

Audited Financial Statements

Santa Rosa Community Health Centers

For The Years Ended June 30, 2014 and 2013

Santa Rosa Community Health Centers

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

Board of Directors
Santa Rosa Community Health Centers
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Rosa Community Health Centers. (the "Center"), which comprise the balance sheets as of June 30, 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 balance sheets of Santa Rosa Community Health Centers as of June 30, 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 October 23, 2014, 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.

TCA Partners, LLP

Fresno, California

October 23, 2014

Santa Rosa Community Health Centers
Balance Sheets
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,610,899	\$ 5,020,652
Assets limited as to use:		
Held by trustee	396,938	395,959
Board designated assets	268,298	268,298
Patient accounts receivable, net	5,868,700	3,272,685
Grant, contracts, and other receivables	738,794	1,304,213
Prepaid expenses and other assets	98,388	173,340
Total current assets	16,982,017	10,435,147
Restricted assets	18,079	16,633
Assets limited as to use:		
Held by trustee	955,206	972,551
Bond issuance costs	1,261,278	1,310,419
Property and equipment, net	16,093,949	14,045,875
Total assets	\$ 35,310,529	\$ 26,780,625
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Long-term debt, current portion	\$ 265,000	\$ 255,000
Accounts payable and other accrued expenses	745,779	592,465
Accrued payroll and related liabilities	1,793,870	1,512,897
Deferred revenue	781,202	145,798
Estimated third- party payor settlements	416,082	432,505
Accrued bond interest	286,216	289,404
Total current liabilities	4,288,149	3,228,069
Long-term debt	12,500,000	12,765,000
Total liabilities	16,788,149	15,993,069
Net Assets:		
Permanently restricted	18,079	16,633
Unrestricted	18,504,301	10,770,923
Total liabilities and net assets	\$ 35,310,529	\$ 26,780,625

See accompanying Notes to the Financial Statements

Santa Rosa Community Health Centers
Statements of Operations and Changes in Net Assets
For the years ended June 30, 2014 and 2013

	2014	2013
Change in Unrestricted Net Assets:		
Revenue and other support:		
Patient and third party revenue, net	\$ 29,497,863	\$ 23,004,749
Grants revenues	6,145,555	5,797,197
Contributions	1,631,050	1,410,242
Other income	4,811,944	4,942,476
Assets released from restrictions	-	88,125
Total unrestricted revenue and other support	42,086,412	35,242,789
Expenses:		
Salaries and benefits	26,298,429	23,118,006
Medical contractual services	2,790,466	2,814,020
Purchased services	1,743,896	1,549,131
Supplies	1,799,079	1,464,608
Communications	171,706	131,085
Repairs and maintenance	697,111	345,242
Facility costs	980,261	789,396
Insurance	122,806	112,056
Depreciation and amortization	987,994	946,632
Interest	691,379	699,006
Other	736,745	773,670
Total expenses	37,019,872	32,742,852
Excess of revenues over expenses	5,066,540	2,499,937
Grants for acquisition of property and equipment	2,666,838	596,043
Change in unrestricted net assets	7,733,378	3,095,980
Change in Temporarily Restricted Net Assets:		
Net assets released from restriction	-	(87,848)
Restricted net assets reclassified to liability	-	(24,965)
Change in temporarily restricted net assets	-	(112,813)
Change in Permanently Restricted Net Assets:		
Restricted contributions	1,446	-
Net assets released from restriction	-	(277)
Change in permanently restricted net assets	1,446	(277)
Change in net assets	7,734,824	2,982,890
Net Assets:		
Beginning of year	10,787,556	7,804,666
End of year	\$ 18,522,380	\$ 10,787,556

See accompanying Notes to the Financial Statements

Santa Rosa Community Health Centers
Statements of Cash Flows
For the years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 7,734,824	\$ 2,982,890
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	987,994	946,632
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,596,015)	772,641
Grant, contracts, and other receivables	565,419	(407,620)
Prepaid expenses and other assets	74,952	(67,570)
Accounts payable and other accrued expenses	153,314	(45,645)
Accrued payroll and related liabilities	280,973	98,956
Deferred revenue	635,404	(25,035)
Accrued bond interest	(3,188)	(3,125)
Estimated third-party payor settlements	(16,423)	432,505
Net cash provided by operating activities	7,817,254	4,684,629
Cash flows from investing activities:		
Change in board designated assets	-	(268,298)
Change in restricted assets	(1,446)	277
Change in assets held by trustee	16,366	262,158
Acquisition of property and equipment	(2,986,927)	(2,404,150)
Net cash used in investing activities	(2,972,007)	(2,410,013)
Cash flows from financing activities:		
Principal payments on long-term debt	(255,000)	(250,000)
Net cash used in financing activities	(255,000)	(250,000)
Net increase in cash and cash equivalents	\$ 4,590,247	\$ 2,024,616
Cash and Cash Equivalents:		
Cash at beginning of year:	5,020,652	2,996,036
Cash at end of year:	\$ 9,610,899	\$ 5,020,652
Supplemental disclosure of cash flow information:		
Interest paid	\$ 691,379	\$ 699,006

See accompanying Notes to the Financial Statements

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies

Organization:

Santa Rosa Community Health Centers (the “Center”) is a not-for-profit, public benefit corporation located in Santa Rosa, California. The Center is licensed as a Federally Qualified Health Center (FQHC) and provides patient care at several outpatient clinic sites. The Center provides high quality and cost effective primary care, preventive care, dental care, and supportive services to the low-income and culturally diverse communities of Sonoma County and is a partner in the training of Family Practice Residents. Revenues are generated primarily from government grants, contracts, patient share of payments and third-party insurance and episodic care payments.

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting, recognizing revenues when earned and expenses when incurred.

Temporarily and Permanently Restricted Net Assets:

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

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. This includes board designated funds, which have been set aside.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may be, or will be, met either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the statement of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that the Center maintains permanently. Generally, the donors of these assets permit the Center to use all or part of the income earned on any related investments for general purposes.

Cash and Cash Equivalents:

The Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Center routinely invests surplus operating funds in highly liquid instruments, such as money markets or mutual funds. Of the cash balances as of June 30, 2014 \$8,943,525 was covered by federal depository insurance and \$927,847 was uninsured.

Assets Limited as to Use:

Assets held by trustee consist of cash held under bond indenture agreements.

Board designated assets include assets set aside by the Board of Directors for specific reasons, such as future capital improvements, over which the Board retains control and may subsequently use for other purposes at its discretion.

Restricted assets are those assets permanently restricted by a donor.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable:

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Center bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off based on individual credit evaluation and specific circumstances of the account.

Property, Building and Equipment:

Land, building and equipment are recorded at cost at the date of acquisition. The Organization capitalizes all acquisitions of \$5,000 or greater. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from three to forty years. Leasehold improvements are amortized on a straight-line method over the estimated useful life of the improvement or the term of the lease, whichever is less. Construction-in-progress is recorded at cost and is capitalized upon completion. Interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

Bond Issuance Cost

Loan fees and other deferred financing costs capitalized as a result of the issuance of bonds are amortized over the period the obligations using the straight-line method.

Third-Party Contractual Agreements:

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

Estimated Third-party Payor Settlements

Third party payor settlements represent estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates applicable to these financial statements include: the collectability of accounts receivable, useful lives of property and equipment, and third-party payor settlements.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition:

Patient service revenue is recorded at the Center's established rates adjusted for sliding fee scale discounts, provisions for uncollectible accounts and third-party contractual allowances to arrive at net service revenue. Revenue from government grants and contracts restricted for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded are reported as unrestricted non-operating revenue, in absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as deferred revenue.

At June 30, 2014 and 2013, the Center has received payment of conditional grants, contracts and loans from grantors in the aggregate amount of \$710,369 and \$24,965, respectively; that have been recognized as deferred revenue until actually earned. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the specified periods the Center may have to pay back the funds received.

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 Sec 23701(d).

The Center files a United States federal tax return and a California state tax return and has determined that its major tax jurisdictions are the United States and California. The tax years of 2010 through 2013 remain open and subject to examination by the appropriate government agencies in the United States and California.

Charity Care:

The Center provides care without charge or at amounts less than established rates, to patients who meet certain criteria under a charity care policy. Because the Center does not pursue collection of amounts determined to qualify as charity care, it is not reported as revenue.

Donated Services, Materials and Facilities: The Center regularly solicits contributions of services, materials, and facilities from the community. These contributions are recorded at fair market value as contribution revenue and contract service, supply, or facility expense. The Center has estimated the approximate fair value of the services and supplies contributed in the year ended June 30, 2014 and 2013 to be \$1,424,227 and \$1,185,476, respectively.

Subsequent Events:

The Company has evaluated all events and transactions that occurred after June 30, 2014, and through October 23, 2014, 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.

Reclassification:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 2: 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 and Level 2 of the fair-value hierarchy. The types of securities valued based on Level 1 inputs include money market securities, stocks, and certificates of deposit. The types of securities valued based on Level 2 inputs include corporate bonds. 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 June 30, 2014:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
June 30, 2014:				
Money market	\$ 1,543,146	\$ 1,543,146	\$ -	\$ -
Certificates of deposit	743,916	743,916	-	-
Total	\$ 2,287,062	\$ 2,287,062	\$ -	\$ -
June 30, 2013:				
Money market	\$ 687,276	\$ 687,276	\$ -	\$ -
Corporate bonds	681,235	-	681,235	-
Certificates of deposit	741,969	741,969	-	-
Stock	25,994	25,994	-	-
Total	\$ 2,136,474	\$ 1,455,239	\$ 681,235	\$ -

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.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 3: Assets Limited as to Use

As of June 30, 2014 and 2013, assets limited as to use held by trustee were \$1,352,144 and \$1,368,510, respectively. Assets held by trustee are held by fiscal agents to be used only for specific purposes including: capital outlay, payments of certain long-term debt and maintaining required reserves.

The Board of Directors had designated cash equivalents and investments totaling of \$268,298 and \$268,298 for the Center's capital requirements and emergency purposes as of June 30, 2014 and 2013, respectively.

Note 4: Patient Accounts Receivable

Patient accounts receivable were comprised of the following payors at June 30, 2014 and 2013:

	2014	2013
Medicare	\$ 231,979	\$ 563,857
Medi-Cal	6,231,954	2,690,817
Other third-party payors	945,531	1,037,436
Private pay	611,366	619,947
Gross patient accounts receivable	8,020,831	4,912,057
Less allowances for contractual adjustments	(2,152,131)	(1,639,372)
Total patient accounts receivable, net	\$ 5,868,700	\$3,272,685

Note 5: Grants, Contracts and Other Receivables

Grants and contract receivables are comprised of the following at June 30, 2014 and 2013:

	2014	2013
Community Health Center – Section 330 Grant	\$ 268,718	\$ 234,318
HIV Care Formula Grant (Ryan White Part B)	59,143	326,665
Ryan White Part C	26,825	42,732
County of Sonoma – MHSA CIP	83,616	136,590
CFHC – Basic Contraceptive	33,659	39,416
Nurse Education Practice, Quality & Retention	31,087	9,418
Affordable Care Act – Capital Development Grant	18,725	45,418
RCHN PIP	-	145,359
Other	217,021	324,297
Total	\$ 738,794	\$ 1,304,213

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 6: Property and Equipment

Land, building and equipment at June 30, 2014 and 2013 was comprised of the following:

	2014	2013
Land	\$ 1,900,000	\$ 1,500,000
Building and building improvements	13,040,441	11,469,050
Leasehold improvements	1,667,089	1,646,241
Equipment	3,515,608	2,456,002
Construction in progress	56,065	120,983
Subtotal	20,179,203	17,192,276
Accumulated depreciation	(4,085,254)	(3,146,401)
Total	\$ 16,093,949	\$ 14,045,875

Depreciation expense for the years ended June 30, 2014 and 2013 amounted to \$938,853 and \$897,492, respectively.

Note 7: Other Assets

Other assets at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Bond discount	\$ 208,979	\$ 208,979
Bond issuance costs	287,771	287,771
Underwriter's discount	99,525	99,525
Mortgage premium	824,867	824,867
Mortgage fees	53,080	53,080
	1,474,222	1,474,222
Less: accumulated amortization	(212,944)	(163,803)
	\$ 1,261,278	\$ 1,310,419

Amortization expense for the years ended June 30, 2014 and 2013 amounted to \$49,141 and \$49,141, respectively.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 8: Deferred Revenue

Deferred revenue consisted of the following at June 30, 2014 and 2013:

	2014	2013
Sutter West Bay Hospitals deferred rent revenue	\$ 70,833	\$ 120,833
Sonoma County – Dental Start Up	490,373	-
Care Transitions Sonoma County	68,789	-
Medtronic Diabetes	68,970	-
Other	82,237	24,965
Total	\$ 781,202	\$ 145,798

Note 9: Long-term Debt

Long-term debt at June 30, 2014 and 2013 consists of the following:

	2014	2013
California Municipal Finance Authority Insured Revenue Bonds Series 2010, principal maturing in varying annual amounts starting February 1, 2013 and ending February 1, 2040 having varying coupon rates ranging from 3% to 6.125%. These are collateralized by a Deed of Trust made as of February 1, 2010.	\$12,765,000	\$13,020,000
Total long-term debt	12,765,000	13,020,000
Less: current portion	(265,000)	(255,000)
	\$12,500,000	\$12,765,000

Under the terms of the indenture agreements, the Center is required to maintain certain deposits with a trustee. Such deposits are recorded as assets limited as to use cash in the Balance Sheets. The indenture agreements place limits on the occurrence of additional borrowings and require that the Center satisfy a debt of service coverage ratio as long as the bonds are outstanding. As of June 30, 2014 and 2013, the Center was in compliance with the various loan covenants associated with the trust agreements.

Future principal payments are as follows for the years ended June 30:

Year	Principal
2015	265,000
2016	270,000
2017	280,000
2018	290,000
2019	300,000
Thereafter	11,360,000
Total	\$12,765,000

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 10: Net Patient Revenue

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

Medicare - Medical services rendered to Medicare program beneficiaries are paid under a cost-based reimbursement system. The Center is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of the annual cost report by the Center and audit thereof by the fiscal intermediary. All such reports have been audited by Medicare through June 30, 2013.

Medi-Cal - Medical and dental services rendered to Medi-Cal beneficiaries are paid under the Prospective Payment System (PPS) using rates established by the Center's "Base Year" cost report filed under the previous cost based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center's scope of service. The Center's PPS reconciliations have been audited by Medi-Cal through June 30, 2011, for all sites; and for additional years for certain sites.

Managed care contracts and other - The Center has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Center under these agreements includes such methods as reimbursed costs, discounts from established rates, pre-determined fees for service, percentage of charges, and others.

Note 11: Concentration of Credit Risk

The Center grants credit without collateral to its patients and third-party payors. Patient accounts receivable from the government agencies administering the Medicare and the Medi-Cal programs and private insurance companies administering the Medi-Cal Managed Care programs represent the only concentrated group of credit risk for the Center and management does not believe that there are significant credit risks associated with these agencies and private insurance companies. Other contracted and private pay patient receivables consist of payors and individuals involved in diverse activities, subject to differing economic conditions and does not represent any concentrated risks to the center. Significant concentrations of net patient accounts receivable as of June 30, 2014 and 2013 are as follows:

	2014	2013
Medicare	3%	11%
Medi-Cal	77%	55%
Private Pay	12%	13%
Private Insurance	8%	21%
	100%	100%

Note 12: Retirement Plan

The Center sponsors a tax-deferred annuity plan qualified under section 403(b) of the Internal Revenue Code. All employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code at their discretion. The Center's contribution to the plan is based on the employees' compensation and years of service and totaled \$278,849 and \$222,135 for the years ended June 30, 2014 and 2013, respectively.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 13: Commitments and Contingencies

Operating leases - The Center leases certain facilities and equipment under operating leases expiring at various times through 2021. The future minimum lease payment for the succeeding years under these committed lease arrangements is approximately: \$638,554 in 2015; \$340,049 in 2016; \$207,302 in 2017, \$213,554 in 2018, \$168,430 in 2019, and \$311,029 thereafter.

Litigation, malpractice, and workers' compensation claims - The Center is deemed an employee of the federal government and is covered for malpractice insurance under the Federal Tort Claims Act ("FTCA"). The Center has on-going litigation claims as result of its normal course of operations; however, in the opinion of management, these claims will be fully covered by the Center's insurance coverage and will not have a material adverse effect upon the financial statements.

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.

Third-party settlement - Medicare and Medi-Cal reimburse the Center at a tentative rate with a final settlement determined after the audit of the annual cost report submitted by the Center. Depending on the result of the audit, the Center might be obligated to refund part of the reimbursement to Medicare and Medi-Cal or vice versa. As of June 30, 2014 and 2013, the Center has recorded a liability related to third-party settlements in the amounts of \$416,082 and \$432,505, respectively.

Note 14: International Grants

The Center received a Developing Direct Services to Survivors of Torture grant from the United Nations Voluntary Fund for Victims of Torture. The grant period began January 1, 2012 and consists of two annual payments of \$20,000.

Note 15: Functional Expenses

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

	2014	2013
Healthcare services	\$ 30,068,284	\$ 26,305,876
General and administrative	6,951,588	6,436,976
Total	\$ 37,019,872	\$ 32,742,852

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2014 and 2013

Note 16: Related Party Transactions

The Center is a member of the Redwood Community Health Coalition (“RCHC”), which is a network of 17 community health centers. RCHC provides member health centers infrastructure, expertise, and program support on a contractual basis. RCHC also owns a subsidiary, Redwood Community Health Network (“RCHN”), which manages contracts with managed care organizations for RCHC and provides hosting services and support related to electronic health records. RCHN also maintains a management agreement with Redwoods Community Care Organization LLC (“RCCO”), an independent for-profit organization, which has been accepted as a Medicare Accountable Care Organization through the Shared Savings Program to help facilitate coordination and cooperation among health care providers.

During the year end June 30, 2014, the Center’s Chief Executive Officer acted as the interim chief executive for RCHC, RCHN, and RCCO. The Center paid \$579,385 for services from RCHN and \$12,000 for services from RCHC in the year ending June 30, 2014. The Center paid \$522,419 for services from RCHN and \$12,000 for services from RCHC in the year ending June 30, 2013. The Center, along with the other founding community health center members, has agreed to provide \$50,000 as a loan to RCCO to help finance the start-up costs of the organization. As of June 30, 2014 the Center has loaned \$25,000 to RCCO, which is recorded as a receivable for the Center. By agreement these loans will be repaid with interest before any revenue sharing from Medicare is distributed to any of the members of the Accountable Care Organization.

The Center has agreements with Exchange Bank for various banking services, including checking and savings accounts, as well as retirement plan asset trustee. During the years ended June 30, 2014 and 2013, a member of the Center’s Board of Directors also was the Chairman of the Board at Exchange Bank. The Center paid \$31,551 in bank, credit card, and 403b fees to Exchange Bank in the year ending June 30, 2014. The Center paid \$12,845 in bank and credit card to Exchange Bank in the year ending June 30, 2013.

SINGLE AUDIT REPORTS

**Santa Rosa Community Health Centers
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014**

Federal Grant / Program Title	Federal CFDA Number	6/30/14
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES:		
Direct Programs:		
Community Health Cluster	*93.224	\$ 3,172,945
ACA – Grants for School-Based Health Centers Capital Program	93.501	40,303
Capital Development Grant	*93.526	2,626,535
Ryan White Part C Outpatient EIS Program	93.918	389,151
Ryan White Title IV	93.153	250,464
Nurse Education Practice, Quality & Retention	*93.359	319,411
Subtotal		<u>6,798,809</u>
Passed Through:		
California Family Health Council, Inc.:		
Family Planning Program Title X	93.217	152,056
CHIPRA	93.767	3,546
Implementation of Healthcare Reform	93.217	25,000
California Department of Public Health:		
Ryan White Part B HIV Care Formula	93.917	438,661
CDPH – Maternal, Child, Adolescent Health Division	93.778	25,292
		<u>644,555</u>
U.S. DEPARTMENT OF AGRICULTURE:		
Passed Through:		
Redwood Community Health Coalition:		
USDA Food and Nutrition Program	10.561	56,855
		<u>56,855</u>
Total federal financial assistance		<u>\$ 7,500,219</u>

* Denotes major program

**Santa Rosa Community Health Centers
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014**

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the expenditures of Santa Rosa Community Health Centers (the “Center”) under programs of the federal government for the year ended June 30, 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.

Note D: Pass-Through Awards

Santa Rosa Community Health Centers provided federal awards to subrecipients as follows:

Cluster/Program	Subrecipient	CFDA Number	Amount Expended
Ryan White Part B HIV Care Formula	West County Health Centers, Inc.	93.917	\$ 187,529
Community Health Cluster	Petaluma Health Centers	93.224	56,886
Community Health Cluster	West County Health Centers, Inc	93.224	71,964
			<u>\$ 316,379</u>

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

Independent Auditor's Report

Board of Directors
Santa Rosa Community Health Centers
Santa Rosa, 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 Santa Rosa Community Health Centers (the "Center"), which comprise the balance sheet as of June 30, 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 October 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Santa Rosa 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 Santa Rosa 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.

TCA Partners, LLP

Fresno, California

October 23, 2014

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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
Santa Rosa Community Health Centers
Santa Rosa, California

Report on Compliance for Each Major Federal Program

We have audited Santa Rosa Community Health Centers' (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 June 30, 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 Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, Santa Rosa 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 June 30, 2014.

Report on Internal Control Over Compliance

Management of Santa Rosa 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 June 30, 2014, and have issued our report thereon dated October 23, 2014, 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.

7CA Partners, LLP

Fresno California
October 23, 2014

**Santa Rosa Community Health Centers
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
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:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	<u> X </u> No

Major Programs

	<u>CFDA Number</u>
Community Health Custer	93.224
Capital Development Grant	93.526
Nurse Education Practice, Quality & Retention	93.359

Dollar threshold used to distinguish Types A and B programs	\$ 300,000	
Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No

**Santa Rosa Community Health Centers
Schedule of Findings and Questioned Costs
For the year ended June 30, 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