreach	945,637	886,876
Supporting Services:		
General and Administration	876,258	806,979
	<u>13,258,548</u>	<u>12,455,249</u>
Excess of Support and Revenues Over (Under) Expenses	<u>(752,063)</u>	<u>1,344,971</u>
Changes in Net Assets	(752,063)	1,344,971
Unrestricted Net Assets, Beginning of Year	<u>6,619,775</u>	<u>5,274,804</u>
Unrestricted Net Assets, End of Year	<u>\$ 5,867,712</u>	<u>\$ 6,619,775</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contribution from donors for Capital Campaign	\$ 300,000	\$ -
Net Assets released from Temporary Restrictions	-	(10,090)
Change in Net Assets	<u>300,000</u>	<u>(10,090)</u>
<b>TEMPORARILY RESTRICTED NET ASSETS, BEGINNING OF YEAR</b>	<u>-</u>	<u>10,090</u>
<b>TEMPORARILY RESTRICTED NET ASSETS, END OF YEAR</b>	<u>\$ 300,000</u>	<u>\$ -</u>

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

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**  
**Statements of Cash Flows**  
**For the Year Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase/(Decrease) in Net Assets	\$ (452,062)	\$ 1,344,971
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	561,128	547,597
(Increase)/Decrease in:		
Patient accounts receivable - net	373,790	(201,690)
Grants receivable	147,763	(132,457)
Other receivables	(271,960)	(284)
Pledge receivables	(300,000)	-
Inventory	142,859	(115,313)
Estimated third-party payor settlements	(281,959)	-
Prepays and deposits	(3,749)	20,600
Increase/(Decrease) in:		
Accounts payable	75,308	56,484
Accrued expenditures	143,478	54,370
Deferred revenue	(115,949)	(122,464)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>18,646</u>	<u>1,451,814</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction in progress - additions	(790,574)	(996,459)
Purchase of fixed assets	(49,929)	(64,698)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(840,503)</u>	<u>(1,061,157)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from CPCA short-term loan	244,982	750,000
Proceeds from Working Capital Credit Line	759,000	311,000
Payments to NCB	(21,142)	(68,875)
Payments on CPCA short-term loan	(244,982)	(55,879)
Payments on CHFFA loan	(37,455)	(908,305)
Payments on Mortgage Loan	(60,280)	-
Payments on Medi-Cal loan	(56,566)	(150,034)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<u>583,557</u>	<u>(122,093)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(238,300)</b>	<b>268,564</b>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>370,479</u>	<u>101,915</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><b>\$ 132,179</b></u>	<u><b>\$ 370,479</b></u>

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

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2011**

	OB / Gyn Services	Primary Care	Mental Health	Dental Services	HIV Services	Outreach Services	General & Admin	Total Expenses
Employee Compensation	\$ 1,441,917	\$ 3,777,260	\$ 102,898	\$ 531,125	\$ 396,095	\$ 517,293	\$ 99,851	\$ 6,866,439
Fringe Benefits	354,687	768,125	21,816	94,744	86,702	115,703	23,319	1,465,096
Total Empl Compensation/ Fringe Benefits	1,796,604	4,545,385	124,714	625,869	482,797	632,996	123,170	8,331,535
Accounting and Professional	10,161	64,894	637	2,755	2,900	4,672	21,273	107,292
Advertising	255	2,703	-	-	-	-	550	3,508
Bank Charges	-	-	-	-	-	-	7,870	7,870
Consulting Services	106,742	183,759	59,251	21,739	145,019	2,263	158,029	676,802
Educational Materials	1,093	2,505	-	249	-	2,182	-	6,029
Equipment Lease and Rental	13,259	28,603	36	670	3,665	8,616	-	54,849
Facilities Maintenance	64,459	112,311	918	11,086	17,523	19,159	120	225,576
Fundraising Events	-	-	-	-	-	-	9,310	9,310
General Administration	22,594	50,824	2,096	5,444	6,898	5,134	5,529	98,519
Insurance - Professional Liability	13,496	21,842	403	1,206	3,278	-	-	40,225
Insurance - Gen'l Liab/Auto/D&O	9,580	16,551	570	2,364	5,163	12,802	1,181	48,211
Interest	-	3,419	-	-	-	-	390,067	393,486
Lab Costs	41,797	207,578	-	-	108,771	5,186	50,920	414,252
License / Permits	7,588	25,098	73	1,153	1,645	320	1,469	37,346
Medical/Dental Supplies	104,928	59,989	-	84,170	17,537	7,945	-	274,569
Membership / Dues	6,520	21,592	406	1,654	1,884	2,235	156	34,447
Medical Waste	14,059	34,928	51	969	4,009	2,273	-	56,289
Medications / Dispensary	75,022	530,346	-	-	31,142	-	-	636,510
Minor Equipment/Software	509	207	2	3,324	119	319	-	4,480
Miscellaneous	1,925	6,212	11	228	926	16,305	50,935	76,542
Postage	5,844	14,518	297	1,254	1,822	3,851	115	27,701
Printing	12,735	7,561	208	1,906	6,448	11,218	194	40,270
Program Incentives	4,099	932	-	-	-	42,847	-	47,878
Property Taxes	1,860	2,322	12	219	328	-	-	4,741
Rent	128,411	253,635	39	735	38,069	89,108	23,034	533,031
Special Events	2,916	134	-	-	-	2,219	976	6,245
Subscriptions / Publications	264	1,881	16	67	68	90	3	2,389
Office/Computer Supplies	48,864	144,422	1,941	7,777	12,950	19,676	27,996	263,626
Telephone	19,426	22,478	1,026	3,115	6,270	11,567	1,130	65,012
Training	1,515	19,950	33	1,739	195	1,357	778	25,567
Travel	9,904	17,608	134	941	2,667	22,113	898	54,265
Utilities	36,073	35,568	244	3,937	8,294	4,377	555	89,048
Other	-	-	-	-	-	-	-	-
Total Expenses before Depreciation	2,562,502	6,439,755	193,118	784,570	910,387	930,830	876,258	12,697,420
Depreciation and Amortization	166,366	269,000	5,709	49,497	55,749	14,807	-	561,128
	<u>\$ 2,728,868</u>	<u>\$ 6,708,755</u>	<u>\$ 198,827</u>	<u>\$ 834,067</u>	<u>\$ 966,136</u>	<u>\$ 945,637</u>	<u>\$ 876,258</u>	<u>\$ 13,258,548</u>

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

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**

**(a California Nonprofit Corporation)**

**Statement of Functional Expenses**

**For the Year Ended June 30, 2010**

	OB/ Gyn Services	Primary Care	Mental Health	Dental Services	HIV Services	Outreach Services	General & Admin	Total Expenses
Employee Compensation	\$ 1,433,996	\$ 3,418,578	\$ 95,651	\$ 493,039	\$ 388,261	\$ 515,397	\$ 123,730	\$ 6,468,652
Fringe Benefits	339,540	789,692	21,900	76,419	76,093	113,014	25,234	1,441,892
<b>Total Employee Compensation and Fringe Benefits</b>	<b>1,773,536</b>	<b>4,208,270</b>	<b>117,551</b>	<b>569,458</b>	<b>464,354</b>	<b>628,411</b>	<b>148,964</b>	<b>7,910,544</b>
Accounting and Professional	13,780	57,024	640	2,603	2,784	4,463	137	81,431
Advertising	-	16,687	-	-	-	1,616	930	19,233
Bank Charges	-	173	-	-	-	-	4,520	4,693
Consulting Services	97,076	399,790	35,025	15,841	133,428	1,839	100,831	783,830
Educational Materials	7,162	1,446	108	-	296	3,759	2,882	15,653
Equipment Lease and Rental	11,726	25,789	76	1,143	3,256	5,758	14	47,762
Facilities Maintenance	53,916	87,532	798	8,775	19,265	17,232	166	187,684
Fundraising Events	-	-	-	-	-	-	250	250
General Administration	19,464	40,584	3,778	2,652	7,095	5,286	2,732	81,591
Insurance - Professional Liability	8,412	12,601	228	716	1,967	-	-	23,924
Insurance - Gen'l Liab/Auto/D&O	8,276	16,604	509	2,130	3,825	12,342	1,065	44,751
Interest	-	203	-	-	-	-	411,389	411,592
Lab Costs	38,865	311,164	-	-	151,516	1,484	40,542	543,571
License / Permits	3,047	9,707	24	128	362	586	6,477	20,331
Medical/Dental Supplies	117,823	41,922	-	61,400	8,012	10,878	-	240,035
Membership / Dues	6,544	20,335	421	1,552	1,670	2,097	86	32,705
Medical Waste	10,079	29,474	-	-	2,292	17	-	41,862
Medications / Dispensary	36,659	420,438	-	-	-	-	-	457,097
Minor Equipment/Software	-	11,294	-	3,397	2,608	-	-	17,299
Miscellaneous	2,796	5,821	38	245	370	13,007	17,427	39,704
Postage	5,808	20,018	339	1,493	2,072	3,064	78	32,872
Printing	22,388	27,583	319	1,635	5,750	10,752	515	68,942
Program Incentives	3,737	120	100	-	-	22,624	2,675	29,256
Property Taxes	1,834	4,509	22	416	621	-	(138)	7,264
Rent	69,980	105,434	27	505	39,930	63,969	34,526	314,371
Special Events	1,500	1,050	-	-	600	491	25,989	29,630
Subscriptions / Publications	40	40	-	-	9	-	-	89
Office/Computer Supplies	52,029	91,440	2,830	6,823	18,503	24,907	769	197,301
Telephone	16,325	18,317	1,433	2,520	5,127	12,909	981	57,612
Training	2,722	11,806	28	16	1,129	458	477	16,636
Travel	9,527	25,323	140	945	2,224	19,229	2,394	59,782
Utilities	31,925	40,460	501	3,973	6,523	4,672	301	88,355
<b>Total Expenses before Depreciation</b>	<b>2,426,976</b>	<b>6,062,958</b>	<b>164,935</b>	<b>688,366</b>	<b>885,588</b>	<b>871,850</b>	<b>806,979</b>	<b>11,907,652</b>
Depreciation and Amortization	155,746	261,564	5,352	56,502	53,407	15,026	-	547,597
<b>Total Expenses</b>	<b>\$ 2,582,722</b>	<b>\$ 6,324,522</b>	<b>\$ 170,287</b>	<b>\$ 744,868</b>	<b>\$ 938,995</b>	<b>\$ 886,876</b>	<b>\$ 806,979</b>	<b>\$ 12,455,249</b>

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

## **NOTES TO FINANCIAL STATEMENTS**

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**Background**

East Valley Community Health Center, Inc. (the Clinic) is a nonprofit corporation and a Federally Qualified Health Center under Section 330(e) of the Public Health Act supported by federal, state, local grants, and revenues from operations. The Clinic's activities consist of providing quality medical, dental, counseling, and preventive education services to low-income and under served populations of the East San Gabriel and Pomona Valleys. The Clinic operates two primary health care facilities located in Pomona and West Covina. The Board of Directors governs all of the operations and programs of East Valley Community Health Center, Inc. Their underlying philosophy and objective is to provide high quality health care and support services to the people of the area, regardless of income.

The U. S. Department of Health and Human Services (the "DHHS") and the County of Los Angeles Department of Health Services (the "County") provide substantial support to the Clinic. The Clinic is obligated under the terms of the DHHS and County grants to comply with specified conditions and program requirements set forth by the grantor.

**Basis of Accounting**

The financial statements of the clinic have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board's Statement of Financial Accounting Standards FASB ASC 958-205 (formerly SFAS 117), *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Clinic is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Clinic considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Concentration of Credit Risk**

The Clinic's financial institution participates in the Transaction Account Guarantee program that provides coverage by the Federal Deposit Insurance Corporation (FDIC) with no limit for all non-interest bearing transaction accounts and checking account through December 31, 2012. At June 30, 2011 and 2010, the Clinic has no exposure to credit risk.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

**Property and Equipment**

Expenditures for property and equipment are stated at cost. Acquisitions in excess of \$5,000 are capitalized. Donated assets are recorded at their estimated fair market values at the date of donation. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Property acquired with federal grant support funds is considered to be owned by the Clinic while used in the program for which it was purchased or in other authorized programs. However, the federal government has a reversionary interest in the property equal to the federal share of the total program expenditures in the year in which the property was acquired.

**Permanently and Temporarily Restricted Net Assets**

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

**Inventory**

Inventories are stated at the lower of cost or market determined by the first-in, first-out method of accounting.

**Grant Revenue Recognition**

Revenue from grants is recorded to the extent of expenses incurred applicable to the grant or based on the number of encounters times an approved rate depending on the type of contract. Any differences between expenses incurred or amount earned and the total funds received (not to exceed the grant maximum) are recorded as a payable, receivable, or an advance.

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenses have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as un-restricted non-operating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which assets are acquired. Cash received in excess of revenue is recognized as deferred revenue.

**Net Patient Service Revenue**

The Clinic has agreements with third-party payors that provide for payments to the Clinic at amounts different from its established rates. Payment arrangements include prospectively determined rates per office visits and reimbursement costs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

**Excess of Revenues Over Expenses**

The statement of activities includes excess (deficit) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

**Compensated Absences**

The Clinic permits its employees to accumulate personal time off over their working careers and redeem accumulated personal time off in cash upon termination of employment. The estimated amounts of unpaid personal time (PTO) at June 30, 2011 and June 30, 2010, were \$267,387 and \$227,950, respectively.

**Third Party Settlements**

The Clinic provides patient care services under FQHC Medi-Cal and Medicare programs. These programs provide for current payment on a provisional basis, subject to adjustment after submission of annual reconciliations and cost reports as well as audits by the respective contracting agencies. The Clinic's policy is to estimate and record such adjustments in the year in which the services are rendered and to reflect any differences between such estimates and ultimate settlements when additional data becomes available or the amount of settlement is known.

**Promises to Give**

Unconditional promises to give are recognized as revenues in the period the award is granted and as assets, decreases of liabilities, gains or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and promises become unconditional.

**Income Taxes**

The Clinic is an organization described in Section 501 (c) (3) of the Internal Revenue Code (the "Code") and is exempt from federal and state taxes under Section 501(a) of the Code and corresponding sections of the California Revenue and Taxation Code.

**Fair Value Measurements Classifications**

The Clinic determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards FASB ASC 820-10 (formerly SFAS 157), *Fair Value Measurements and Disclosures*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***

The following provides a summary of the hierarchical levels, as defined by FASB ASC 820-10, used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

For the years ended June 30, 2011 and June 30, 2010, the Clinic did not have any investment assets.

**Agency Transactions**

The Clinic serves as an intermediary agency between pharmaceutical companies and the patient it serves for pharmaceuticals received for specific patients or beneficiary. Dispensary supplies of \$1,423,393 and \$2,154,417 were received for the years ended June 30, 2011 and 2010, respectively, and the balances on hand at June 30, 2011 and 2010 amounted to \$324,429 and \$253,592, respectively.

**Reclassification**

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

**Change in Method of Accounting for Agency Transactions**

In July 2010, the Clinic elected to change its method of presenting Agency Transactions to only a disclosure in the notes of the Financial Statements, whereas in all prior years agency transactions were presented as an asset account “Dispensary Supplies Inventory” and an offsetting liability account “Agency Custodial Accounts” on the Statement of Financial Position. The Clinic’s policy was to recognize the fair value of the supplies received and an offsetting liability until the supplies were distributed to the ultimate beneficiary, at which time the asset and liability are removed from the Clinic’s books. The new method of accounting for agency transactions was adopted considering that the Clinic only serves as an intermediary between the Clinic and the pharmaceutical companies. Refer to the Agency Transactions within Note 1 Summary of Significant Accounting Policies for disclosure of the balances as of June 30, 2011 and 2010.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

**NOTE 2 – CASH**

At June 30, 2011 and 2010, cash and cash equivalents consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 1,985	\$ 1,985
Cash in Bank - Operating Account	130,194	368,494
Total Cash and Cash Equivalents	<u>\$ 132,179</u>	<u>\$ 370,479</u>

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

At June 30, 2011 and 2010, property plant and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>
Land and Land Improvements	\$ 572,163	\$ 572,163
Building and Improvements (including Signage)	9,669,344	9,669,344
Furniture and Equipment	902,903	854,011
Automobiles	195,810	194,773
Electronic Health Records in Process	1,413,088	876,988
Construction in Process	378,946	124,470
	<u>13,132,254</u>	<u>12,291,749</u>
Less: Accumulated Depreciation	<u>(1,523,640)</u>	<u>(962,512)</u>
Total Property, Plant and Equipment	<u>\$ 11,608,614</u>	<u>\$ 11,329,237</u>

The depreciation expense for the years ended June 30, 2011 and 2010 was \$561,128 and \$547,597, respectively.

**NOTE 4 – PATIENT ACCOUNTS RECEIVABLE, NET**

Patient services receivable, net, consist of the following:

	<u>2011</u>	<u>2010</u>
Private Payor	\$ 53,333	\$ 106,236
Medicare	61,655	51,879
CHDP	1,617	7,684
Medi-Cal	122,982	209,938
Family PACT	65,127	186,248
CDP	1,857	10,142
Public/Private Partnership	164,907	210,067
Other	102,272	123,612
Total	<u>573,750</u>	<u>905,806</u>
Allowance for doubtful accounts	<u>(141,734)</u>	<u>(100,000)</u>
Net Patient Accounts Receivable	<u>\$ 432,016</u>	<u>\$ 805,806</u>

Bad Debt expense for the years ended June 30, 2011 and 2010 was \$117,115 and \$175,124, respectively.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

***NOTE 5 – NET PATIENT SERVICE REVENUE***

The Clinic is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Clinic has agreements with third-party payers that provide for payments to the Clinic at amounts different from its established rates. These payment arrangements include:

*Medicare.* Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Clinic is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Clinic and audit thereof by the Medicare fiscal intermediary.

*Medicaid.* Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Clinic is reimbursed a set encounter rate for all services under this plan.

Approximately 25% and 15% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Clinic has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations.

***NOTE 6 – ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS***

The California Department of Health and Services has completed its audit of the FQHC Annual Reconciliation Reports for the years 2004 and 2007 and has concluded that the clinic had been overpaid by \$1,135,125 over the course of these four years.

Subsequent to the finalization of the audits, clinic management negotiated an interest bearing, extended payment agreement with the California Department of Health Services. The agreement extends through November of 2017 and bears interest at the rate of 5.235% per annum. At June 30, 2011 and June 30, 2010, \$787,579 and \$844,146, respectively, was outstanding.

***NOTE 7 – LONG TERM DEBT***

The long term debt consists of:

Note payable for a \$4,000,000 loan maturing in June 2014 and bearing interest at a fixed rate of 7.5%. The monthly payments of \$29,845 are based on a twenty-five year amortization. The loan is secured by a Deed of Trust on the West Covina facility. At June 30, 2011 and 2010, \$3,883,843 and \$3,944,120, respectively, was outstanding.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

**NOTE 7 – LONG TERM DEBT (CONTINUED)**

Note payable for a \$1,000,000 line of credit, maturing on January 31, 2012 and bearing interest at 1.5% over the WSJ prime rate. The line is collateralized by accounts receivables accounts, inventory, equipment and requires full payment of outstanding balance at maturity. At June 30, 2011 and 2010, \$999,966 and \$240,966, respectively, was outstanding. The line of credit note also contains financial covenants which requires the Clinic to maintain a debt to tangible net worth ratio not to exceed 3.50 to 1 and debt coverage ratio of at least 1.25 to 1. As of June 30, 2011, the Clinic was not in compliance with the debt coverage ratio covenant. The Clinic obtained a waiver from Promerica Bank with respect to the covenant violations.

Note payable for a \$750,000 loan obtained through the California Health Facilities Financing Authority's (CHFFA) Help II program which matures on December 1, 2014 and bears interest at a fixed 3%. The loan is secured by a Deed of Trust on the West Covina facility. The loan requires monthly payments of \$5,179. At June 30, 2011 and 2010, \$689,240 and \$726,695, respectively, was outstanding.

Note payable to the State of California Department of Health Care Services (Medi-Cal) dates February 8, 2008. Note bears interest at 5.235% and requires monthly payments of \$7,709 in 2010, \$9,520 in 2011, \$13,669 in 2012, \$13,273 in 2013, \$12,686 in 2014, \$11,658 in 2015, \$11,113 in 2016, and \$11,631 in 2017. Note matures in November 2017. At June 30, 2011 and 2010, \$787,579 and \$844,146, respectively, was outstanding.

Note Payable to the National Cooperative Bank dated December 29, 2005. Note requires monthly payments of \$2,988, bears interest of 3.175%, and matured on December 15, 2010. Debt is secured by the clinic's accounts receivable. At June 30, 2011 and 2010, zero and \$21,142, was outstanding.

Note payable for \$244,982 dated August 27, 2010 was obtained through the National Cooperative Bank Development Corporation, bears interest at a fixed rate of 3.23% and matured on November 1, 2011. The loan was secured by the Clinic's delayed Medi-Cal payments. At June 30, 2011, zero was outstanding.

	<u>2011</u>	<u>2010</u>
Promerica Bank - Mortgage	\$ 3,883,843	\$ 3,944,120
Promerica Bank - Operating Credit Line	999,966	240,966
CA Department of Health Services	787,579	844,146
CA Health Facilites Financing Authority	689,240	726,695
National Cooperative Bank	-	21,142
Total Long Term Debt	<u>6,360,628</u>	<u>5,777,069</u>
Less current portion	<u>(1,206,969)</u>	<u>(418,079)</u>
Total Long Term Debt (net of current portion)	<u>\$ 5,153,659</u>	<u>\$ 5,358,990</u>

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

***NOTE 7 – LONG TERM DEBT (CONTINUED)***

The aggregate annual maturities of long-term debt as of June 30, 2011, are:

Year Ended	Principal
June 30,	
2012	\$ 1,206,969
2013	243,551
2014	3,925,863
2015	175,406
2016	174,590
Thereafter	634,249
	<u>\$ 6,360,628</u>

***NOTE 8 – PROFIT SHARING PLAN***

Effective December 1, 2009, the 401(k) Profit Sharing plan was terminated and account balances returned to participating employees. To replace the 401(k) Profit Sharing Plan, the Clinic has established a 403(b) Plan for all interested employees. Under the terms of the Plan, the Board of Directors may authorize clinic management to contribute a percentage of salary to each participating employee's account. The percentage of contribution will be determined on an annual basis based on the Clinic's financial position. At June 30, 2011 and 2010, \$9,134 and zero, respectively, was contributed to the plan.

***NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS***

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Clinic. Temporarily restricted gifts, grants and bequests are recorded as an addition to temporarily restricted net assets in the period received. Resources restricted by donors or grantors for specific operating purposes are reported in unrestricted revenue and other support to the extent expended within the period.

During the year ended June 30, 2011 and 2010, the Clinic received \$300,000 and zero, respectively, in contributions from a donor to be used for capital expenditures. For the year ended June 30, 2011 and 2010, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, primarily for the purpose of capital improvements, in the amount of zero and \$10,090, respectively.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**Program Funding**

Continuing program funding is contingent upon availability of funds from federal, state and county sources and project performance. The funds are generally awarded on an annual basis upon the acceptance of a budget estimate for the current year or approval of a program re-application.

**Operating Leases**

The Clinic rents certain equipment under non-cancelable operating lease agreements expiring on various dates through 2015. The Clinic leases its current Pomona facility on a month-to-month basis but is committed to a new lease on a future Pomona facility maturing in October 2025. Total rental expenses for these leases consisted of \$587,880 and \$331,538 for the year ended June 30, 2011 and 2010, respectively.

Future minimum lease payments under operating leases at June 30, 2011 are as follows:

Year Ended June 30,	<b>2011</b>	<b>2010</b>
2012	\$ 524,100	\$ 495,277
2013	513,111	484,591
2014	503,151	474,101
2015	503,694	474,101
2016	479,517	474,101
Thereafter	4,615,016	4,372,233
	<u>\$ 7,138,589</u>	<u>\$ 6,774,404</u>

**Medi-Cal Annual Reconciliation/Medicare Cost Report**

The Clinic, as a Federal qualified health center, participates in the FQHC Medi-Cal and Medicare Reimbursement Programs. Under these programs, the Clinic is required to file an annual reconciliation/cost report at the end of each fiscal year. The purpose of these reports is to determine whether interim payments received from Medi-Cal or Medicare exceed or are not sufficient to cover expenses incurred for services provided to eligible patients of the respective programs. These reports are subject to review and audit by the respective fiscal intermediaries and, as a result, it is reasonably possible that recorded estimates will change materially in the near term.

**NOTE 11 – FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited and are reported in the statement of functional expenses.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Notes to Financial Statements**  
**For the Year Ended June 30, 2011 and 2010**

***NOTE 12 – ADVERTISING COSTS***

The Clinic uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2011 and 2010 was \$3,508 and \$19,233, respectively.

***NOTE 13 – MALPRACTICE CLAIMS***

The U.S. Department of Health and Human Services has deemed the Clinic and its participating providers covered under the Federal Torts Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of its malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Clinic's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

***NOTE 14 – SUBSEQUENT EVENT***

The Clinic's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through October 7, 2011, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

## **SUPPLEMENTARY INFORMATION**

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

Program Name	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Award Expenditures
<b>U.S. Department of Health and Human Services</b>			
Direct Programs:			
Community Health Centers [1]	93.224		\$ 1,766,269
Pass-Through Northeast Valley Health Corporation			
Health Center Grants for Homeless Population [1]	93.224		<u>110,977</u>
Sub-total			1,877,246
Direct Programs:			
ARRA - Grants to Health Center Programs - Increased Services [1]	93.703		205,205
ARRA - Grants to Health Center Programs - Capital Improvements [1]	93.703		<u>424,406</u>
Sub-total			629,611
Community Health Centers - Affordable Care Act [1]	93.527		312,874
Pass - Through Los Angeles County Department of Public Health			
HIV Prevention Activities - Health Department Based	93.910	PH-000811	<u>293,795</u>
HIV Emergency Relief Grants - HIV/AIDS Mental Health Services	93.914	H-210817	34,384
HIV Emergency Relief Grants - HIV/AIDS Psychiatric	93.914	H-209088	42,525
HIV Emergency Relief Grants - HIV/AIDS Case Management Services	93.914	H-210825	99,164
HIV Emergency Relief Grants - Oral Health Care Services	93.914	PH-001112	99,041
HIV Emergency Relief Grants - Benefits Specialty	93.914	H-210825	5,830
HIV Emergency Relief Grants - HIV/AIDS Medical Outpatient Services	93.914	H-209088	<u>540,776</u>
Sub-total			821,720
Pass-Through California Family Health Council			
Title X - Family Planning	93.217		<u>211,357</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,146,603</u></u>

[1] Denotes a major federal financial assistance program.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Note to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

**NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES REPORTING ENTITY**

**A. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of East Valley Community Health Center, Inc. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies to East Valley Community Health Center, Inc are included in the accompanying schedule.

**B. Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Clinic and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**C. Relationship to Federal Financial Reports**

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

Expenditures from the Schedule of Expenditures of Federal Awards	\$ 4,146,603
Add: State and County programs revenue recorded as Grant Revenues, net	847,865
Add: Private revenue recorded as Grant Revenues, net	<u>759,146</u>
Total Grant Revenue as shown on the Clinic's financial statements	<u>\$ 5,753,614</u>

**D. Federal Catalog of Federal Domestic Assistance (CFDA) Numbers**

The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

**E. Pass-Through Entities' Identifying Number**

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Clinic has determined that no identifying number is assigned for the program or the Clinic was unable to obtain an identifying number from the pass-through entity.

## **OTHER SUPPLEMENTARY INFORMATION**

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Financial Status Report Reconciliation**  
**For the Period March 1, 2010 to February 28, 2011**

**COMMUNITY HEALTH CENTER**  
**Grant Number H80CS00286**

	<u>Per June 30, 2011</u> <u>Statement of</u> <u>Activities</u>	<u>Add:</u> <u>March 2010 to</u> <u>June 2010</u>	<u>Deduct:</u> <u>March 2011 to</u> <u>June 2011</u>	<u>Total per</u> <u>Financial Status</u> <u>Report</u>
<b>EXPENDITURES</b>				
Personnel	\$ 8,331,535	\$ 2,938,115	\$ 3,191,472	\$ 8,078,178
Travel	54,266	29,637	11,487	72,416
Supplies	1,120,703	354,253	177,215	1,297,741
Contractors	1,535,763	527,868	558,076	1,505,555
Other Costs	2,216,281	594,297	562,408	2,248,170
Total Expenditures	<u>13,258,548</u>	<u>4,444,170</u>	<u>4,500,658</u>	<u>13,202,060</u>
Less: Depreciation	<u>(561,128)</u>	<u>(229,887)</u>	<u>(187,615)</u>	<u>(603,400)</u>
Total Operating Expenditures	<u>\$ 12,697,420</u>	<u>\$ 4,214,283</u>	<u>\$ 4,313,043</u>	<u>\$ 12,598,660</u>
<b>REVENUES</b>				
Recipient's Share- Non Federal Participation				\$ 10,564,692
HRSA - Current Year Grant				<u>2,033,968</u>
Total Revenues				<u>\$ 12,598,660</u>

**Note:**

This schedule includes revenues and expenditures for the four months of the grant period which was included in the prior year audit report for the year ended June 30, 2010. In addition, it includes the revenues and expenditures for the first eight months of the grant period. The combination of the revenues and expenditures for the two fiscal years is needed to reflect the activity of the program for the budget period which runs from March 1, 2010 through February 28, 2011.

## **COMPLIANCE REPORTS**



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

To the Board of Directors  
East Valley Community Health Center, Inc.  
West Covina, California

We have audited the financial statements of East Valley Community Health Center, Inc (a non-profit organization) as of and for the year ended June 30, 2011 and have issued our report thereon dated October 7, 2011. Our report refers to East Valley Community Health Center's change in accounting policy related to the Method of Accounting for Agency Transactions. Our report includes an emphasis of matter describing East Valley Community Health Center's line of credit balance due on January 31, 2012 and the covenant waiver. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of East Valley Community Health Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered East Valley Community Health Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Valley Community Health Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-01 to be a significant deficiency in internal control over financial reporting. *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.

## Compliance and Other Matters

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

East Valley Community Health Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the East Valley Community Health Center's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Varrinck, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
October 7, 2011



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

To the Board of Directors  
East Valley Community Health Center, Inc.  
West Covina, California

**Compliance**

We have audited East Valley Community Health Center'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 East Valley Community Health Center's major federal programs for the year ended June 30, 2011. East Valley Community Health Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of East Valley Community Health Center's management. Our responsibility is to express an opinion on East Valley Community Health Center's compliance based on our audit.

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

In our opinion, East Valley Community Health Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-03.

## Internal Control Over Compliance

Management of East Valley Community Health Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered East Valley Community Health Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Valley Community Health Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-02 and 2011-03. 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.

East Valley Community Health Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit East Valley Community Health Center's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinik, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
October 7, 2011

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

**I. SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
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**IDENTIFICATION OF MAJOR PROGRAMS:**

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>93.224</u>	Community Health Centers/Health Center Grants for Homeless Population
<u>93.527</u>	Community Health Centers - Affordable Care Act
<u>93.703</u>	ARRA - Grants to Health Center Program - Increased Services/Capital Improvements

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

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Schedule of Findings and Questioned Costs, (Continued)**  
**Year Ended June 30, 2011**

**II. FINANCIAL STATEMENT FINDINGS**

The following findings represent significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards:

**Finding 2011-01**

**TIMECARDS APPROVAL**

**Criteria:**

Proper approval and authorization of timesheets is critical for proper time entry and authorization from management directly overseeing actual time worked. The entity has adopted such a policy in its board approved Policies and Procedures. Lack of documentary evidence of approved time and effort may result in a weakness of the Clinic's internal control over the payroll process. Mitigating controls designed to detect the lack of approval should prevent timesheet hours from being entered into the system.

**Condition:**

During our audit, it was noted that 3 of 40 timesheets sampled, supporting hours entered into the payroll system, did not have evidence of supervisor or manager approval.

**Context:**

The Clinic's timesheets serve as the supporting documentation for time and effort charged to the Clinic's programs.

**Cause:**

Supervisors or Managers did not properly approve timesheets for employees within their departments. The individual(s) responsible for processing payroll and responsible for investigating any timesheets without approval prior to entry into the payroll processing system did not detect the missing approvals.

**Effect:**

The effect of this significant deficiency could have resulted in overstated time entries and/or misappropriation of assets.

**Recommendation:**

We recommend that the Clinic implement stronger internal controls or more stringent policies related to timesheets approvals by supervisors or manager. The controls should require all timesheets be approved by a direct supervisor or manager prior to processing of payroll to ensure that all timesheets are properly and timely authorized. This was a repeat condition from the fiscal year 2009-2010 audit.

**View of Responsible Officials and Corrective Action:**

Refer to View of Responsible Officials and Corrective Action documented at finding 2011-02.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Schedule of Findings and Questioned Costs, (Continued)**  
**Year Ended June 30, 2011**

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

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

**Finding 2011-02**

**Program:** Community Health Centers/Health Center Grants for Homeless Population/ARRA – Grants to Health Center Programs - Increased Services/Community Health Centers – Affordable Care Act

**CFDA No.:** 93.224, 93.527 and 93.703

**Federal Agency:** US Department of Health and Human Services

**Award Year:** FY 2010-2011

**Compliance Requirement:** Allowable Costs and Activities

**Questioned Costs:** None

**Criteria or Specific Requirement:**

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for "maintaining internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Internal control means a process, developed by the entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Reliability of financial reporting; (2) Compliance with applicable laws and regulations; and (3) Effectiveness and efficiency of operations.

**Condition Found:**

*Significant Deficiency* – It was noted that 1 of 40 timesheets sampled, supporting hours entered into the payroll system, did not have evidence of supervisor or manager approval.

**Context:**

The condition noted above was identified during the testing of the Clinic's internal controls over the allowable costs/activities. The Clinic's timesheets serve as the supporting documentation for time and effort charged to the Clinic's programs.

**Cause:**

It appears the supervisors or managers did not properly approve timesheets for employees within their departments. The individual(s) responsible for processing payroll and responsible for investigating any timesheets without approval prior to entry into the payroll processing system did not detect the missing approvals.

**Effect:**

The effect of this significant deficiency could have resulted in overstated time entries and/or misappropriation of assets.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Schedule of Findings and Questioned Costs, (Continued)**  
**Year Ended June 30, 2011**

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, (Continued)**

**Recommendation:**

We recommend that the Clinic implement stronger internal controls or more stringent policies related to timesheet approvals by supervisors or manager. The controls should require all timesheets to be approved by a direct supervisor or manager prior to processing of payroll to ensure that all timesheets are properly and timely authorized. This was a repeat condition from the fiscal year 2009-2010 audit.

**Views of Responsible Officials and Corrective Action:**

Given the schedules of Supervisors and Managers, it is occasionally possible that unsigned timesheets are submitted to payroll for processing. In response to a previous comment, a procedure has been established whereby a copy of the timesheet is made and filed and the original returned for approval. Once reviewed and if there is a difference, an adjustment is made on a subsequent payroll. To further facilitate follow-up, a control sheet will be developed and the Supervisors and Managers will be contacted prior to processing a subsequent payroll.

**Finding 2011-03**

**Program:** ARRA – Grants to Health Center Programs - Capital Improvements

**CFDA No.:** 93.703

**Federal Agency:** US Department of Health and Human Services

**Award Year:** FY 2010-2011

**Compliance Requirement:** Procurement, Suspension and Debarment

**Questioned Costs:** None

**Criteria or Specific Requirement:**

The *March 2011 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* requires that the Clinic's procurement policies comply with the Federal requirements.

**Condition Found:**

*Significant Deficiency, Instance of Non-Compliance* – It was noted during the testing of bid/proposal solicitation, the Clinic did not have internal controls in place requiring, the retention or evidence of the following:

- a. Retain significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price.
- b. Provide a full and open competition.
- c. Retain documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Schedule of Findings and Questioned Costs, (Continued)**  
**Year Ended June 30, 2011**

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, (Continued)**

**Context:**

The instance of noncompliance with the procurement, suspension and debarment requirement was identified while testing compliance over procurements. The Clinic purchased the services of system implementation and integration consultant for the new Electronic Health Records system using ARRA – Capital Improvement funds. However, the Clinic did not provide an open and full competition procurement process nor retain documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified.

**Cause:**

The Clinic did not provide a full and open competition during the procurement process. In addition, the Clinic did not retain documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation justified.

**Effect:**

The Clinic did not maintain compliance with procurement, suspension and debarment requirements set forth in *OMB A-133 Compliance Supplement*.

**Recommendation:**

We recommend that the Clinic implement procedures to provide a full and open competition and to retain documented rationale to limit competition in those cases where competition is limited during the solicitation of bids/proposals. This was a repeat condition from the fiscal year 2009-2010 audit.

**Views of Responsible Officials and Corrective Action:**

The Financial Policies and Procedures Manual will be amended to include the following:

From time to time, the Clinic may require a specific product or service which is only available from a single source. In these instances, the requisitioning party must submit a written justification along with the purchase order and the entire transaction must be approved by the Chief Executive Officer. As with competitive bids, Board approval is required for all additions over \$25,000.

**EAST VALLEY COMMUNITY HEALTH CENTER, INC.**  
**(a California Nonprofit Corporation)**

**Schedule of Prior Year Audit Findings and Questioned Costs**  
**For the Year Ended June 30, 2011**

Summarized below is the current status of all audit findings reported in the prior year audit’s schedule of audit findings and questioned costs.

<b>Finding No.</b>	<b>Program</b>	<b>CFDA No.</b>	<b>Compliance Requirement</b>	<b>Status</b>
2010-01	Timecard Approval	N/A		Not Implemented – See Current Year Finding 2011-01
2010-02	Community Health Centers/Health Center Grants for Homeless Population and ARRA – Increased Services	93.224 and 93.703	Allowable Costs and Activities	Not Implemented – See Current Year Finding 2011-02
2010-03	ARRA – Capital Improvements	93.703	Procurement, Suspension and Debarment	Not Implemented – See Current Year Finding 2011-03