

Audited Financial Statements

## Open Door Community Health Centers

For The Years Ended December 31, 2014 and 2013

# Open Door Community Health Centers

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
<b>FINANCIAL STATEMENTS</b>	
Balance Sheets	3
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to the Financial Statements	6
<b>SINGLE AUDIT</b>	
Schedule of Expenditures of Federal Awards	14
Notes to the Schedule of Expenditures of Federal Awards	15
Independent Auditor' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16
Independent Auditors' Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	18
Schedule of Findings and Questioned Costs	20

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

Board of Directors  
Open Door Community Health Centers  
Arcata, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of Open Door Community Health Centers (the "Center"), which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

***Auditor's Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Open Door Community Health Centers as of December 31, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2015, on our consideration of the entity'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.

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 the purpose 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.

***CAW. LLP***

Fresno, California  
March 23, 2015

**Open Door Community Health Centers**  
**Balance Sheets**  
**December 31, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,505,880	\$ 3,422,444
Assets limited as to use	46,000	-
Investments	724,958	625,060
Patient accounts receivable, net	3,174,041	2,260,170
Grant and other receivables	1,277,563	885,444
Estimated third-party payor settlements	716,351	1,287,375
Inventories	625,819	545,874
Prepaid and other current assets	383,474	168,085
Total current assets	12,454,086	9,194,452
Assets limited as to use, net	258,433	-
Other assets	567,622	-
Property and equipment, net	16,645,175	15,544,294
Total assets	\$ 29,925,316	\$ 24,738,746
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Current liabilities:		
Current maturities of debt borrowings	111,486	331,500
Accounts payable and accrued expenses	913,140	592,944
Accrued payroll and related liabilities	2,133,010	1,947,914
Estimated third-party payor settlements	1,500,000	-
Deferred revenue	386,047	300,382
Total current liabilities	5,043,683	3,172,740
Debt borrowings, net of current maturities	10,129,187	8,158,882
Total liabilities	15,172,870	11,331,622
Net assets:		
Unrestricted net assets	14,752,446	13,407,124
Total liabilities and net assets	\$ 29,925,316	\$ 24,738,746

See accompanying Notes to the Financial Statements

**Open Door Community Health Centers**  
**Statements of Operations and Changes in Net Assets**  
**For the years ended December 31, 2014 and 2013**

	2014	2013
<b>Unrestricted revenues and other support:</b>		
Patient service revenue, net	\$ 39,259,510	\$ 31,029,815
Grant revenue	6,508,796	6,867,480
Contributions	91,491	381,954
Other	775,357	1,176,450
Total unrestricted revenue and other support	46,635,154	39,455,699
Expenses:		
Salaries and benefits	26,184,021	22,402,642
Payroll related expenses	2,247,813	2,097,117
Healthcare services and supply	7,855,946	6,199,172
Occupancy expense	2,704,836	2,343,120
Depreciation and amortization	1,559,069	1,384,668
Equipment expense	2,012,034	1,413,808
Contract services	920,248	234,364
Office expense	567,939	341,585
Training, development, education, and travel	537,547	510,247
Interest	426,143	364,258
Insurance	204,939	164,455
Other	79,495	92,987
Total expenses	45,300,030	37,548,423
Excess of revenues over expenses	1,335,124	1,907,276
Unrealized gains in available-for-sale securities	10,198	81,308
Change in unrestricted net assets	1,345,322	1,988,584
Net assets, beginning of year	13,407,124	11,418,540
Net assets, end of year	\$ 14,752,446	\$ 13,407,124

See accompanying Notes to the Financial Statements

**Open Door Community Health Centers**  
**Statements of Cash Flows**  
**For the years ended December 31, 2014 and 2013**

	2014	2013
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,345,322	\$ 1,988,584
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,559,069	1,384,668
Unrealized gains in available-for-sale securities	(10,198)	(81,308)
Changes in operating assets and liabilities:		
Patient accounts receivable	(913,871)	(57,659)
Grant and other receivables	(392,119)	188,044
Inventories	(79,945)	(14,798)
Prepaid assets and deposits	(215,389)	(4,803)
Other assets	(567,622)	-
Accounts payable and accrued expenses	320,196	(889,372)
Accrued payroll and related liabilities	185,096	316,988
Estimated third-party payor settlements	2,071,024	256,426
Deferred revenue	85,665	30,841
Net cash provided by operating activities	3,387,228	3,117,611
<b>Cash flows from investing activities:</b>		
Change in assets limited as to use	(304,433)	-
Acquisition of property and equipment	(2,659,950)	(2,565,295)
Purchases of available-for-sale securities	(89,700)	(11,029)
Net cash used in investing activities	(3,054,083)	(2,576,324)
<b>Cash flows from financing activities:</b>		
Net changes on line-of-credit	-	(1,900,000)
Proceeds from issuance of long-term debt	9,502,306	6,992,065
Principal payments on long-term debt	(7,752,015)	(4,870,967)
Net cash provided by financing activities	1,750,291	221,098
Net increase in cash and cash equivalents	2,083,436	762,385
Cash at beginning of year:	3,422,444	2,660,059
Cash at end of year:	\$ 5,505,880	\$ 3,422,444
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 426,143	\$ 364,258

See accompanying Notes to the Financial Statements

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2014 and 2013**

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

**Organization:** Open Door Community Health Centers (the "Center"), a not-for-profit organization, was incorporated in the State of California. The Center provides free and low cost medical, dental, psychological and educational services to people in need throughout Humboldt and Del Norte Counties in California. The Center is committed to addressing the special needs of the community's medically underserved and migrant populations.

The Center was designated as a Federally Qualified Health Center for Medicare and Medi-Cal reimbursement effective in 2001. The Center derives support through grants and contracts with the U.S. Department of Health and Human Services and the State of California Department of Health and Human Services. The majority of the revenue is derived from patient services and the remainder from the aforementioned grants and contracts, as well as other state and local grants.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Patient 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 receivables. The Center does not refuse service to patients based on an individual's ability to pay.

**Cash and Cash Equivalents:** Cash and cash equivalents constitute cash held in checking, savings and money market accounts and short term investments held with maturities less than 90 days. Of the bank balances, per the various financial institutions as of December 31, 2014 and 2013, \$709,746 and \$770,583 respectively was covered by federal depository insurance and \$4,796,134 and \$3,276,921, respectively, was uninsured.

**Assets Limited as to Use:** Assets limited as to use consist of cash held in reserve in order to comply with loan agreements. Assets limited as to use were \$304,433 and \$0 as of December 31, 2014 and 2013, respectively.

**Property and Equipment:** Property and equipment acquisitions are recorded at cost. The Center capitalizes assets with economic useful lives greater than one year and a value greater than \$5,000. Donated assets are recorded at their fair market value at the time the contributed asset is received. Depreciation of property and equipment is computed on the straight-line method over the estimated lives of depreciable assets.

**Compensated Absences:** The Center permits its employees to accumulate vacation hours over their working career and to redeem such unused vacation hours in cash upon termination of employment. Employees earn vacation hours based on length of service.

**Charity Care:** The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Center does not pursue collection of amounts determined to qualify as charity care.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2014 and 2013**

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

**Income Taxes:** The Center has been recognized by the Internal Revenue Service as a non-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Sec. 501(a) of the IRC and California Revenue and Taxation code Section 23701(d). The tax years of 2010 through 2013 remain open and subject to examination by the appropriate government agencies in the United States and California.

**Revenue Recognition:** It is the policy of the Center to recognize revenues from federal grants and state contracts to the extent of expenses incurred not to exceed grant and contract awards. When the grant and contract budgets do not coincide with the Center's reporting period, revenues are recognized on a prorata basis.

Patient service revenue is recorded at the Center's established rates with sliding fee scale adjustments, provision for uncollectible accounts, and contractual allowances deducted to arrive at net patient service revenue.

**Reclassifications:** Certain financial statement amounts have been reclassified in these financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net income.

**Subsequent Event:**

The Center has evaluated all events and transactions that occurred after December 31, 2014, and through March 23, 2015, the date of the financial statements and notes to financial statement were available to be issued. During this period no events or transactions occurred that would require adjustments of the financial statements or disclosure in the accompanying notes.

**Note B: Concentrations 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 receivables from patients and third-party payors at December 31, 2014 and 2013 was as follows:

Gross patient accounts receivable	2014	2013
Medicare	\$ 494,800	\$ 245,070
Medi-Cal	1,892,926	264,275
Other third-party payors	1,023,320	1,625,239
Private pay	695,562	1,004,379
Total patient accounts receivable	<u>4,106,608</u>	<u>3,138,963</u>
Less: contractual and doubtful account allowances	<u>(932,567)</u>	<u>(878,793)</u>
Net patient accounts receivable	<u>\$ 3,174,041</u>	<u>\$ 2,260,170</u>

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2014 and 2013**

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

Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, requires the fair value of financial assets and liabilities to be determined using a specific fair-value hierarchy. The objective of the fair value measurement of financial instruments is to reflect the hypothetical amounts at which the Center could sell assets or transfer liabilities in an orderly transaction between market participants at the measurement date. FASB ASC 820 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.

Pursuant to FASB ASC 820, the Center's investments are classified within Level 1 of the fair-value hierarchy and 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, 2014:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
December 31, 2014:				
Money market funds	\$ 1,035,702	\$ 1,035,702	\$ -	\$ -
Total	<u>\$ 1,035,702</u>	<u>\$ 1,035,702</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2013:				
Money market funds	\$ 999,583	\$ 999,583	\$ -	\$ -
Total	<u>\$ 999,583</u>	<u>\$ 999,583</u>	<u>\$ -</u>	<u>\$ -</u>

The carrying amounts reported in the balance sheets for other financial assets and liabilities that are not measured at fair value on a recurring basis including patient accounts receivable, grant and other receivables, settlement receivables, accounts payable, accrued payroll and other expenses, deferred revenue, long term debt, and estimated third party liabilities approximate fair value.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2014 and 2013**

**Note D: Net Patient Service 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 arrangements with third-party payors follows:

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

**Medi-Cal:** Medical and dental services rendered to Medi-Cal beneficiaries are paid under a Prospective Payment System, using rates established by the Center’s “Base Years - fiscal years ended December 31, 2000 and 1999” cost reports filed under the previous cost-based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center’s scope of service. The Center is required to file a payment reconciliation report with the state. In the opinion of management, any reconciliation settlement of the payment reconciliation will not materially affect the financial statements of the Center.

**Other:** Payments for services rendered to those payors other than Medicare or Medi-Cal are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

**Note E: Property and Equipment**

Property and equipment consist of the following at December 31:

	2014	2013
Land	\$ 2,849,684	\$ 2,235,263
Building	14,284,018	14,140,403
Leasehold improvements	2,978,145	2,053,541
Equipment	8,614,020	7,629,457
Construction-in-progress	45,116	153,225
	<u>28,770,983</u>	<u>26,211,889</u>
Less: Accumulated depreciation	(12,125,808)	(10,667,595)
	<u>\$16,645,175</u>	<u>\$15,544,294</u>

Depreciation expense for fiscal year ending December 31, 2014 and 2013 was \$1,552,477 and \$1,384,668, respectfully.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2014 and 2013**

**Note F: Debt Borrowings**

Debt borrowings at December 31, 2014 and 2013 are as follows:

	2014	2013
California Health Facilities Financing Authority Facilities Loans. The 15 year loans mature in 2019 and 2024. Total monthly payments, including interest at 3% were \$5,877. Secured with real property and gross revenues.	\$ 469,031	\$ 524,575
Umpqua Bank Commercial Loan. Monthly payments of \$15,110; interest rate at 6.92%, matures 2014. Secured by assets.	-	1,104,555
Loan agreement for \$300,000 with the Bertha Russ Lytel Foundation to be used for the construction and operation of a clinic site in Ferndale California. The loan has a term of 3 years with annual payments of \$100,000 due April 1 at no interest and is annually offset by a grant of that amount if the Ferndale clinic remains operational.	300,000	-
CSCDC 7 LLC loan agreement of \$8,245,000 consisting of two notes. Note A of \$5,649,100 bears interest at 3.946% per annum with interest only monthly payments until maturity on September 25, 2021. Note B of \$2,595,900 bears interest at 3.946% per annum with interest only monthly payments until December 20, 2029. Monthly principal and interest payments of \$15,689 then continue until maturity in December 2049.	8,245,000	-
Auto loans at 2.99% to 5.5% interest payable in monthly installments. Loans expire at various times through 2019. Secured by vehicle.	97,329	24,065
Umpqua Bank loan of \$6,433,000 matures December 24, 2015. Monthly payments are \$25,930 at an interest rate of 4% per annum and secured by the Center's property and assets.	-	6,304,600
Loan agreement for \$35,000 with the City of Arcata allocated from a Community Block Development Grant (CDBG) to be used for the planning of a new clinic. The loan has a term of 10 years at no interest and is forgivable upon occupancy of the new clinic.	35,000	35,000
Loan with Hodgson Revocable Trust for \$500,000 at 6% per annum. Monthly payments of \$4,879 matures November 2025.	467,679	497,587
Arcata Economic Development Corporation loan for up to \$1,500,000. Interest only, rate of 4.85%. Due March 1, 2019. Secured by property.	626,634	-
Total long-term debt	10,240,673	8,490,382
Less: current portion	(111,486)	(331,500)
	\$ 10,129,187	\$ 8,158,882

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2014 and 2013**

**Note F: Debt Borrowings (continued)**

The agreed upon repayment schedule indicates future maturities of debt borrowings of \$111,486 in 2015; \$115,843 in 2016; \$420,414 in 2017; \$125,157 in 2018; \$90,646 in 2019; and \$9,377,127 thereafter.

The Center was in compliance with all debt covenant requirements as of December 31, 2014.

As of December 31, 2014, the Center had available a line-of-credit of \$2,000,000 with a variable interest rate secured by the Center's assets. There was no balance outstanding on the line-of-credit for the years ending December 31, 2014 and 2013, respectively.

**Note G: Commitments and Contingencies**

**Medical malpractice** - The Center, including officers, governing board members, employees, and contractors who are physicians or other licensed or certified healthcare practitioners, are covered by professional and general liability insurance. The Center is deemed by the Federal Government and is covered under the Federal Tort Claims Act ("FTCA") for malpractice insurance. The Center also has supplemental professional liability coverage. There are no known claims or incidents that may result in the assertion of additional claims as of the date of this report.

**Pension plan** - The Center has a profit sharing plan and trust for its employees. The Plan is a defined contribution plan covering all full-time employees who have completed one year of service, are over the age of eighteen and have been credited with 1,000 hours of service during the eligibility computation period. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan is administered by a third-party administrator. The annual contribution amount is at the discretion of management. The Center's annual contribution is 3% to 10% of total annual payroll costs. The assets of the Plan are held and invested by the trustee in pooled investments. For the years ended December 31, 2014 and 2013, the Center had accrued liabilities of \$0 and \$360,000, respectively.

**Grants and contracts** - Continuing program funding from federal and state sources is contingent upon availability of funds and project performance. The funds are awarded on a yearly basis upon receipt and approval of program applications. In addition, expenses made under federal and state grants are subject to review and audit by the grantor agencies.

**Operating leases** - The Center leases business equipment from various entities under non-cancelable lease terms that expire at various dates through 2027. Future minimum lease payments required under these lease agreements for the following five years are approximately: \$587,461 in 2015; \$541,961 in 2016; \$497,307 in 2017; \$434,678 in 2018; and \$429,928 in 2019.

**Litigation** - The Center may from time-to-time be involved in litigation and regulatory investigations, which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of December 31, 2014, will be resolved without material adverse effect on the Center's future financial position, results from operations or cash flows.

**Open Door Community Health Centers**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2014 and 2013**

**Note G: Commitments and Contingencies (continued)**

**Risks and uncertainties** - Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

**Self-Insurance** - The Center is self-insured for employee health insurance benefits. The accrual for self-insurance is evaluated periodically throughout the fiscal year for adequacy based on the Center's claim history. The Center has specific stop loss insurance, but not aggregate excess stop loss insurance. Specific deductible amount per covered participant for the covered period is \$100,000. Calendar year limit of liability per covered participant is unlimited.

**Note H: Accrued Payroll and Related Liabilities**

Accrued payroll and related liabilities consisted of the following at December 31, 2014 and 2013:

	2014	2013
Accrued payroll	\$ 691,693	\$ 484,900
Accrued vacation	1,102,114	929,859
Accrued retirement	-	360,000
Accrued medical expenses	339,203	173,155
Total	<u>\$2,133,010</u>	<u>\$1,947,914</u>

**Note I: Functional Classification of Expenses**

	Medical Services	Dental Services	General Admin	Total 2014	Total 2013
Salaries and Benefits	\$20,311,901	\$3,833,435	\$4,824,045	\$28,969,381	\$25,010,006
General and Administrative	204,427	32,518	389,544	626,489	434,572
Space Costs	1,743,987	480,474	480,375	2,704,836	2,343,120
Medical Supplies	6,958,863	697,405	199,678	7,855,946	6,199,172
Equipment Costs	1,439,850	275,973	317,156	2,032,979	1,413,808
Depreciation	1,279,123	161,548	118,398	1,559,069	1,384,668
Contractual Medical Services	901,624	4,338	14,286	920,248	234,364
Interest	388,902	10,635	26,606	426,143	364,258
Insurance	153,374	32,243	19,322	204,939	164,455
	<u>\$33,382,051</u>	<u>\$5,528,569</u>	<u>\$6,389,410</u>	<u>\$45,300,030</u>	<u>\$37,548,423</u>

**SINGLE AUDIT REPORTS**

**Open Door Community Health Centers  
Schedule of Expenditures of Federal Awards  
For the year ended December 31, 2014**

Federal Grant / Program Title	Federal CFDA Number	Expenditures
<b><u>U.S. Department of Health and Human Services, Public Health Service:</u></b>		
Community Health Cluster	*93.224	\$ 4,181,246
ACA – Capital Development Grant	93.526	235,737
People Living With AIDS	*93.527	47,500
Ryan White Part C Outpatient EIS Program	93.918	402,335
Passed Through Del Norte County: HIV Cares Program	93.917	14,790
Passed Through Public Health Institute: CA4Health	93.531	25,000
Passed Through North Coast Clinics Network: AHEC Program	93.107	20,980
		\$ 4,927,588

**Open Door Community Health Centers**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended December 31, 2014**

**Note A: Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the expenditures of Open Door Community Health Centers (the “Center”) under programs of the federal government for the year ended December 31, 2014. 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.

**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**

Independent Auditor's Report

Board of Directors  
Open Door Community Health Centers  
Arcata, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Open Door Community Health Centers (the "Center"), which comprise the balance sheet as of December 31, 2014 and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Open Door Community Health Centers' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**CAW. LLP**

Fresno, California

March 23, 2015

**Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**Independent Auditor's Report

Board of Directors  
Open Door Community Health Centers  
Arcata, California

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

We have audited Open Door Community Health Center's (the "Center") 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 the Center's major federal programs for the year ended December 31, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Clinic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

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

In our opinion, Open Door Community Health Centers complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

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

Management of Open Door Community Health Centers is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Center as of and for the year ended December 31, 2014, and have issued our report thereon dated March 23, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**CAW. LLP**

Fresno, California  
March 23, 2015

**Open Door Community Health Centers  
Schedule of Findings and Questioned Costs  
For the year ended December 31, 2014**

**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 Cluster	93.224
People Living With AIDS	93.527
Dollar threshold used to distinguish Types A and B programs	\$ 300,000
Auditee qualified as low-risk auditee?	<u>  X  </u> Yes      _____ No

**Open Door Community Health Centers  
Schedule of Findings and Questioned Costs  
For the year ended December 31, 2014**

**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