

Shasta Community Health Center, Inc.

**Independent Auditor's Reports and Consolidated
Financial Statements**

December 31, 2014

Shasta Community Health Center, Inc.
December 31, 2014

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Independent Auditor's Report

Board of Directors
Shasta Community Health Center, Inc.
Redding, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Shasta Community Health Center, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

The Organization has recorded a grant award in the consolidated financial statements prior to incurring eligible outlays. Accounting principles generally accepted in the United States of America do not allow for the recognition of temporarily restricted revenue, accounts receivable and temporarily restricted net assets for this exchange transaction. The effects of this departure from accounting principles generally accepted in the United States of America are set forth in *Note 15*.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shasta Community Health Center, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the grant award treatment described in the basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2015, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shasta Community Health Center, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
April 20, 2015

Shasta Community Health Center, Inc.
Consolidated Statement of Financial Position
December 31, 2014

Assets

	Unrestricted	Temporarily Restricted	Total
Current Assets			
Cash and cash equivalents	\$ 6,313,234	\$ 2,105,249	\$ 8,418,483
Patient accounts receivable, net of allowance	2,094,526	-	2,094,526
Grant and contracts receivable	42,098	2,765,949	2,808,047
Other receivables	1,770,253	-	1,770,253
Investments	9,731	-	9,731
Supplies	152,538	-	152,538
Prepaid expenses and other	319,891	-	319,891
	<u>10,702,271</u>	<u>4,871,198</u>	<u>15,573,469</u>
Total current assets			
Long-Term Assets			
Cash restricted for purchase of facility construction and equipment	6,278,089	3,032	6,281,121
Cash limited to use	675,400	-	675,400
Property and equipment, net of accumulated depreciation	18,601,874	-	18,601,874
Deposits	296,006	-	296,006
Deferred financing costs	760,596	-	760,596
Notes receivable	12,249,600	-	12,249,600
	<u>38,861,565</u>	<u>3,032</u>	<u>38,864,597</u>
Total long-term assets			
Total assets	<u>\$ 49,563,836</u>	<u>\$ 4,874,230</u>	<u>\$ 54,438,066</u>

Liabilities and Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Current Liabilities			
Accounts payable	\$ 1,752,340	\$ -	\$ 1,752,340
Payroll and related expenses	1,305,144	-	1,305,144
Other accrued expenses	230,455	-	230,455
Deferred revenue	19,247	-	19,247
Estimated amounts due to third-party payers	1,058,205	-	1,058,205
Current maturities of long-term debt	2,809,525	-	2,809,525
Capital lease payable, current portion	74,559	-	74,559
Estimated self-insurance costs	301,757	-	301,757
	<u>7,551,232</u>	<u>-</u>	<u>7,551,232</u>
Long-Term Liabilities			
Notes payable, less current portion	17,701,443	-	17,701,443
Capital lease payable, less current portion	53,871	-	53,871
Deferred rent	34,776	-	34,776
	<u>17,790,090</u>	<u>-</u>	<u>17,790,090</u>
Total liabilities	<u>25,341,322</u>	<u>-</u>	<u>25,341,322</u>
Net Assets			
Unrestricted	22,222,514	-	22,222,514
Unrestricted - designated	2,000,000	-	2,000,000
Temporarily restricted	-	4,874,230	4,874,230
	<u>24,222,514</u>	<u>4,874,230</u>	<u>29,096,744</u>
Total net assets	<u>24,222,514</u>	<u>4,874,230</u>	<u>29,096,744</u>
Total liabilities and net assets	<u>\$ 49,563,836</u>	<u>\$ 4,874,230</u>	<u>\$ 54,438,066</u>

Shasta Community Health Center, Inc.
Consolidated Statement of Activities
Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Other Support			
Revenue			
Net patient service revenue	\$ 21,162,180	\$ -	\$ 21,162,180
Federal 330 grant revenue	4,114,807	-	4,114,807
340B revenue	3,899,854	-	3,899,854
Electronic health records incentive program revenue	365,500	-	365,500
Interest income	176,370	-	176,370
Other revenue	1,486,450	-	1,486,450
Total revenue	<u>31,205,161</u>	<u>-</u>	<u>31,205,161</u>
Support			
Grants, contracts and contributions	1,456,073	247,146	1,703,219
Contributions, in-kind	1,484,375	-	1,484,375
Total support	<u>2,940,448</u>	<u>247,146</u>	<u>3,187,594</u>
Net Assets Released From Restrictions			
Satisfied by purpose	194,648	(194,648)	-
Satisfied by purchase of property and equipment	31,456	(31,456)	-
Total net assets released from restrictions	<u>226,104</u>	<u>(226,104)</u>	<u>-</u>
Total revenues and other support	<u>34,371,713</u>	<u>21,042</u>	<u>34,392,755</u>
Expenses and Losses			
Medical	19,061,441	-	19,061,441
Mental health	1,818,522	-	1,818,522
Dental	3,034,173	-	3,034,173
Community education	517,414	-	517,414
Total program services	<u>24,431,550</u>	<u>-</u>	<u>24,431,550</u>
Management and general	8,253,371	-	8,253,371
Fundraising	167,151	-	167,151
Total expenses	<u>32,852,072</u>	<u>-</u>	<u>32,852,072</u>
Loss on investments	359	-	359
Loss on disposal of property and equipment	994	-	994
Other losses	1,353	-	1,353
Total expenses and losses	<u>32,853,425</u>	<u>-</u>	<u>32,853,425</u>
Change in Net Assets	1,518,288	21,042	1,539,330
Net Assets, Beginning of Year	<u>22,704,226</u>	<u>4,853,188</u>	<u>27,557,414</u>
Net Assets, End of Year	<u>\$ 24,222,514</u>	<u>\$ 4,874,230</u>	<u>\$ 29,096,744</u>

Shasta Community Health Center, Inc.
Consolidated Statement of Functional Expenses
Year Ended December 31, 2014

	Medical	Mental Health	Dental	Community Education	Administration	Fundraising Activities	Total
Salaries and Related							
Salaries and wages	\$ 11,163,269	\$ 1,174,832	\$ 1,683,185	\$ 291,841	\$ 4,205,508	\$ 122,702	\$ 18,641,337
Payroll taxes	768,947	74,339	117,568	21,857	312,819	9,387	1,304,917
Worker's comp insurance	375,678	42,972	55,601	9,506	153,148	3,067	639,972
Recruitment and retention	28,519	3,056	8,843	454	169,710	-	210,582
Continuing education	105,323	9,038	9,741	21,821	160,014	-	305,937
Fringe benefits	1,882,035	178,500	325,391	63,292	657,431	6,135	3,112,784
Total salaries and related	<u>14,323,771</u>	<u>1,482,737</u>	<u>2,200,329</u>	<u>408,771</u>	<u>5,658,630</u>	<u>141,291</u>	<u>24,215,529</u>
Purchased Services							
Contracted clinician services	488,951	-	27,916	-	-	-	516,867
Contracted services, other	119,846	9,248	2,963	17,125	482,330	-	631,512
Laboratory services	2,625	-	160,745	-	-	-	163,370
Consulting services	62,597	-	-	-	74,785	-	137,382
Total purchased services	<u>674,019</u>	<u>9,248</u>	<u>191,624</u>	<u>17,125</u>	<u>557,115</u>	<u>-</u>	<u>1,449,131</u>
Supplies and Other							
Drugs and medications	420,829	1,278	738	-	-	-	422,845
Medical/dental supplies	336,788	1,152	212,677	598	27,597	-	578,812
Professional liability insurance	83,994	-	-	-	6,585	-	90,579
Equipment costs	194,150	9,032	25,873	28,518	164,120	-	421,693
Interest and bank charges	13,325	1,997	10,831	499	301,114	-	327,766
Office supplies	122,622	8,552	17,841	18,976	530,661	-	698,652
Bad debts and write-offs	322,243	44,818	22,282	-	-	-	389,343
Other expenses	198,155	8,079	16,148	24,282	239,404	21,860	507,928
Total supplies and other	<u>1,692,106</u>	<u>74,908</u>	<u>306,390</u>	<u>72,873</u>	<u>1,269,481</u>	<u>21,860</u>	<u>3,437,618</u>
Building and Occupancy							
Occupancy costs	574,390	85,354	242,570	13,402	522,280	4,000	1,441,996
Depreciation and amortization	398,299	80,756	93,260	5,243	245,865	-	823,423
Total building and occupancy	<u>972,689</u>	<u>166,110</u>	<u>335,830</u>	<u>18,645</u>	<u>768,145</u>	<u>4,000</u>	<u>2,265,419</u>
In-Kind							
Drugs and medications in-kind	1,224,881	85,519	-	-	-	-	1,310,400
Lab fees in-kind	171,989	-	-	-	-	-	171,989
Supplies in-kind	1,986	-	-	-	-	-	1,986
Total supplies and other	<u>1,398,856</u>	<u>85,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,484,375</u>
Total expenses	<u>\$ 19,061,441</u>	<u>\$ 1,818,522</u>	<u>\$ 3,034,173</u>	<u>\$ 517,414</u>	<u>\$ 8,253,371</u>	<u>\$ 167,151</u>	<u>\$ 32,852,072</u>

Shasta Community Health Center, Inc.
Consolidated Statement of Cash Flows
Year Ended December 31, 2014

Operating Activities

Receipts from and on behalf of patients	\$ 20,903,538
Cash received from third-party settlements	314,473
Receipts of grants and contributions	7,903,717
Payments to suppliers and employees	(28,973,952)
Interest received	176,370
Interest and bank charges paid	(313,288)
Other operating receipts	<u>5,254,332</u>

Net cash provided by operating activities 5,265,190

Investing Activities

Purchase of property and equipment	(4,348,296)
Proceeds from sale of property and equipment	7,922
Purchase of investments	(90)
Proceeds from disposition of assets limited as to use	<u>3,264,780</u>

Net cash used in investing activities (1,075,684)

Financing Activities

Principal payments on long-term debt	(2,132,267)
Principal payments on capital leases	<u>(73,406)</u>

Net cash used in financing activities (2,205,673)

Increase in Cash and Cash Equivalents 1,983,833

Cash and Cash Equivalents, Beginning of Year 6,434,650

Cash and Cash Equivalents, End of Year \$ 8,418,483

Supplemental Cash Flow Information

Property and equipment acquisitions included in accounts payable	\$ 542,522
Interest paid (net of capitalized interest)	\$ 313,288

Shasta Community Health Center, Inc.
Consolidated Statement of Cash Flows
Year Ended December 31, 2014

**Reconciliation of Change in Net Assets to Net Cash
Provided by Operating Activities**

Change in net assets	\$ 1,539,330
Loss on disposal of property and equipment	994
Depreciation and amortization	823,423
Investment loss	359
	2,364,106
(Increase) decrease in operating assets	
Patient and other accounts receivables, net	(425,438)
Grants and contracts receivable	2,085,691
Other current assets	(7,750)
Increase (decrease) in operating liabilities	
Accounts payable and accrued liabilities	1,182,227
Payroll and related liabilities	118,729
Other current liabilities	(52,375)
	\$ 5,265,190
Net cash provided by operating activities	

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Activities

Shasta Community Health Center, Inc. (the “Health Center”) is a private nonprofit organization incorporated on June 14, 1988, under the laws of the State of California, for the purpose of providing low-cost, high-quality, comprehensive primary care services to the medically underserved population of Shasta County. The Health Center is a Federally Qualified Health Center (FQHC) and provides a variety of medical, dental, mental health and health education and enabling services to the community. The Health Center derives its support through public insurance programs, such as Medi-Cal and Medicare, direct federal funding from the U.S. Department of Health and Human Services (DHHS), state and local grants, private grants and contributions.

SCHC Property Corporation (the “Corporation”) is a private corporation organized under the laws of the State of California on July 10, 2013, and is wholly owned and controlled by Shasta Community Health Center, Inc. The purpose of the Corporation is to hold the leasehold interest in the commercial building located at 1035 Placer Street, Redding, California, which is leased to Shasta Community Health Center, Inc. SCHC Property Corporation is operating the site in a manner enabling it to qualify as a Qualified Active Low Income Beneficiary (QALICB) that receives Qualified Low Income Investment (QLICI) loans under the New Market Tax Credit (NMTC) transaction (*Note 13*). These loans are being used for the expansion of the community health center.

Principles of Consolidation

The consolidated financial statements include the accounts of Shasta Community Health Center, Inc. and its wholly owned subsidiary, SCHC Property Corporation (collectively, “the Organization”). All material inter-company transactions and balances have been eliminated in consolidation.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis, whereas revenue is recognized when earned and expenses are recognized when incurred, which is in accordance with accounting principles generally accepted in the United States of America.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Shasta Community Health Center, Inc. and its subsidiaries, and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are reflective of revenues and expenses associated with the principal operating activities of the Organization and are not subject to donor-imposed stipulations. The Board of Directors has designated that \$2,000,000 of unrestricted net assets be reserved for future investment in capital expansion projects. Board designations do not meet the criteria for classification as restricted net assets as there are no donor-imposed restrictions and they are subject to change at the Board's discretion.

Temporarily restricted net assets: Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements.

Permanently restricted net assets: Net assets are subject to donor-imposed stipulations that must be maintained permanently by the Organization. There were no permanently restricted net assets as of December 31, 2014.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with initial maturities of three months or less to be cash equivalents. The Organization deposits the majority of its funds into insured cash sweep accounts (ICS). The funds are placed into deposit accounts at other depository institutions, the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC).

At December 31, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$6,770,000.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Cash Reserved/Pledged

SCHC Property Corporation has cash on deposit with banking institutions consisting of a construction disbursement account and fee reserve accounts. The construction disbursement account, with a balance of \$6,278,089 as of December 31, 2014, can only be used for construction costs related to the expansion of the community health center in accordance with the Construction, Monitoring, and Disbursement Agreement with the Qualified Low Income Investment (QLICI) loans for the expansion of the community health center (*Note 13*).

The fee reserve accounts, totaling \$675,400 are funds held for the payment of quarterly management and auditing fees to a third party due to the new markets tax credit financing structure (*Note 13*).

Patient Accounts Receivable

Patient services receivable, including amounts due from third-party payers, are stated at their estimated net realizable value. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. The Organization maintains allowances for uncollectible accounts and estimated losses resulting from a patient's inability to make payments on accounts. Receivables due directly from patients are carried at the original charge for the service provided less discounts, less amounts covered by third-party payers and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Organization does not charge interest on past-due accounts. Patient receivables net of discounts are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Grants and Contracts Receivable

Grants and contracts receivable reflect amounts earned but not yet collected for which the Organization expects to realize payment.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Prepaid Expenses

Prepaid expenses represent a cash outlay for services that have not been received and are amortized to expenses ratably over the respective service period.

Supplies

The Organization states supply inventories at cost determined using the first-in, first-out method. Inventories consist of medical, dental, office and housekeeping supplies.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, which range from three to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is less. The Organization capitalizes all purchases of property and equipment with useful lives of more than one year, which are equal to or in excess of \$5,000.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	10 - 40 Years
Leasehold improvements	5 - 15 Years
Equipment	3 - 20 Years

Certain property and equipment have been purchased with grant funds. Such items may have a reversionary interest by the grantor if not used to further the Organization's objectives or held for a specific length of time.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support until the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2014.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Deferred Revenue

Deferred revenue consists of patient receipts for dental prosthetic services that have yet to be rendered.

Grants, Donations and Contributions

The Health Center receives grants, donations and contributions from federal agencies, the State of California, Shasta County and private organizations. Revenue is recognized based on the terms of the agreements and contracts not on the identities of the resource providers. If the agreement is reciprocal in nature then revenue is recognized as expenses are incurred. If the agreement is nonreciprocal, revenue is recognized when cash is received, unconditional promises are made or ownership of other assets is transferred to the Health Center.

340B Revenue

The Health Center participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Health Center earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Health Center has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Health Center. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

Gross receipts	\$ 8,634,876
Drug replenishment costs	(2,195,803)
Administrative and filling fees	<u>(2,539,219)</u>
Net revenue	<u>\$ 3,899,854</u>

The net 340B revenue from this program is used in furtherance of the Organization’s mission.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Pay for Performance (PCP) Quality Improvement Program

The Pay for Performance (PCP) Quality Improvement Program (QIP) is designed in collaboration with the Health Center's Medi-Cal Managed Care Organization to offer substantial financial incentives and technical assistance to primary care providers who serve the capitated Medi-Cal members. These incentives are provided to help the Health Center make improvements in a variety of health care areas such as prevention and screening, chronic disease management, access, patient experience and health care planning.

The Health Center recognizes revenue when received for this program as that is the time that management is reasonably assured it has met all requirements. In 2014, the Health Center received \$1,407,575 for this program. QIP revenue is included in other revenue on the statement of activities.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of supplies, pharmaceuticals and lab services. It is the policy of the Organization to record the estimated fair value of these in-kind contributions as contribution revenue and operating expense. In-kind contributions received for the year ended December 31, 2014, had fair value of \$1,484,375.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible federally qualified health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the health center continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the State, fiscal intermediary or Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

In 2014, the Health Center completed the first and second year requirements under both the Medicare and Medicaid programs and has recorded revenue of \$365,500 which is included within revenues in the statement of activities and changes in net assets.

Self-Insurance

The Organization has elected to self-insure certain costs related to employee health and accident benefit programs. Cost resulting from noninsured losses is charged to expenses when incurred. The Organization has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$1,000,000.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Fundraising Expenses

Fundraising expenses are recognized as they are incurred.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program and support services categories based on various methods. The statement of functional expenses present, by natural classification, the expenses of each program and support service.

Income Taxes

Shasta Community Health Center, Inc. and SCHC Property Corporation are tax-exempt under the Internal Revenue Code Section 501(c)(3) and are required to file a Form 990 (Return of Organization Exempt from Income Tax) annually. Accordingly, income taxes are not provided for in the accompanying financial statements. Forms 990 filed by the Health Center and the Corporation are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms filed by the Health Center are generally no longer subject to examination for the years 2009 and prior. However, the Health Center and the Corporation are subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Organization is the recipient of a Community Health Centers (CHC) grant and Health Care for Homeless (HCH) grant from the U.S. Department of Health and Human Services. The general purpose of these grants is to provide expanded health care services in Shasta County, California, and surrounding areas. The annual grant award is on a May 31st fiscal period. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. The Organization received \$3,514,736 in CHC grant funds and \$600,071 in HCH funds during the year ended December 31, 2014. These amounts are included in federal 330 grant revenue on the statement of activities.

In 2012, the Organization was awarded \$5,000,000 under the Affordable Care Act (ACA) – Capital Development Grant program for the period of May 1, 2012, to April 30, 2015, for the construction and renovation of their facility. The Organization received \$2,031,068 in Capital Development grant funds during the year ended December 31, 2014. These amounts are included in temporarily restricted net assets (see *Note 15*).

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
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In addition, the Organization receives additional financial support from other federal, state, county and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants or contracts.

Note 3: Net Patient Service Revenue

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

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medi-Cal. Covered FQHC services rendered to Medi-Cal program beneficiaries are paid on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under the plan. The Health Center has an agreement with County Organized Health Systems (COHS) a Medi-Cal Managed Care Organization (MCO) to provide medical services to subscribing participants. Under this agreement, the Health Center receives monthly capitation payments based on the number of MCO participants, regardless of the services actually performed by the Health Center. In addition, the MCO makes fee-for-service payments to the Health Center for certain services. Any payments received from the MCO must be reconciled annually with the State of California to insure the Health Center is not being paid in excess of their prospective payment system rate.

Approximately 93 percent of net patient service revenues and third-party settlement revenues are from participation in the Medicare and state-sponsored Medi-Cal programs for the year ended December 31, 2014. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Patient service revenue, net of contractual allowances and discounts, recognized for the year ended December 31, 2014, was approximately:

Medicaid	\$ 15,914,542
Medicare	3,856,475
Private insurance	850,172
Self-pay	<u>540,991</u>
 Total	 <u><u>\$ 21,162,180</u></u>

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2014, was:

Medicare	32%
Medi-Cal	61%
Private insurance	6%
Other third-party payers and patients	<u>1%</u>
	<u><u>100%</u></u>

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Note 5: Receivables

Patient, grants and other receivables consist of:

Patient accounts receivable, gross	\$ 3,532,786
Allowance for uncollectible accounts	<u>(1,438,260)</u>
Patient accounts receivable, net	<u>\$ 2,094,526</u>
Grants and contracts due in less than one year	<u>\$ 2,808,047</u>
Other receivables	
Amount due from 340B vendors	\$ 1,592,495
Amount due from others	<u>177,758</u>
	<u>\$ 1,770,253</u>

Note 6: Property and Equipment

Property and equipment, net, consisted of the following at December 31, 2014:

Land and improvements	\$ 5,141,064
Buildings and improvements	10,626,641
Leasehold improvements	742,065
Furniture and fixtures	94,154
Office equipment	432,234
Medical and dental equipment	913,260
Vehicles	615,169
Computer hardware and software	1,836,371
Construction in progress	<u>5,750,380</u>
	26,151,338
Accumulated depreciation	<u>(7,549,464)</u>
Property and equipment - net	<u>\$ 18,601,874</u>

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
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Construction in progress at December 31, 2014, primarily related to costs associated with the expansion of the clinic at 1035 Placer Street, Redding, California, and is expected to be completed by Spring of 2015. The project is funded by a \$5,000,000 capital development grant from the U.S. Department of Health and Human Services and \$5,210,400 from new market tax credit financing (*Note 13*). Also included in construction in progress at December 31, 2014, was capitalized interest of \$237,021.

Note 7: Notes Receivable

In conjunction with the New Market Tax Credit transaction (see *Note 13*), the Health Center issued two unsecured note receivables. Note A was issued in the amount of \$5,000,000 and Note B was issued in the amount of \$7,249,600.

Note A matures on December 31, 2020, and interest accrues monthly at a rate of 1.385%. Interest-only payments are due quarterly beginning March 10, 2014, with a final payment of all principal and unpaid interest due upon maturity.

Note B matures on December 31, 2043, and interest accrues monthly at a rate of 1.385%. Interest-only payments are due quarterly beginning March 10, 2014, for seven years. Beginning March 10, 2021, principal and interest payments of \$75,000 are due quarterly. Beginning March 10, 2022, principal and interest payments of \$80,000 are due quarterly. Beginning March 10, 2023, principal and interest payments of \$85,000 are due quarterly. Beginning March 10, 2024, principal and interest payments of \$90,000 are due quarterly. Beginning March 10, 2025, and through maturity principal and interest payments of \$94,542 are due quarterly.

The balances of the Note A and Note B at December 31, 2014, were \$5,000,000 and \$7,249,600, respectively.

Note 8: Long-Term Debt

The Organization has an unsecured line of credit with Bank of Commerce Redding for \$1,500,000. The line of credit expires on August 1, 2016. Borrowings under the line of credit bear interest at prime plus 0.5% with a minimum rate of 4.875%. There have been no borrowings as of December 31, 2014.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

The Organization has long-term debt of the following:

	Long-Term Debt (Excluding Leases)	Capital Lease Obligations
Note payable to California Health Facilities Association payable \$2,617 monthly, including interest at 3%, due August 2024, secured by real property in the City of Shasta Lake.	\$ 265,219	\$ -
Note payable to California Health Facilities Association payable \$6,666 monthly, including interest at 3%, due March 2015, secured by equipment.	19,900	-
Bridge loan in the original amount of \$5,000,000 payable to the Low Income Investment Fund (LIIF), bearing interest at 5.75%. Interest payable quarterly in arrears commencing January 1, 2014, and on the first day of each January, April, July and October through April 1, 2015. Principal payments are due within two (2) business days after receipt of any proceeds drawn from the \$5,000,000 HRSA capital grant, and a maturity date of April 30, 2015. Loan is secured by real property.	2,765,849	-
Qualified low income investment loan from a qualified equity investor (QEI), LIIF in the original amount of \$5,000,000, bearing interest at 1.2628%. Interest only payments are payable on the 1st day of March, June, September and December. All unpaid principal and interest due December 31, 2020. Loan is secured by real property.	5,000,000	-
Qualified Low Income Community Investment (QLICI) loans from a qualified equity investors (QEI) in the original amounts of \$12,460,000 bearing interest at 1.2628%. Interest only payments are payable on the 1st day of March, June, September and December. Quarterly interest and principal payments commence January 1, 2021, due on the first day of March, June, September and December of each year, through December 1, 2043. All accrued interest and unpaid principal due December 31, 2043. Loan is secured by real property.	12,460,000	-
Capital lease obligation to Cisco Systems Capital Corporation, payable \$6,145 monthly, including interest at 4%, secured by certain equipment, due September 2016. Equipment under capital lease total \$334,152 less \$211,629 of accumulated depreciation.	-	124,161
Capital lease obligation to GE Capital, payable \$555 monthly, including interest at 10.577%, secured by certain equipment, due August 2015. Equipment under capital lease total \$17,138 less \$13,330 of accumulated depreciation.	-	4,269
	<u>20,510,968</u>	<u>128,430</u>
Less current maturities	<u>2,809,525</u>	<u>74,559</u>
	<u>\$ 17,701,443</u>	<u>\$ 53,871</u>

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Note 10: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Capital improvements	\$ 4,799,949
Medical services	43,672
Dental services for indigent patients	15,376
Outreach and education	7,218
Purchase of equipment and facility construction	<u>8,015</u>
	<u><u>\$ 4,874,230</u></u>

Note 11: Operating Leases

The Organization has operating leases for certain facilities which expire in various years through 2019. These leases generally contain renewal options for periods ranging from one to ten years.

Future minimum lease payments at December 31, 2014, are:

2015	\$ 192,175
2016	147,608
2017	151,256
2018	26,000
2019	26,000
Thereafter	<u>14,000</u>
Future minimum lease payments	<u><u>\$ 557,039</u></u>

Rent expense under operating leases totaled \$301,209 for the year ended December 31, 2014.

Note 12: Retirement Plan

The Organization has adopted an Internal Revenue Code Section 403(b) defined contribution plan covering substantially all employees. The Organization provides a matching contribution equal to 100% of each participant's eligible contribution that does not exceed 5% of compensation. Retirement plan expense of \$535,983 was recognized during the year ended December 31, 2014.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Note 13: New Market Tax Credits

On December 5, 2013, the Health Center and SCHC Property Corporation entered into a transaction which generated “New Market Tax Credits” (NMTCs) under Section 45D of Internal Revenue Code of 1986, as amended (Section 45D). The transaction was initiated by U.S. Bancorp Community Development Corporation (Investor Member) who contributed \$11,846,400 to an investment fund established for the transaction.

The investment fund also secured two loans from the Health Center totaling \$12,249,600 (see *Note 7*). The investment fund used the loan proceeds to return equity to the Investor Member in the amount of \$6,090,000. The remaining contributions and loan proceeds were used to pay certain transaction fees and the remaining funds were contributed to two third-party Qualified Community Development Entities (CDEs) as the Qualified Equity Investment (QEI) under Section 45D. The CDEs then funded loans totaling \$17,460,000 to SCHC Property Corporation, the Qualified Active Low-Income Business (QALICB) under Section 45D. The transaction was structured as 30-year debt financing with a 7-year NMTC compliance period, at the end of which time the Health Center will have the option to acquire all membership rights of the investment fund and thus eliminating the related debt.

SCHC Property Corporation used \$6,090,000 of the loan proceeds to purchase “Real Property” (Property) as described in the Purchase and Sale Agreement from the Health Center. The remaining loan proceeds are to be used for the three story building addition of approximately 72,875 sq. ft. of clinical and administrative space for use by the Health Center. The Property is located at 1035 Placer Street in Redding, California. The debt is guaranteed and secured by the Property. The Property qualifies as low income property under Section 45D. As such, the financing arrangements between SCHC Property Corporation and the lenders qualify as a “qualified low-income community investment” (QLICI) and generate NMTCs.

The Health Center also contributed building costs totaling approximately \$430,000 directly to SCHC Property Corporation, which was eliminated in the consolidated financial statements. The Health Center and SCHC Property Corporation entered into a rental agreement on December 5, 2013, for which the Health Center rents the building from SCHC Property Corporation. Rent payments in the amount of \$20,000 were made during 2014, which was eliminated for the purposes of the consolidated financial statements. Upon completion of construction (estimated to be July 1, 2015) rent payments between the two corporations will be \$37,126 per quarter which will increase approximately 2.5% each year through November 25, 2020. The rental expense and rental income will be intercompany transactions that will be eliminated in future years for purposes of the consolidated financial statements.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Grant Revenues

A concentration of revenues related to grant awards and other support is described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 3*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 9*.

Self-Insurance

Under the Organization's insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Organization retains a significant portion of certain expected losses related primarily to employee health, dental and vision and unemployment coverage.

Provision for losses expected under these programs are recorded based upon the Organization's estimates of the aggregated liability for claims incurred and totaled approximately \$302,000 at December 31, 2014. The amount of actual losses incurred could differ materially from these estimates. Under the terms of the insurance policy, the Organization is at risk for covered claims submitted not to exceed \$60,000 per person per year. The Organization is indemnified for claims in excess of \$1,000,000 in aggregate by the stop-loss commercial coverage.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of California has currently indicated it will participate in the Medicaid expansion program. The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Health Center's net patient service revenue. In addition, it is possible the Health Center will experience payment delays and other operational challenges during PPACA's implementation.

Economic Conditions

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation and government health care program participation requirements and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs with the imposition of significant fines and penalties as well as significant repayments for patient services previously billed.

Laws and regulations concerning government programs, including Medicare, Medicaid and various other programs, are complex and subject to varying interpretation. As a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines and penalties and exclusion from related programs. The Organization expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these regulations, and it is not possible to determine the effect (if any) such claims or penalties would have upon the Organization.

Shasta Community Health Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

Note 15: Departure From Accounting Principles Generally Accepted in the United States of America

The Organization received a capital grant from the U.S. Department of Health and Human Services and recorded the capital grant as a nonexchange transaction, by recording temporarily restricted revenue, accounts receivable and temporarily restricted net assets associated with the grant in the accompanying consolidated financial statements. As it is the auditor's opinion that this grant is considered an exchange transaction, accounting principles generally accepted in the United States of America (GAAP) does not allow for the recognition of temporarily restricted revenue, related accounts receivable and temporarily restricted net assets for exchange transactions at the time the award is received. Under GAAP, this exchange transaction is recorded as the Organization incurs outlays eligible under the grant agreement. The effects of this departure from GAAP at December 31, 2014, are shown below:

	As Reported	As Determined Under GAAP	Difference
Statement of Financial Position			
Grant and contracts receivable	\$ 2,808,047	\$ 42,198	\$ (2,765,849)
Temporarily restricted net assets	4,874,230	77,313	(4,796,917)
Net assets	29,096,744	26,330,895	(2,765,849)
Statement of Activities			
Grants, contracts and contributions	1,703,219	3,734,287	2,031,068
Change in net assets	1,539,330	3,570,398	2,031,068

Supplementary Information

Shasta Community Health Center, Inc.
Consolidating Schedule – Statement of Financial Position Information
December 31, 2014

	Shasta Community Health	SCHC Property Corporation	Eliminating Entries	Consolidated Total
Assets				
Current assets				
Cash	\$ 8,382,848	\$ 35,635	\$ -	\$ 8,418,483
Patient accounts receivable	2,094,526	-	-	2,094,526
Grants receivable	2,808,047	-	-	2,808,047
Other receivable	1,769,230	1,023	-	1,770,253
Amounts due from subsidiary	4,095	-	(4,095)	-
Supplies inventory	152,538	-	-	152,538
Prepaid expenses	334,352	22,665	(37,126)	319,891
Investments	9,731	-	-	9,731
Total current assets	<u>15,555,367</u>	<u>59,323</u>	<u>(41,221)</u>	<u>15,573,469</u>
Noncurrent assets				
Cash reserved for construction	3,032	6,278,089	-	6,281,121
Assets limited to use	-	675,400	-	675,400
Property and equipment, net	5,975,192	10,777,040	1,849,642	18,601,874
Deposits	296,006	-	-	296,006
Deferred financing costs	15,571	745,025	-	760,596
Notes receivable	12,249,600	-	-	12,249,600
Total noncurrent assets	<u>18,539,401</u>	<u>18,475,554</u>	<u>1,849,642</u>	<u>38,864,597</u>
Total assets	<u>\$ 34,094,768</u>	<u>\$ 18,534,877</u>	<u>\$ 1,808,421</u>	<u>\$ 54,438,066</u>
Liabilities and Net Assets				
Current liabilities				
Accounts payable	\$ 833,452	\$ 918,888	\$ -	\$ 1,752,340
Amounts payable to parent	-	4,095	(4,095)	-
Payroll and related expenses	1,305,144	-	-	1,305,144
Other accrued expenses	230,455	-	-	230,455
Deferred revenue	19,247	-	-	19,247
Estimated Medi-Cal settlements	1,058,205	-	-	1,058,205
Notes payable, current portion	2,809,525	-	-	2,809,525
Capital lease payable, current portion	74,559	-	-	74,559
Estimated self-insurance costs	301,757	-	-	301,757
Total current liabilities	<u>6,632,344</u>	<u>922,983</u>	<u>(4,095)</u>	<u>7,551,232</u>
Noncurrent liabilities				
Notes payable	241,443	17,460,000	-	17,701,443
Capital leases payable	53,871	-	-	53,871
Deferred rent	34,776	37,126	(37,126)	34,776
Total noncurrent liabilities	<u>330,090</u>	<u>17,497,126</u>	<u>(37,126)</u>	<u>17,790,090</u>
Net assets				
Unrestricted	20,258,104	114,768	1,849,642	22,222,514
Unrestricted, designated	2,000,000	-	-	2,000,000
Temporarily restricted	4,874,230	-	-	4,874,230
Total net assets	<u>27,132,334</u>	<u>114,768</u>	<u>1,849,642</u>	<u>29,096,744</u>
Total liabilities and net assets	<u>\$ 34,094,768</u>	<u>\$ 18,534,877</u>	<u>\$ 1,808,421</u>	<u>\$ 54,438,066</u>

Shasta Community Health Center, Inc.
Consolidating Schedule – Statement of Activities Information
Year Ended December 31, 2014

	Shasta Community Health Center		SCHC Property Corporation		Eliminating Entries	Consolidated Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
Revenue						
Net patient service revenue	\$ 21,162,180	\$ -	\$ -	\$ -	\$ -	\$ 21,162,180
DHHS grant	3,845,888	-	-	-	-	3,845,888
340B revenue	3,899,854	-	-	-	-	3,899,854
Meaningful use funds	365,500	-	-	-	-	365,500
Interest income	176,370	-	-	-	-	176,370
Other revenue	1,486,450	-	20,000	-	(20,000)	1,486,450
Total revenue	<u>30,936,242</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>	<u>30,936,242</u>
Support						
Grants, contracts and contributions	1,724,992	247,146	-	-	-	1,972,138
In-kind contributions	1,484,375	-	-	-	-	1,484,375
Total support	<u>3,209,367</u>	<u>247,146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,456,513</u>
Net Assets Released from Restriction						
Satisfied by purpose	194,648	(194,648)	-	-	-	-
Satisfied by purchase of property and equipment	31,456	(31,456)	-	-	-	-
Total net assets released from restrictions	<u>226,104</u>	<u>(226,104)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>34,371,713</u>	<u>21,042</u>	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>	<u>34,392,755</u>
Expenditures						
Programs services	24,436,136	-	-	-	-	24,436,136
Supporting services	8,109,171	-	326,765	-	(20,000)	8,415,936
Total expenditures	<u>32,545,307</u>	<u>-</u>	<u>326,765</u>	<u>-</u>	<u>(20,000)</u>	<u>32,852,072</u>
Loss on investments	359	-	-	-	-	359
Loss on retirement of assets	994	-	-	-	-	994
Other loss	1,353	-	-	-	-	1,353
Total expenses and losses	<u>32,546,660</u>	<u>-</u>	<u>326,765</u>	<u>-</u>	<u>(20,000)</u>	<u>32,853,425</u>
Change in Net Assets	1,825,053	21,042	(306,765)	-	-	1,539,330
Net Assets, Beginning of Year	<u>20,433,051</u>	<u>4,853,188</u>	<u>421,533</u>	<u>-</u>	<u>1,849,642</u>	<u>27,557,414</u>
Net Assets, End of Year	<u>\$ 22,258,104</u>	<u>\$ 4,874,230</u>	<u>\$ 114,768</u>	<u>\$ -</u>	<u>\$ 1,849,642</u>	<u>\$ 29,096,744</u>

Shasta Community Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Cluster/Program	Federal Agency/Pass- Through Entity	CFDA Number	Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 00832-13-06	\$ 2,177,346
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80 CS 00832-13-06	<u>1,937,461</u>
Total Health Center Cluster				<u>4,114,807</u>
Affordable Care Act Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	1 C8A CS 23783-01-03	<u>2,031,068</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	5 H76 HA 00616-15-02	172,106
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	5 H76 HA 00616-14-03	<u>104,166</u>
Total				<u>276,272</u>
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	U.S. Department of Health and Human Services / Regents of the University of California / Health Alliance of Northern California	93.107	U77 HP23071-02-00	<u>6,900</u>
Community Development Block Grant for Entitlement Communities	U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) / City of Redding	14.218	B -12-MC 06-0033	<u>3,913</u>
Emergency Food and Shelter National Board Program	U.S. Department of Homeland Security Federal Emergency Management Agency / United Way Worldwide / Shasta County Department of Housing and Community Action Programs	97.024	LRO: 089600-024 Phase 31	<u>170</u>
Total expenditures of federal awards				<u>\$ 6,433,130</u>

Shasta Community Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Notes to Schedule

1. This schedule includes the federal awards activity of Shasta Community Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Shasta Community Health Center, Inc. did not provide a federal award to a subrecipient during the year ended December 31, 2014.

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

Board of Directors
Shasta Community Health Center, Inc.
Redding, 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 consolidated financial statements of Shasta Community Health Center, Inc. (the “Organization”), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 20, 2015, which expressed a qualified opinion due to a departure from accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 Organization’s consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Directors
Shasta Community Health Center, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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*.

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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
April 20, 2015

Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Shasta Community Health Center, Inc.
Redding, California

Report on Compliance for Each Major Federal Program

We have audited the compliance of Shasta Community Health Center, Inc. (the "Organization") 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 its major federal programs for the year ended December 31, 2014. The Organization'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 Shasta Community Health Center, Inc.'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 Organization'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 on the Organization's compliance.

Board of Directors
Shasta Community Health Center, Inc.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Shasta Community Health Center, Inc. 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 Organization'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 our 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 Organization'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. 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.

BKD, LLP

Springfield, Missouri
April 20, 2015

Shasta Community Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Consolidated Health Centers	93.224 and 93.527
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Shasta Community Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Shasta Community Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Shasta Community Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2014

Reference Number	Finding	Status
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No matters are reportable.