

**San Ysidro Health Center, Inc.**

**AUDITED FINANCIAL STATEMENTS**

**For The Years Ended December 31, 2010 and 2009**

# San Ysidro Health Center, Inc.

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# TCA Partners, LLP

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

Board of Directors  
San Ysidro Health Center, Inc.  
San Ysidro, California

We have audited the accompanying balance sheets of San Ysidro Health Center, Inc. (SYHC or the "Center"), a not-for-profit organization, as of December 31, 2010 and 2009, and the related statement of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 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 the Center, as of December 31, 2010 and 2009, and the results of its operations and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 10, 2011, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Directors  
San Ysidro Health Center, Inc.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Center, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for 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 audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*TCA Partners, LLP*

March 10, 2011

**San Ysidro Health Center, Inc.**  
**Balance Sheets**  
**December 31, 2010 and 2009**

	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,402,720	\$ 3,544,642
Patient accounts receivable, net	3,034,222	3,947,442
Grants, contracts and other receivables	1,911,868	1,926,206
Estimated third-party payor settlements	543,125	1,329,115
Inventories	307,002	354,877
Prepaid assets	293,109	232,580
Total current assets	11,492,046	11,334,862
Property and equipment, net	30,991,677	29,156,831
Security deposits	153,091	91,167
Total assets	\$ 42,636,814	\$ 40,582,860
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	2,104,157	2,573,023
Accrued compensation	3,096,623	2,831,210
Long-term debt, current portion	244,740	287,560
Deferred revenue	469,622	774,789
Total current liabilities	5,915,142	6,466,582
Long-term debt	14,651,953	14,394,218
Total liabilities	20,567,095	20,860,800
Unrestricted net assets	21,956,264	19,722,060
Temporarily restricted net assets	113,455	-
Total net assets	22,069,719	19,722,060
Total liabilities and net assets	\$ 42,636,814	\$ 40,582,860

See accompanying Notes to the Financial Statements

**San Ysidro Health Center, Inc.**  
**Statements of Operations and Changes in Net Assets**  
**For the years ended December 31, 2010 and 2009**

	2010	2009
<b>Change in Unrestricted Net Assets:</b>		
Revenue and other support:		
Patient and third party revenue, net	\$ 44,919,860	\$ 39,308,475
Grant revenue	14,594,405	14,243,800
Other	824,540	1,461,094
Interest	8,244	72,075
Total unrestricted revenue and other support	60,347,049	55,085,444
Expenses:		
Salaries and benefits	37,901,176	35,492,849
Medical supplies and drugs	6,303,324	6,593,877
Medical contractual services	2,602,584	2,679,215
Purchased services	2,091,332	2,499,863
Space costs	2,597,345	2,499,863
Other	1,337,954	1,342,031
Depreciation and amortization	1,711,811	1,410,916
Office and other consumable supplies	678,651	652,580
Repairs and maintenance	626,481	572,139
Communications	327,857	326,126
Travel, conferences and meetings	298,122	260,655
Insurance	329,632	279,216
Minor equipment	213,316	296,708
Bad Debts	339,371	305,669
Interest	753,889	587,580
Total expenses	58,112,845	55,054,884
Change in unrestricted net assets	2,234,204	30,560
<b>Change in Temporarily Restricted Net Assets:</b>		
Contributions	113,455	525,895
Net assets released from restriction	-	-
Change in temporarily restricted net assets	113,455	525,895
Change in net assets	2,347,659	556,455
<b>Net Assets:</b>		
Beginning of year	19,722,060	19,165,605
End of year	\$ 22,069,719	\$ 19,722,060

See accompanying Notes to the Financial Statements

**San Ysidro Health Center, Inc.**  
**Statements of Cash Flows**  
**For the years ended December 31, 2010 and 2009**

	2010	2009
<b>Cash flows from operating activities:</b>		
Change in net assets	\$2,347,659	\$ 556,455
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,711,811	1,410,916
Changes in operating assets and liabilities:		
Change in patient accounts receivable	913,220	220,439
Change in grants and contracts receivables	14,338	(394,687)
Change in inventories	47,875	17,079
Change in prepaid assets	(60,529)	16,287
Change in security deposits	(61,924)	(22,718)
Change in accounts payable and accrued expenses	(468,866)	(800,090)
Change in accrued compensation	265,413	286,204
Change in estimated third-party payor settlements	785,990	(1,329,115)
Change in deferred revenue	(305,167)	219,006
Net cash provided by operating activities	5,189,820	179,776
<b>Cash flows from investing activities:</b>		
Acquisition of property and equipment	(3,546,657)	(3,415,040)
Net cash used in investing activities	(3,546,657)	(3,415,040)
<b>Cash flows from financing activities:</b>		
Net Borrowings	520,494	-
Principal payments on long-term debt	(305,579)	(274,267)
Net cash provided by (used in) financing activities	214,915	(274,267)
Net increase (decrease) in cash and cash equivalents	1,858,078	(3,509,531)
<b>Cash and Cash Equivalents:</b>		
Cash at beginning of year:	3,544,642	7,054,173
Cash at end of year:	\$ 5,402,720	\$ 3,544,642
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 753,889	\$ 587,580

See accompanying Notes to the Financial Statements

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note A: Organization and Operations**

Centro De Salud De La Comunidad De San Ysidro, Inc. (d/b/a San Ysidro Health Center, Inc.) (the "Center"), a not-for-profit organization, was organized as a volunteer program in August 1968 by local area residents and incorporated in 1971, for the purpose of providing low-cost, high quality, comprehensive primary care services to residents of San Diego County's South Bay Region. In addition to its principal healthcare center in San Ysidro at 4004 Beyer Boulevard, the Center provides health services at National City Family Clinic, Chula Vista Family Clinic, South Bay Family Dental Clinic, Otay Family Health Center, South Bay Family Health Center, Comprehensive Health Center (CHC) – Ocean View, CHC – Downtown, CHC – Euclid, San Diego Children's Dental Clinic, Maternal Child Health Center, and Paradise Health Family Center, as well as several satellite offices. The Center provides a variety of medical, dental, mental health, health education and enabling services. The Center derives its support through grants and contracts with the U.S. Department of Health and Human Services ("DHHS"), the State of California, the County of San Diego, and various other entities. Additionally, revenues are derived from patient fees and third party charges.

**Note B: Summary of Significant Accounting Policies**

***Cash and Cash Equivalents:***

For purposes of the statement of cash flows, the Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The checking and investments are on deposit with various financial institutions. As of December 31, 2010 and 2009 the carrying amount of all the accounts, excluding petty cash and net of outstanding checks were \$5,394,294 and \$3,537,792, respectively. Of the bank balances, per the various financial institutions as of December 31, 2010 and 2009, \$1,095,488 and \$919,110, respectively was covered by federal depository insurance and \$4,298,806 and \$2,618,682, respectively, was uninsured.

***Accounts Receivable:***

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

***Third-Party Contractual Agreements:***

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

***Inventories:***

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

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note B: Summary of Significant Accounting Policies (continued)**

***Property, Building and Equipment:***

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

***Temporarily and Permanently Restricted Net Assets:***

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

***Income Taxes:***

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

***Revenue Recognition:***

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

At December 31, 2010 and 2009, the Center has received notification of conditional grants, contracts and loans from governmental entities in the aggregate amount of \$28,471,741 and \$15,128,538, respectively; that have not been recorded in these financial statements. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

***Use of Estimates:***

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

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note C: Fair Value of Financial Instruments**

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

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

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

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

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

**Investment Securities** - The Center has adopted Statement of Financial Accounting standards, *Fair Value Measurements*. This standard establishes a framework for measuring fair value and expands disclosures about fair value measurements. It defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. This standard establishes a fair value hierarchy 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.

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

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

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

The Center's investments are classified within Level 1 of the fair-value hierarchy. The types of securities valued based on Level 1 inputs include money market securities.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010:

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Money market funds	\$ 1,776,713	\$ 1,776,713	-	-

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note D: Patient Accounts Receivable**

Patient accounts receivable are comprised of the following payors at December 31, 2010 and 2009:

	2010	2009
Medicare	\$ 759,595	\$ 809,565
Medi-Cal	1,811,340	1,783,333
Other third-party payors	1,752,910	2,156,172
Private Pay	1,519,189	1,123,455
Total patient accounts receivable, gross	<u>5,843,034</u>	<u>5,872,525</u>
Less allowance for doubtful accounts	<u>(2,808,812)</u>	<u>(1,925,083)</u>
Total patient accounts receivable, net	<u>\$ 3,034,222</u>	<u>\$ 3,947,442</u>

**Note E: Grants, Contracts and Other Receivables**

Grants and contract receivables are comprised of the following at December 31, 2010 and 2009:

	2010	2009
County of San Diego - Mental Health Program	\$ 132,868	\$ 113,675
Women, Infants and Children program	589,827	751,984
AIDS program	217,283	115,379
HRSA – CIP, FIP, & EMC	422,152	15,802
County of San Diego – Primary Care Services	90,288	136,308
GIFT Project UCLA	16,859	41,154
Children Dental Services – Rady/UCLA	47,380	94,271
Research Projects	144,699	172,749
Miscellaneous grants and other receivables	250,512	484,884
Total	<u>\$ 1,911,868</u>	<u>\$ 1,926,206</u>

**Note F: Estimated Third-Party Payor Settlements**

The Center has recorded a receivable from the State Medi-Cal program for the managed care reconciliation calculation; the established receivable at December 2010 and 2009 was \$543,125 and \$1,329,115, respectively.

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note G: Property and Equipment**

Land, building and equipment at December 31, 2010 and 2009 was comprised of the following:

	2010	2009
Land	\$ 667,361	\$ 667,361
Construction-in-progress	1,759,356	52,934
Building	29,321,437	28,837,900
Leasehold improvements	2,052,221	1,079,557
Equipment	8,443,837	8,063,057
Subtotal	42,244,212	38,700,809
Accumulated depreciation	(11,252,535)	(9,543,978)
Total	\$30,991,677	\$29,156,831

Construction-in-progress at December 31, 2010 and 2009 consisted primarily of various site renovations and planning costs for a new facility. Construction-in-progress at December 31, 2010 and 2009 was \$1,759,356 and \$52,934, respectively.

**Note H: Net Patient Revenue**

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

**Medicare:**

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

**Medi-Cal:**

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

**Note I: Accrued Compensation**

The balance of accrued compensation at December 31, 2010 and 2009 was comprised of the following:

	2010	2009
Accrued payroll	\$1,392,551	\$1,433,860
Accrued vacation	1,246,212	1,184,621
Accrued other liabilities	457,860	212,729
Total	\$3,096,623	\$2,831,210

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note J: Donated Services and Facilities**

Donated services are those services which have been received, valued and recorded. Contributed services are those services which are received but not valued or recorded. It is the policy of Center to encourage contributions from the greater San Diego Metropolitan area. Donated services and facilities are valued at prevailing market rates. Certain immaterial services and facilities contributed to the Center have not been valued or recorded

**Note K: Sliding Fee Scale Discounts**

As described in Note B, the Center records sliding fee discounts as a contra-revenue account. The amount of sliding fee discounts for the years ended December 31, 2010 and 2009 was approximately \$3,886,348 and \$3,424,661, respectively.

**Note L: Long-term Debt**

Long-term debt consists of the following at December 31, 2010 and 2009:

	2010	2009
Note payable - The Center entered into a loan agreement with National Cooperative Bank Capital Impact (NCBCI) for \$4,000,000 at 6.0% annual interest. The loan is payable in monthly installments of \$25,976, which includes principal and interest. The Note matures in 2030 and is secured with the Center's real property and assets. The Note is guaranteed through a "Federal Loan Guarantee" program. A subordination agreement exists between NCBCI, HRSA and SYHC.	\$3,594,164	\$3,684,248
Note payable - The Center entered into two notes with National Cooperative Bank for a combined total of \$10,000,000 at 6.14% and 2.898% fixed annual interest. The notes are payable in interest only quarterly payments for the first seven years. The Notes were entered into in 2007, matures in 2022, and are secured with the Center's real property and assets.	10,000,000	10,000,000
Notes payable - The Center assumed a note with Neighborhood Bank upon the acquisition of National Medical Association Comprehensive Health Center (NMACHC). The loan is payable in monthly installments of \$4,300 for the first 12 months, which reflects only interest payments and \$5,257.76 for the next 24 months beginning March 22, 2010. Beginning May 22, 2011 and April 22, 2018 the monthly installment will be based on the unpaid principal at the current 11 <sup>th</sup> District Cost of Funds index rate plus 3.25%. The current interest rate is 6.810%. The note is secured with a Deed of Trust on the real property acquired by the Center and matures on April 22, 2018 in which a balance of \$615,103 is due.	718,980	739,503

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note L: Long-term Debt (continued)**

	2010	2009
Notes payable - The Center assumed a note with CPCA Ventures-NCB Development Corporation upon the acquisition of National Medical Association Comprehensive Health Center. The loan is payable in monthly installments of \$7,925 at an interest rate of 3.175%. The note is secured by NMACHC's assets including receivables and matures February 2011.	-	102,463
Notes payable - The Center assumed a note with the California Health Facilities Authority (CHFFA) upon the acquisition of National Medical Association Comprehensive Health Center. The loan is payable in monthly installments of \$3,000 at zero interest rate and matures May 2012.	47,508	83,508
Notes payable - The Center assumed a note with the San Diego Rescue Mission upon the acquisition of National Medical Association Comprehensive Health Center. The loan is payable in monthly installments of \$3,984 at an interest rate of 7.25%. The note is secured by the tenant improvements and matures December 2010.	-	46,536
Note payable - The Center entered into a loan agreement with National Cooperative Bank for \$452,494 at a 3.175% annual interest rate. The principal payments are \$8,675 for 60 months. The Note matures in 2016 and is secured with the Center's assets.	520,494	\$ -
Lease payable - The Center assumed an equipment lease with Bryn Mawr Funding upon the acquisition of National Medical Association Comprehensive Health Center. The lease is payable in monthly installments of \$1,015 at an interest rate of 10.5%. The lease is secured by the radiology equipment and matures May 2012.	15,547	25,520
Total long-term debt	14,896,693	14,681,778
Less: current portion	(244,740)	(287,560)
	\$14,651,953	\$14,394,218

The Center is subject to certain financial covenants including but not limited to, a minimum current ratio and a net worth ratio. The Center met all the debt covenants at December 31, 2010 and 2009.

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

Year	Principal	Interest	Total
2010	\$ 244,740	\$ 817,091	\$ 1,061,831
2011	231,051	808,087	1,039,138
2012	226,183	796,861	1,023,044
2013	321,454	785,743	1,107,197
2014	1,287,623	733,642	2,021,265
Thereafter	12,585,642	3,445,976	16,031,618
Total	\$14,896,693	\$7,387,400	\$22,284,093

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note M: Concentration of Credit Risk**

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party agreements. The mix of accounts receivables from patients and third-party payors at December 31, 2010 and 2009 was as follows:

Payor Class	2010	2009
Medicare	13%	10%
Medi-Cal	31%	43%
Other third-party payors	30%	30%
Private pay	26%	17%
Total	100%	100%

**Note N: Deferred Revenue**

Deferred revenue consists of the following at December 31, 2010 and 2009:

	2010	2009
California Wellness Foundation	\$ 81,244	\$ 189,580
Kaiser Permanente	36,050	43,000
Scripps	-	25,000
California Endowment - Community Strategic Health Plan	-	145,133
County of San Diego	-	25,000
The San Diego Foundation	207,139	128,016
Komen Foundation	9,558	34,703
Walmart Foundation	6,207	89,914
The Tides Foundation	56,274	3,611
Other	73,150	90,832
Total	\$ 469,622	\$ 774,789

**Note O: Operating Lease Commitments**

The Center leases certain facilities and equipment under operating leases expiring at various times through 2012. Future minimum lease payments for the succeeding five years under these committed lease arrangements is approximately: \$1,735,516 in 2011; \$1,136,077 in 2012; \$1,007,181 in 2013, \$658,665 in 2014, and \$419,181 in 2015. Total rent expense for the years ended December 31, 2010 and 2009 was \$2,030,363 and \$1,939,591, respectively.

**San Ysidro Health Center, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2010 and 2009**

**Note P: Medical Malpractice Claims**

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

**Note Q: Retirement Plan**

The Center sponsors a Simplified Employee Pension plan ("SEP") and a non-ERISA 403(b) plan covering substantially all of its employees. The accounts are held entirely in the names of the participants without direction from the Center for any of their activities. Contributions to the plans are discretionary. The board of directors decided that no contribution would be made for the years ended December 31, 2010 and 2009.

**Note R: New Construction**

During fiscal year 2010, the Center completed construction of a new facility adjacent to their current facility. The Center was awarded an American Recovery and Reimbursement Act of 2010 (ARRA) Facility Investment Program capital grant by the Health Resources and Services Administration in the amount of \$9,754,515 for the expansion of facilities to provide healthcare services.

**Note S: Functional Expenses**

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

	2010	2009
Healthcare services	\$ 47,071,405	\$ 44,858,740
General and administrative	11,041,440	10,183,412
Fundraising	-	12,732
Total	\$ 58,112,845	\$ 55,054,884

## **SINGLE AUDIT REPORTS**

**San Ysidro Health Center, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended December 31, 2010**

Federal Grant / Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES:		
Direct Programs:		
Community Health Custer	*93.224	\$ 5,385,192
ARRA – Increased Services for Health Centers	*93.703	529,823
ARRA – Capital Improvement Program	*93.703	873,899
ARRA – New Access Point	*93.703	650,000
ARRA – Facility Investment Program	*93.703	795,729
Health Care and Other Facilities	93.887	58,399
Special Projects of National Significance	93.928	8,251
Community Programs to Eliminate Health Disparities	93.137	175,910
Healthy Tomorrow’s Partnership for Children	93.110	59,852
Ryan White Title III	*93.918	704,009
		9,241,063
Passed Through:		
Family Health Centers of San Diego:		
AIDS Prevention	93.939	42,673
County of San Diego:		
Ryan White Care Act: Early Intervention Services - CASA	*93.914	116,628
Ryan White Care Act: HIV/AIDS Access & Outreach	*93.914	67,107
Ryan White Care Act: HIV Case Management	*93.914	268,300
Ryan White Care Act: Minority Aids Initiative	*93.914	255,254
Ryan White Care Act: Early Intervention Services - CHC	*93.914	86,441
Ryan White Care Act: Counseling and Testing	93.940	22,164
Ryan White Care Act: Education/Prevention for High Risk POS/NEG	93.940	76,709
Ryan White Care Act: Early Intervention Program	*93.917	151,345
YES Program - MHSA	*84.027	146,924
YES Program - EPSDT	*84.027	544,891
ARRA – Immunization (H1N1)	*93.712	149,400
University of California at San Francisco:		
Disparities in Children's Oral Health (GIFT Project)	93.121	278,125
		2,205,961
U.S. DEPARTMENT OF AGRICULTURE:		
Passed Through:		
California State Department of Health and Human Services Agency:		
Special Supplemental Food Program for Women, Infants and Children	*10.557	2,443,189
National Cooperative Bank Capital Impact Corporation HRSA Federal Guarantor Program Loan # 37-5414600	*93.UNK	520,494
National Cooperative Bank Capital Impact Corporation HRSA Federal Guarantor Program Loan # 37-5215000	*93.UNK	3,594,164
National Cooperative Bank Capital Impact Corporation HRSA Federal Guarantor Program Loan # 37-52741003	*93.UNK	10,000,000
		\$ 28,004,871

\* Denotes major program

**San Ysidro Health Center, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended December 31, 2010**

**Note A: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of San Ysidro Health Center, Inc. (SYHC or the "Center") under programs of the federal government for the year ended December 31, 2010. Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Center.

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

**Note B: Basis of Accounting**

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

**Note C: Relationship of Schedule of Expenditures of Federal Awards to Financial Statements**

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

# TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

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*Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards*

Board of Directors  
San Ysidro Health Center, Inc.  
San Ysidro, California

We have audited the financial statements of San Ysidro Health Center, Inc. (SYHC or the “Center”) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 10, 2011. 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 of America.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered San Ysidro Health Center’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 San Ysidro Health Center’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Ysidro Health Center’s internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether San Ysidro Health Center’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*.

Board of Directors  
San Ysidro Health Center, Inc.

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

*TCA Partners, LLP*

March 10, 2011

# TCA Partners, LLP

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*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*

Board of Directors  
San Ysidro Health Center, Inc.  
San Ysidro, California

## ***Compliance***

We have audited the compliance of San Ysidro Health Center, Inc. (“SYHC or the “Center”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. San Ysidro 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 San Ysidro Health Center’s management. Our responsibility is to express an opinion on San Ysidro 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 San Ysidro 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 San Ysidro Health Center’s compliance with those requirements.

In our opinion, San Ysidro Health Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.

## ***Internal Control Over Compliance***

The management of San Ysidro 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 San Ysidro Health Center’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 San Ysidro Health Center’s internal control over compliance.

Board of Directors  
San Ysidro Health Center, Inc.

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

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

***TCA Partners, LLP***  
March 10, 2011

**San Ysidro Health Center, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended December 31, 2010**

**I. Summary of Auditor's Results**

**Financial Statements**

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

**Federal Awards**

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

**Major Programs**

	<u>CFDA Number</u>
Community Health Custer	93.224
ARRA - Increased Services for Health Centers	93.703
ARRA - Capital Improvement Program	93.703
ARRA - Facility Investment Program	93.703
ARRA - New Access Point	93.703
Ryan White Title III	93.918
Ryan White Care Act: Early Intervention Services - CASA	93.914
Ryan White Care Act: HIV/AIDS Access & Outreach	93.914
Ryan White Care Act: HIV Case Management	93.914
Ryan White Care Act: Minority Aids Initiative	93.914
Ryan White Care Act: Early Intervention Services - CHC	93.914
Ryan White Care Act: Early Intervention Program	93.917
YES Program - MHSA	84.027
YES Program - EPSDT	84.027
ARRA - Immunization (H1N1)	93.712
Special Supplemental Food Program for Women, Infants and Children	10.557
National Cooperative Bank Capital Impact Federal Guarantor Program	*93.UNK
National Cooperative Bank Capital Impact Federal Guarantor Program	*93.UNK
National Cooperative Bank Capital Impact Federal Guarantor Program	*93.UNK
Dollar threshold used to distinguish Types A and B programs	\$ 300,000
Auditee qualified as low-risk auditee?	<u>  X  </u> Yes      No

**San Ysidro Health Center, Inc.**  
**Schedule of Findings and Questioned Costs**  
**For the year ended December 31, 2010**

**II. Current Year Audit Findings and Questioned Costs**

**Financial Statement Findings**

None Reported

**Federal Award Findings And Questioned Costs**

None Reported

**III. Prior Year Audit Findings and Questioned Costs**

None Reported