

SUNSHINE COMMUNITY HEALTH CENTER, INC.

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FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Board of Directors of the
Sunshine Community Health Center, Inc.

I have audited the accompanying balance sheets of the Sunshine Community Health Center, Inc. (the Center, a nonprofit organization) as of June 30, 2003 and 2002, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. My responsibility is to express an opinion on these financial statements based upon my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sunshine Community Health Center, Inc. as of June 30, 2003 and 2002, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 12, 2003, on my consideration of the Center's internal control over financial reporting and my tests of its compliance with certain provision of laws, regulations, contracts and grants. 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 my audit.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the Sunshine Community Health Center, Inc. taken as a whole. The accompanying State of Alaska, Department of Health and Social Services Programs – schedule of expenses, budget and actual for is presented for purposes of additional analysis and is not a required part of the Center's basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by the 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Riehle + Associates, P.C.

RIEHLE & ASSOCIATES, P.C.

September 12, 2003

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Balance Sheets
June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash, including board-designated reserves of \$330,000 and \$415,000, respectively	\$ 568,912	\$ 592,641
Receivables:		
Patient accounts, less allowance for uncollectible accounts of \$50,000 and \$50,000, respectively	169,981	157,565
Grants	49,869	45,434
Promises to give	20,000	26,109
Promises to give restricted for long-term purposes	28,824	445,833
Other	9,644	-
Prepaid expenses	24,627	23,386
Inventory	14,411	21,172
TOTAL CURRENT ASSETS	<u>886,268</u>	<u>1,312,140</u>
Promises to give, noncurrent	26,843	55,667
Cash limited as to use	10,500	58,641
Property and equipment, net	1,464,953	475,250
Security deposit	1,400	1,000
	<u>\$ 2,389,964</u>	<u>\$ 1,902,698</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 109,815	\$ 41,777
Payroll-related liabilities	98,889	100,646
Note payable, current portion	5,600	4,900
TOTAL CURRENT LIABILITIES	<u>214,304</u>	<u>147,323</u>
Note payable, net of current portion	105,465	111,685
TOTAL LIABILITIES	<u>319,769</u>	<u>259,008</u>
NET ASSETS		
Unrestricted:		
Undesignated	584,838	514,843
Invested in property and equipment	824,164	475,250
	<u>1,409,002</u>	<u>990,093</u>
Temporarily restricted	661,193	653,597
TOTAL NET ASSETS	<u>2,070,195</u>	<u>1,643,690</u>
	<u>\$ 2,389,964</u>	<u>\$ 1,902,698</u>

See accompanying notes to financial statements.

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Statements of Operations
Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
REVENUES AND SUPPORT		
Net patient service revenue	\$ 590,261	\$ 621,206
Government grants	1,710,101	1,340,188
Contributions	20,181	21,692
Interest income	4,390	2,521
In-kind donations	1,620	24,970
Other	1,884	7,380
TOTAL REVENUES AND SUPPORT	<u>2,328,437</u>	<u>2,017,957</u>
Net assets released from restrictions used for operations	<u>26,109</u>	<u>34,338</u>
TOTAL REVENUES, SUPPORT, AND NET ASSETS RELEASED FROM RESTRICTIONS	<u>2,354,546</u>	<u>2,052,295</u>
EXPENSES		
Salaries and wages	1,110,981	910,487
Employee benefits	220,366	171,774
Contract labor	-	11,047
Supplies	142,681	128,093
Provision for bad debts	27,913	29,058
Travel	34,248	32,185
Repairs and maintenance	85,958	56,133
Occupancy	62,804	63,516
Depreciation	76,225	66,738
Professional services	87,041	56,995
Dental expenses	-	29,554
Other	36,281	25,723
Insurance	44,367	22,248
Interest	6,772	6,691
TOTAL EXPENSES	<u>1,935,637</u>	<u>1,610,242</u>
INCOME FROM OPERATIONS/ CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ 418,909</u>	<u>\$ 442,053</u>

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Statements of Changes in Net Assets
Years Ended June 30, 2003 and 2002

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>		<u>Total</u>
	BALANCES, June 30, 2001	\$ 548,040	34,923	\$	\$ 582,963
Changes:					
Income from operations, FY02		442,053	-		442,053
Restricted contributions		-	26,109		26,109
Restricted contributions, long-term purposes		-	626,903		626,903
Net assets released from restrictions for operating purposes		-	<u>(34,338)</u>		<u>(34,338)</u>
Change in net assets		<u>442,053</u>	<u>618,674</u>		<u>1,060,727</u>
	BALANCES, June 30, 2002	\$ <u>990,093</u>	\$ <u>653,597</u>	\$	\$ <u>1,643,690</u>
Changes:					
Income from operations, FY03		418,909	-		418,909
Restricted contributions		-	20,000		20,000
Restricted contributions, long-term purposes		-	13,705		13,705
Net assets released from restrictions for operating purposes		-	<u>(26,109)</u>		<u>(26,109)</u>
Change in net assets		<u>418,909</u>	<u>7,596</u>		<u>426,505</u>
	BALANCES, June 30, 2003	\$ <u>1,409,002</u>	\$ <u>661,193</u>	\$	\$ <u>2,070,195</u>

See accompanying notes to financial statements.

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Statements of Cash Flows
Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 426,505	\$ 1,060,727
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contributions restricted to long-term purposes	(13,705)	(626,903)
Depreciation	76,225	66,738
Provision for uncollectible accounts receivable	-	15,000
(Increase) decrease in:		
Pledges receivable	6,109	(2,609)
Patient accounts receivable	(22,060)	(30,249)
Grants receivable	(4,435)	(31,684)
Prepaid expenses	(1,241)	(15,162)
Inventory	6,761	(9,370)
Security deposits	(400)	(1,000)
Increase (decrease) in current liabilities:		
Accounts payable	33,038	40,328
Payroll-related liabilities	<u>(1,757)</u>	<u>53,961</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>505,040</u>	<u>519,777</u>
 CASH USED IN INVESTING ACTIVITIES		
Cash donor-restricted to long-term purposes	48,141	(58,641)
Building and leasehold equipment purchases	(897,215)	(67,137)
Equipment purchases	<u>(133,713)</u>	<u>(109,500)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(982,787)</u>	<u>(235,278)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted to long-term purposes	459,538	125,403
Payments on long-term debt	<u>(5,520)</u>	<u>(6,615)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>454,018</u>	<u>118,788</u>
NET INCREASE (DECREASE) IN CASH	(23,729)	403,287
 CASH, beginning of year	<u>592,641</u>	<u>189,354</u>
CASH, end of year	<u>\$ 568,912</u>	<u>\$ 592,641</u>
 Supplemental Disclosure:		
Cash paid for interest on long-term debt	<u>\$ 6,772</u>	<u>\$ 6,691</u>

See accompanying notes to financial statements.

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Notes to Financial Statements

June 30, 2003 and 2002

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Sunshine Community Health Center, Inc. (the Center) is presented to aid in understanding its financial statements. The financial statements and notes are the representations of the Center's management, which is responsible for their integrity and objectivity. These accounting principles conform to generally accepted accounting principles.

Nature of the Organization

The Sunshine Community Health Center (the Center) is a nonprofit corporation organized to provide comprehensive primary medical and dental care, mental health services, substance abuse counseling and related health care services responsive to the needs of the community, especially to those persons who may lack access to these services because of financial, language, lifestyle, health status, or cultural barriers. The Center has provided medical services since 1987 and, effective in 2000, is a Federal Community Health Center pursuant to Section 330 of the Public Health Service Act.

Basis of Accounting

The Center's accounting records are maintained on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The financial statement presentation follows the recommendations of the American Institute of Certified Public Accountants in its Audit and Accounting Guide, *Health Care Organizations*, which incorporates by reference Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Center is required to report information regarding its financial position and activities according to three classes of equity: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income Tax Status

The Center is a nonprofit corporation organized under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes under Code Section 501(a).

Cash and cash equivalents

For purposes of the statement of cash flows, the Center considers the balances in its checking and savings accounts, money market account and petty cash to be cash.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenues in the period in which the promise is made, and as assets, decreases in liabilities, or expenses depending upon the form of the benefits received. Promises, if any, to give that are contingent upon substantive conditions being met are recognized when the conditions have been met.

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Notes to Financial Statements, *continued*

Summary of Significant Accounting Policies, *continued*

Inventories

Pharmaceutical inventories are recorded at the latest invoice cost, not to exceed market. Pharmaceutical inventories are expensed on their obsolescence date.

Property and Equipment

Property consists of land, buildings and equipment. Equipment is comprised primarily of medical and office equipment and furnishings that are carried at cost pursuant to a \$2,000 and \$500 capitalization threshold for fiscal years 2003 and 2002, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to expense when incurred.

The Center is in the process of building a new clinic; all construction and design-related costs are capitalized. Contributions restricted to funding the building project are included in temporarily restricted net assets, and, absent explicit donor instructions to the contrary, expirations of donor restrictions will be reported when the building is placed in service.

Property and equipment is considered to be owned by the Center regardless of the sources of funds used to pay for acquisitions. Governmental grantors, however, may have a reversionary interest in the property and may determine or restrict the use of any proceeds from the sale of these assets.

Net Patient Service Revenue

Patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods when final settlements are determined. Patient billings are based on standard charges for services provided. The Clinic's participation agreements with the Medicare and Medicaid programs provide for payments on a per-encounter basis that may differ from standard charges.

Contribution Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the existence and/or nature of any donor restrictions.

Grant Revenue

The Center is funded primarily by grants from the U.S. Department of Health and Human Services and the State of Alaska. Grant revenues are recognized in accordance with the terms of the grant agreements. Grants receivable at year-end represent the excess of allowable expenses over cash receipts.

SUNSHINE COMMUNITY HEALTH CENTER, INC.
Notes to Financial Statements, *continued*

Summary of Significant Accounting Policies, *continued*

Donated Good and Services

Donations of goods, if any, are recorded as contributions at their estimated fair values at the date of donation. Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise need to be purchased.

Charity Care

The Center provides services to indigent patients and performs certain case management services on a charity care basis using a discounted sliding fee structure based on family income. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income From Operations

The statements of operations include *income from operations* as a measurement indicator. There are no changes in unrestricted net assets excluded from income from operations in order to be consistent with industry practice and generally accepted accounting principles for not-for-profit health care organizations.

Estimates

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

NOTE B – CASH AND CASH LIMITED AS TO USE

Cash balances are comprised of the following amounts at June 30:

	<u>2003</u>	<u>2002</u>
Checking and savings	\$ 256,702	\$ 484,570
Building accounts	125,923	165,225
Money market	195,000	
Petty cash	<u>1,787</u>	<u>1,487</u>
	<u>\$ 579,412</u>	<u>\$ 651,282</u>

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Notes to Financial Statements, *continued*

Cash and Cash Limited as to Use, *continued*

Reconciliation to balance sheet amounts:

Cash, undesignated and unlimited	\$ 238,912	\$ 177,641
Cash, board-designated reserves	<u>330,000</u>	<u>415,000</u>
	568,912	592,641
Cash limited as to use	<u>10,500</u>	<u>58,641</u>
	\$ <u>579,412</u>	\$ <u>651,282</u>

Board-designated cash reserves are comprised of the following amounts at June 30:

Accounting system purchase	\$ 15,000	\$ 50,000
Operating reserves	195,000	195,000
Mental health program	50,000	
Capital expenditures	<u>70,000</u>	<u>170,000</u>
	\$ <u>330,000</u>	\$ <u>415,000</u>

Cash limited as to use totaling \$10,500 and \$58,641 as of June 30, 2003 and 2002, respectively, represents the excess of cash receipts over expenses incurred in satisfaction of donor-imposed restrictions related to the building construction project.

The Center maintains checking and savings accounts at the three different financial institutions. The funds, in the aggregate, are insured by the Federal Deposit Insurance Corporation (FDIC) to a maximum of \$100,000 per financial institution. Deposits in excess of FDIC insurance totaled approximately \$237,000 at June 30, 2003. Amounts held in excess of the FDIC limit throughout the year are not insured or collateralized.

NOTE C – RECEIVABLES

Patient Accounts

Patient accounts receivable by payor type consist of the following at June 30:

	<u>2003</u>	<u>2002</u>
Private pay	\$ 81,546	\$ 78,800
Insurance	76,307	74,111
Medicaid	30,958	28,465
Medicare	<u>31,170</u>	<u>26,189</u>
	219,981	207,565
Less allowances for uncollectible accounts	<u>(50,000)</u>	<u>(50,000)</u>
	\$ <u>169,981</u>	\$ <u>157,565</u>

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Notes to Financial Statements, *continued*

Receivables, *continued*

Patient accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances outstanding more than 150 days are written off through a charge to the valuation allowance; those in excess of \$50 are sent to collections subject to management's review. Changes in the valuation allowance totaled \$-0- and \$15,000 in fiscal years 2003 and 2002, respectively.

Promises to Give

Unconditional promises to give are as follows at June 30:

	<u>2003</u>	<u>2002</u>
Receivable in FY03	\$	\$ 471,942
Receivable in FY04	53,333	33,333
Receivable in FY05	<u>33,334</u>	<u>33,334</u>
	86,667	538,609
Less discount to net present value	<u>(11,000)</u>	<u>(11,000)</u>
	\$ <u>75,667</u>	\$ <u>527,609</u>

Reconciliation to balance sheet amounts:

Promises to give restricted to long-term purposes:		
Receivable within one year	\$ 28,824	\$ 445,833
Non-current	<u>26,843</u>	<u>55,667</u>
	55,667	501,500
Promises to give	<u>20,000</u>	<u>26,109</u>
	\$ <u>75,667</u>	\$ <u>527,609</u>

Promises to give include United Way pledges restricted for use in the subsequent period totaling \$20,000 and \$26,109 for fiscal years ended June 30, 2003 and 2002, respectively. Management believes all promises to give to be collectible; accordingly, no provision for uncollectible amounts is reflected in the financial statements.

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Notes to Financial Statements, *continued*

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2003</u>	<u>2002</u>
Buildings and improvements	\$ 284,972	\$ 194,413
Office furniture and equipment	250,148	226,382
Medical and dental equipment	99,720	93,031
Mobile clinic	33,434	33,434
Land	24,600	24,600
Vehicles	12,700	
Construction in progress	<u>998,976</u>	<u>66,762</u>
	1,704,550	638,622
Accumulated depreciation	<u>(239,597)</u>	<u>(163,372)</u>
	<u>\$ 1,464,953</u>	<u>\$ 475,250</u>

NOTE E – LONG-TERM DEBT

In June 2001, the Center entered into a loan agreement to purchase real property. The note bears interest at 6% per annum and requires payments of \$1,014 per month. The entire balance of principal and interest shall be due in full in 2017. Future scheduled maturities are as follows:

FY04	\$ 5,600
FY05	6,000
FY06	6,300
FY07	6,700
Thereafter	<u>86,465</u>
	<u>\$ 111,065</u>

NOTE F – COMMITMENTS AND CONTINGENCIES

Commitment to Purchase Construction Services

The Center signed contracts totaling approximately \$3,620,000 related to design, project management and construction of its new clinic in May 2002. As of June 30, 2003, payments totaling approximately \$935,000 had been made, leaving a commitment to pay approximately \$2,685,000 for future services performed under these contracts.

Environmental cleanup

Previously, the Center experienced a heating fuel spill of approximately 400 to 700 gallons. Prior to fiscal year 2003, the cleanup costs were not deemed estimable. However, during FY03, the Center paid \$38,557 to professional contractors to handle the spill in a manner approved by regulatory agencies. Management estimates that an additional \$5,000 will be required in FY04 to finalize the remediation project. Consequently, \$5,000 has been accrued as of June 30, 2003, and is included in accounts payable. Amounts, if any, that may be incurred in excess of \$5,000 are not known at this time.

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Notes to Financial Statements, *continued*

Commitments and Contingencies, *continued*

Malpractice

The Center's professional liability insurance covers all medical services rendered by SCHC and its employees. The coverage is provided on a *claims made* basis, covering any claims made during the period. The Center does not record an estimated liability for unasserted claims that exceed the liability insurance coverage as management believes losses, if any, would not materially affect its financial position or results of operation.

Revenue from contracting agencies

The Center participates as a provider of health care services to Medicare and Medicaid patients. Reimbursements for covered services are based on interim payment rates. Final reimbursements are determined after submission of annual cost reports and audits thereof by the fiscal intermediaries.

Grant expenses

Expenses reimbursed under grants and contracts are subject to audit by governmental agencies or their representatives. Amounts reflected in the financial statements as expenses in prior periods have generally not been audited by the funding agencies. Accordingly, adjustments of amount received under grants could result if the grants are audited by such agencies. Management believes all expenses are properly charged to the grants.

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at year ended June 30:

	<u>2003</u>	<u>2002</u>
Building project	\$ 640,608	\$ 626,903
United Way, restricted to operations in the subsequent fiscal year	20,000	26,109
Christmas auction	<u>585</u>	<u>585</u>
	\$ <u>661,193</u>	\$ <u>653,597</u>

Net assets released from restrictions by incurring expenses satisfying the time and/or purpose restriction specified by donors were as follows for the year ended:

United Way, used for operations	\$ 26,109	\$ 23,500
Dental clinic plumbing project		10,775
Christmas auction	<u> </u>	<u>63</u>
	\$ <u>26,109</u>	\$ <u>34,338</u>

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Notes to Financial Statements, *continued*

NOTE H – INKIND DONATIONS

The value of donated services is included in the following accounts and functions for the year ended June 30:

	<u>2003</u>	<u>2002</u>
General and administrative:		
Telephone	\$ 1,620	\$ 1,570
Professional/accounting		1,500
Program services – professional/dental	_____	<u>21,900</u>
	\$ <u>1,620</u>	\$ <u>24,970</u>

NOTE I – FUNCTIONAL EXPENSES

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

	<u>2003</u>	<u>2002</u>
Health care services	\$ 1,159,710	\$ 981,615
General and administrative	<u>775,927</u>	<u>628,627</u>
	\$ <u>1,935,637</u>	\$ <u>1,610,242</u>

NOTE J – RETIREMENT PLAN

The Center maintains a Simple IRA retirement plan for eligible employees. To be eligible, an employee must have earned at least \$5,000 in compensation during any two preceding years and be reasonably expected to earn such amount during the current year. Employer contributions are calculated as a dollar-for-dollar match up to a maximum of 3% of each employee's compensation. Employer and employee contributions fully vest immediately. Plan expense totaled \$15,630 and \$13,558 for fiscal years 2003 and 2002, respectively.

NOTE K – CHARITY CARE

The amount of charges foregone for services furnished under the Center's charity care policy totaled approximately \$126,400 and \$91,300 for years ended June 30, 2003 and 2002, respectively, when measured at its established rates.

NOTE L - CONCENTRATIONS

In both fiscal years, the Center received approximately 65% of its revenues from governmental grants as a Federally-designated community health center. It is at risk that funding from these or other significant sources may be either reduced or eliminated in future periods.

SUPPLEMENTARY INFORMATION

SUNSHINE COMMUNITY HEALTH CENTER, INC.
 State of Alaska, Department of Health and Social Services
 Schedule of Grant Expenses - Budget and Actual

Year Ended June 30, 2003

	Assistance to Community Health Facilities Grant 06-3330			Community Health Alaskan Exposure Grant 06-3555			Breast/Cervical Health Check Grant 06-3360		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Expenses:									
Personal services	10,000	10,000	-	-	-	-	24,335	25,630	(1,295)
Contract services	-	-	-	-	-	-	-	-	-
Facility	-	-	-	-	-	-	-	-	-
Commodities	-	-	-	5,010	5,010	-	1,688	1,688	-
Travel	-	-	-	2,740	2,740	-	2,313	1,299	1,014
Other	-	-	-	2,250	2,250	-	1,939	939	1,000
Total expenses	\$ 10,000	\$ 10,000	\$ -	\$ 10,000	\$ 10,000	\$ -	\$ 30,275	\$ 29,556	\$ 719

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

Federal Department/ Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements
<u>U.S. Department of Health and Human Services:</u>			
Health Resources and Services Admin.,			
Bureau of Primary Health Care:			
Alaska Initiative, Health Center Cluster Demonstration Grant**	93.224	1 D29 CS 00001-01	\$ 143,336
Alaska Initiative, Health Center Cluster Demonstration Grant**	93.224	6 D29 CS 00001-02-01	458,333
Community Health Centers**	93.224	2 H80 00568-01-03	673,305
Rural Health Networks	93.912B	5 DO6 RH 00084-03	30,844
Rural Health Networks	93.912B	6 DO6RH00084-02-S1	-
Subtotal, direct funding			<u>1,305,818</u>
Passed through State of Alaska, Dept. of Health and Social Services:			
Sunshine Community Health Center Expansion	93.130	06-2355	-
Community Health, Alaskan Exposure	93.130	06-3555	10,000
Breast and Cervical Health Check	93.919	06-3360	29,556
Subtotal, indirect funding			<u>39,556</u>
Total U.S. Department of Health and Human Services			<u>1,345,374</u>
Passed through the State of Alaska,			
Denali Commission (Note 1):			
Large Clinic Construction Funding**	90.100	0035-DC-2001-117	339,526
Conceptual Planning and Project Management**	90.100	0035-DC-2001-117	13,221
Total Denali Commission			<u>352,747</u>
Total Federal Disbursements			<u>\$ 1,698,121</u>

Note 1:

Funding from the Denali Commission is passed through the U.S. Departments of Commerce and Health and Human Services/Health Resources and Services Administration. Funding is commingled at the federal level; amounts attributable to each federal source are not known.

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the Sunshine Community Health Center, Inc. and is presented on the accrual basis of accounting adjusted to include purchases of fixed assets which have been capitalized under generally accepted accounting principles. 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*.

** Denotes major program.

SINGLE AUDIT SECTION



Riehle & Associates, P.C.
Certified Public Accountant

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Directors of the
Sunshine Community Health Center, Inc.

I have audited the financial statements of the Sunshine Community Health Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2003, and have issued my report thereon dated September 12, 2003. I conducted my 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.

Compliance

As part of obtaining reasonable assurance about whether the Sunshine Community Health Center, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

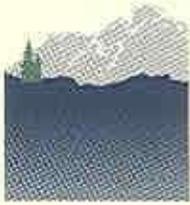
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Sunshine Community Health Center, Inc.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, others within the Center 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.

Riehle & Associates, P.C.

RIEHLE & ASSOCIATES, P.C.
Anchorage, Alaska
September 12, 2003



Riehle & Associates, P.C.
Certified Public Accountant

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Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To the Board of Directors of the
Sunshine Community Health Center, Inc.

Compliance

I have audited the compliance of the Sunshine Community Health Center, Inc. (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The Sunshine Community Health Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. My responsibility is to express an opinion on the Sunshine Community Health Center, Inc.'s compliance based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Sunshine Community Health Center, Inc.'s compliance with those requirements.

In my opinion, Sunshine Community Health Center, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

Board of Directors
Sunshine Community Health Center, Inc.

Internal Control Over Compliance

The management of the Sunshine Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, 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.

Riehle + Associates, P.C.

RIEHLE & ASSOCIATES, P.C.
Anchorage, Alaska
September 12, 2003

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No

Type of auditor's report issued on major program compliance:

BPHC, CFDA #93.224	Unqualified
Denali Commission, CFDA #90.100	Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
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Major programs:

Bureau of Primary Health Care – Community Health Centers, CFDA # 93.224
Bureau of Primary Health Care – Health Center Cluster Demo, CFDA #93.224

Denali Commission – Large Clinic Construction Funding, CFDA #90.100
Denali Commission – Conceptual Planning and Project Management, CFDA #90.100

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

Schedule of Findings and Questioned Costs, *continued*

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

None noted.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None noted.

SUNSHINE COMMUNITY HEALTH CENTER, INC.

Summary Schedule of Prior Audit Findings

No findings or questioned costs related to the Center's federal awards programs for fiscal year ended June 30, 2002, were reported in the prior year.