

Shasta Community Health Center

Independent Auditor's Reports and Consolidated
Financial Statements

December 31, 2019

Shasta Community Health Center
December 31, 2019

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Independent Auditor's Report

Board of Directors
Shasta Community Health Center
Redding, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Shasta Community Health Center (the "Health Center"), which comprise the consolidated statement of financial position as of December 31, 2019, 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 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 the 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 Health Center'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 Health Center'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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shasta Community Health Center as of December 31, 2019, 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.

Emphasis of Matters

As described in *Note 1* to the consolidated financial statements, in 2019, the Health Center adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, 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 audit 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 June 19, 2020, on our consideration of the Health Center'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 solely 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 effectiveness of the Health Center's 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's internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
June 19, 2020

Shasta Community Health Center
Consolidated Statement of Financial Position
December 31, 2019

Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Current Assets			
Cash and cash equivalents	\$ 12,689,934	\$ 62,105	\$ 12,752,039
Patient accounts receivable, net of allowance	1,622,846	-	1,622,846
Estimated amounts due from Medi-Cal settlements	1,780,099	-	1,780,099
Grants receivable	635,604	13,139	648,743
Other receivables	2,438,901	-	2,438,901
Supplies inventory	171,828	-	171,828
Prepaid expenses and other	1,345,742	-	1,345,742
Notes receivable	5,229,974	-	5,229,974
	<u>25,914,928</u>	<u>75,244</u>	<u>25,990,172</u>
Long-Term Assets			
Cash limited to use	175,860	-	175,860
Investments	10,694,209	-	10,694,209
Property and equipment, net of accumulated depreciation	31,994,139	-	31,994,139
Deposits	465,754	-	465,754
Estimated amounts due from Medi-Cal settlements	2,448,630	-	2,448,630
Notes receivable	13,526,250	-	13,526,250
	<u>59,304,842</u>	<u>-</u>	<u>59,304,842</u>
Total long-term assets	<u>59,304,842</u>	<u>-</u>	<u>59,304,842</u>
Total assets	<u>\$ 85,219,770</u>	<u>\$ 75,244</u>	<u>\$ 85,295,014</u>

Liabilities and Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
Current Liabilities			
Accounts payable	\$ 1,068,616	\$ -	\$ 1,068,616
Payroll and related accrued expenses	2,668,122	-	2,668,122
Other accrued expenses	408,180	-	408,180
Deferred revenue	24,026	-	24,026
Estimated amounts due to Medi-Cal settlements	643,634	-	643,634
Current maturities of long-term debt	5,151,325	-	5,151,325
Capital lease payable, current portion	3,549	-	3,549
Estimated self-insurance costs	750,000	-	750,000
Total current liabilities	<u>10,717,452</u>	<u>-</u>	<u>10,717,452</u>
Long-Term Liabilities			
Deferred compensation	147,560	-	147,560
Long-term debt, less current portion	24,554,865	-	24,554,865
Capital lease payable, less current portion	15,880	-	15,880
Total long-term liabilities	<u>24,718,305</u>	<u>-</u>	<u>24,718,305</u>
Total liabilities	<u>35,435,757</u>	<u>-</u>	<u>35,435,757</u>
Net Assets			
Without donor restrictions – undesignated	39,784,013	-	39,784,013
Without donor restrictions – designated by the Board for operating reserve	10,000,000	-	10,000,000
With donor restrictions	-	75,244	75,244
Total net assets	<u>49,784,013</u>	<u>75,244</u>	<u>49,859,257</u>
Total liabilities and net assets	<u>\$ 85,219,770</u>	<u>\$ 75,244</u>	<u>\$ 85,295,014</u>

Shasta Community Health Center
Consolidated Statement of Activities
Year Ended December 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Revenues, Gains and Other Support			
Revenue			
Net patient service revenue	\$ 34,104,019	\$ -	\$ 34,104,019
Federal 330 grant revenue	5,578,039	-	5,578,039
340B revenue	6,877,083	-	6,877,083
Meaningful use revenue	119,000	-	119,000
Interest income	258,995	5	259,000
Quality improvement revenue	2,575,300	-	2,575,300
Other revenue	326,790	524	327,314
Total revenue	<u>49,839,226</u>	<u>529</u>	<u>49,839,755</u>
Support			
Grants, contracts and contributions	2,773,919	657,793	3,431,712
In-kind contributions	1,515,497	-	1,515,497
Total support	<u>4,289,416</u>	<u>657,793</u>	<u>4,947,209</u>
Net Assets Released From Restrictions			
Satisfied by purpose	526,601	(526,601)	-
Satisfied by purchase of property and equipment	184,987	(184,987)	-
Total net assets released from restrictions	<u>711,588</u>	<u>(711,588)</u>	<u>-</u>
Total revenues, gains and other support	<u>54,840,230</u>	<u>(53,266)</u>	<u>54,786,964</u>
Expenses and Losses			
Medical	30,922,981	-	30,922,981
Dental	4,105,430	-	4,105,430
Mental health	3,402,524	-	3,402,524
Community education	538,016	-	538,016
Total program services	<u>38,968,951</u>	<u>-</u>	<u>38,968,951</u>
Management and general	13,092,072	-	13,092,072
Fundraising	250,792	-	250,792
Total expenses	<u>52,311,815</u>	<u>-</u>	<u>52,311,815</u>
Unrealized gain on investments	(431,640)	-	(431,640)
Loss on disposal of property and equipment	53,299	-	53,299
Total expenses and losses	<u>51,933,474</u>	<u>-</u>	<u>51,933,474</u>
Change in Net Assets	2,906,756	(53,266)	2,853,490
Net Assets, Beginning of Year	<u>46,877,257</u>	<u>128,510</u>	<u>47,005,767</u>
Net Assets, End of Year	<u>\$ 49,784,013</u>	<u>\$ 75,244</u>	<u>\$ 49,859,257</u>

Shasta Community Health Center
Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

	Medical	Dental	Mental Health	Community Education	Management and General	Fundraising	Total
Salaries and Related							
Salaries and wages	\$ 18,610,848	\$ 2,416,208	\$ 2,263,636	\$ 318,498	\$ 6,800,010	\$ 188,900	\$ 30,598,100
Payroll taxes	1,272,186	175,866	171,364	24,890	447,530	15,112	2,106,948
Worker's comp insurance	297,698	42,000	38,516	5,119	88,620	5,667	477,620
Recruitment and retention	18,278	1,787	1,982	153	265,141	-	287,341
Continuing education	90,627	9,112	22,510	-	33,187	3,778	159,214
Fringe benefits	2,891,492	439,701	356,442	63,139	1,086,116	28,335	4,865,225
Total salaries and related	<u>23,181,129</u>	<u>3,084,674</u>	<u>2,854,450</u>	<u>411,799</u>	<u>8,720,604</u>	<u>241,792</u>	<u>38,494,448</u>
Purchased Services							
Contracted clinician services	1,284,771	11,940	-	-	5,912	-	1,302,623
Contracted services, other	204,751	15,948	22,835	14,693	646,821	-	905,048
Laboratory services	59,550	104,583	201	-	6	-	164,340
Consulting services	68,028	-	29	7	68,828	-	136,892
Total purchased services	<u>1,617,100</u>	<u>132,471</u>	<u>23,065</u>	<u>14,700</u>	<u>721,567</u>	<u>-</u>	<u>2,508,903</u>
Supplies and Other							
Drugs and medications	665,662	1,335	13,850	-	3,136	-	683,983
Medical/dental supplies	459,640	225,273	39,894	1,200	18,541	-	744,548
Equipment costs	310,844	40,713	59,251	15,443	177,798	-	604,049
Professional liability insurance	41,066	-	-	-	3,543	-	44,609
Interest and bank charges	239,117	42,602	23,941	6,067	352,093	-	663,820
Office supplies	212,602	20,263	20,466	16,078	875,445	-	1,144,854
Bad debt and write-offs	472,617	29,902	67,784	-	1,698	-	572,001
Other expenses	401,614	23,900	64,575	43,154	524,460	-	1,057,703
Total supplies and other	<u>2,803,162</u>	<u>383,988</u>	<u>289,761</u>	<u>81,942</u>	<u>1,956,714</u>	<u>-</u>	<u>5,515,567</u>
Building and Occupancy							
Occupancy costs	695,639	258,080	70,759	10,843	1,004,782	9,000	2,049,103
Depreciation and amortization	1,141,420	246,217	133,523	18,732	688,405	-	2,228,297
Total building and occupancy	<u>1,837,059</u>	<u>504,297</u>	<u>204,282</u>	<u>29,575</u>	<u>1,693,187</u>	<u>9,000</u>	<u>4,277,400</u>
In-Kind							
Drugs and medications in-kind	1,314,235	-	30,418	-	-	-	1,344,653
Minor equipment in-kind	14,140	-	-	-	-	-	14,140
Lab services in-kind	156,156	-	548	-	-	-	156,704
Total in-kind	<u>1,484,531</u>	<u>-</u>	<u>30,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,515,497</u>
Total expenses	<u>\$ 30,922,981</u>	<u>\$ 4,105,430</u>	<u>\$ 3,402,524</u>	<u>\$ 538,016</u>	<u>\$ 13,092,072</u>	<u>\$ 250,792</u>	<u>\$ 52,311,815</u>

Shasta Community Health Center
Consolidated Statement of Cash Flows
Year Ended December 31, 2019

Operating Activities

Receipts from and on behalf of patients	\$ 34,926,577
Cash paid for third-party settlements	1,947,547
Receipts of grants and contributions	10,453,193
Payments to suppliers and employees	(49,960,122)
Interest received	259,000
Interest paid	(538,973)
Other operating receipts	10,748,323

Net cash provided by operating activities	7,835,545
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Investing Activities

Purchase of property and equipment	(4,878,568)
Purchase of investments	(6,094,985)
Proceeds from notes receivable	946,960

Net cash used in investing activities	(10,026,593)
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Financing Activities

Principal payments on long-term debt	(144,108)
Principal payments on capital leases	(2,724)

Net cash used in financing activities	(146,832)
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**Decrease in Cash, Restricted Cash and Restricted Cash
Equivalents**

(2,337,880)

**Cash, Restricted Cash and Restricted Cash Equivalents,
Beginning of Year**

15,265,779

**Cash, Restricted Cash and Restricted Cash Equivalents,
End of Year**

\$ 12,927,899

**Reconciliation of Cash, Restricted Cash and Restricted Cash
Equivalents to the Balance Sheets**

Cash in current assets	\$ 12,752,039
Cash and cash equivalents in cash limited to use	175,860

\$ 12,927,899

Supplemental Cash Flow Information

Property and equipment acquisitions included in accounts payable	\$ 43,164
Interest paid	\$ 538,973
Capital lease obligation incurred for property and equipment	\$ 22,153

Shasta Community Health Center
Consolidated Statement of Cash Flows
Year Ended December 31, 2019

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

Change in net assets	\$ 2,853,490
Loss on disposal of property and equipment	53,299
Depreciation and amortization	2,228,297
Amortization of debt issuance costs	48,047
Unrealized gains on investments	(431,640)
	4,751,493
Increase (decrease) in operating assets	
Patient and other accounts receivables	3,563,115
Grants and contracts receivable	(72,055)
Other current assets	(936,537)
Increase (decrease) in operating liabilities	
Accounts payable and accrued liabilities	(486)
Payroll and related liabilities	337,066
Other current liabilities	192,949
	192,949
Net cash provided by operating activities	\$ 7,835,545

Shasta Community Health Center
Notes to Consolidated Financial Statements
December 31, 2019

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

Nature of Activities

Shasta Community 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 (SPC) 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. The purpose of SPC 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. 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 17*). These loans were used for the expansion of the community health center.

Anderson Property Corporation (APC) is a private corporation organized under the laws of the State of California on February 13, 2017, and is wholly owned and controlled by Shasta Community Health Center. The purpose of APC is to hold the leasehold interest in the commercial building located at 2965 East Street, Anderson, California, which is leased to Shasta Community Health Center. Anderson 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 17*). These loans were used to construct a new health clinic of approximately 16,588 square feet in Anderson, California.

Principles of Consolidation

The consolidated financial statements include the accounts of Shasta Community Health Center and its wholly owned subsidiaries, SCHC Property Corporation and Anderson Property Corporation (collectively, the “Health Center”). All material intercompany 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
Notes to Consolidated Financial Statements
December 31, 2019

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 Health Center considers all liquid investments with initial maturities of three months or less to be cash equivalents. The Health Center 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).

Cash Reserved/Pledged

The Health Center has cash on deposit with a banking institution that are fee reserve accounts.

The fee reserve account, totaling \$175,860 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 17*).

At December 31, 2019, the Health Center's fee reserve accounts did not exceed federally insured limits.

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 Health Centers bills third-party payers directly and bills the patient when the patient's liability is determined. Management determines the estimated adjustments for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Health Center does not charge interest on past-due accounts. Patient receivables net of discounts are written off as bad debt expense when deemed uncollectible and are presented as a component of operating expenses. 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 Health Center expects to realize payment.

Shasta Community Health Center
Notes to Consolidated Financial Statements
December 31, 2019

Investments

Investments in equity 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 net assets without donor restrictions 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.

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 Health Center states supply inventories at the lower of cost, determined using the first-in, first-out method or net realizable value. 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 3 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 Health Center 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 Health Center's objectives or held for a specific length of time.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions 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.

Shasta Community Health Center
Notes to Consolidated Financial Statements
December 31, 2019

Long-Lived Asset Impairment

The Health Center 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 estimated 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, 2019.

Deferred Revenue

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

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The Health Center records these costs as direct deductions from the related debt consistent with debt discounts or premiums. Such costs are being amortized over the term of the respective debt using the straight-line method.

Net Assets

The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions - Undesignated

- Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Health Center, the environment in which it operates, the purposes specified in its corporate documents, its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets Without Donor Restrictions - Board Designated

- The Board of Directors has designated that \$10,000,000 of net assets without donor restrictions be reserved for future operating reserves and capital expansion projects. Board designations do not meet the criteria for classification as net assets without donor restrictions as there are no donor-imposed restrictions and they are subject to change at the Board's discretion. Therefore, these are reported in net assets without donor restrictions.

Shasta Community Health Center
Notes to Consolidated Financial Statements
December 31, 2019

Net Assets With Donor Restrictions

- Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed.

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. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions received are considered available for use unless certain donor-imposed barriers are in place. Conditional gifts are considered available for use once the barrier has been met. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as support that increases net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Contributions that are restricted for the purpose specified by the donor in the same year as the contribution is received are recognized as increases in net assets without donor restrictions.

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 Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Health Center receives benefits 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	\$ 12,926,631
Drug replenishment costs	(3,430,555)
Administrative and filling fees	<u>(2,618,993)</u>
Net revenue	<u><u>\$ 6,877,083</u></u>

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

Shasta Community Health Center
Notes to Consolidated Financial Statements
December 31, 2019

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 for this program as it is reasonably assured it has met all requirements. In 2019, the Health Center recognized \$2,575,300 for this program. The 2019 revenue includes approximately \$800,000 due to a difference in actual performance compared to estimates prior to January 1, 2019.

In-Kind Contributions

In addition to receiving cash contributions, the Health Center receives in-kind contributions of supplies, pharmaceuticals and lab services. It is the policy of the Health Center 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, 2019, had fair value of \$1,515,497.

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 2019, the Health Center completed the first and second year requirements under both the Medicare and Medicaid programs and has recorded revenue of \$119,000 which is included within revenues in the consolidated statement of activities.

Shasta Community Health Center
Notes to Consolidated Financial Statements
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Fundraising Expenses

Fundraising expenses are recognized as they are incurred.

Expense Recognition and Allocation

The cost of providing the Health Center's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel

- Occupancy, depreciation, utilities, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Health Center.

Every three years, or more often when new space or programs are added, the basis on which costs are allocated are evaluated.

Income Taxes

Shasta Community Health Center, SCHC Property Corporation and Anderson 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 consolidated financial statements. Forms 990 filed 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 2015 and prior. However, the Health Center and the Corporations are subject to federal income tax on any unrelated business taxable income.

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Notes to Consolidated Financial Statements
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Changes in Accounting Principles

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

In 2019, the Health Center changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows.

	As Previously Reported	As Adjusted	Adoption Impact
Statement of Cash Flows			
Cash, beginning of year	\$ 14,938,408	\$ 15,265,779	\$ 327,371

This change had no impact on previously reported total change in net assets.

Clarifying Contributions Received and Contributions Made

In 2019, the Health Center adopted ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective basis to all agreements not completed as of December 31, 2018, or entered into after January 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Health Center determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-09 had no impact on the 2019 financial statements.

Note 2: Available Resources and Liquidity

The Health Center regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Health Center has various sources of liquidity at its disposal, including cash and cash equivalents, investments, and a line of credit (*Note 11*).

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In addition to financial assets available to meet general expenditures over the next 12 months, the Health Center operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Health Center’s cash and shows positive cash generated by operations for the fiscal year ended December 31, 2019.

As of December 31, 2019, the following table shows the total financial assets held by the Health Center and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 12,752,039
Patient accounts receivable	1,622,846
Estimated amounts due from Medi-Cal settlements	1,780,099
Grants receivable	648,743
Other receivables	2,438,901
Notes receivable	5,229,974
Investments convertible to cash	<u>10,694,209</u>
	<u><u>\$ 35,166,811</u></u>

Note 3: Grant Revenue

The Health Center 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 fiscal period ending May 31st. Terms of the grant generally provide for funding of the Health Center’s operations based on an approved budget. The Health Center recognized \$4,689,445 in CHC grant funds and \$888,594 in HCH funds during the year ended December 31, 2019. These amounts are included in federal 330 grant revenue on the statement of activities.

In addition, the Health Center 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 Health Center with the terms of the grants or contracts.

Shasta Community Health Center
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Note 4: Patient Service Revenue

The Health Center recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for sliding fee program, the Health Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Health Center's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Health Center records a significant bad debt expense related to uninsured patients in the period the services are provided. This bad debt expense is presented on the statement of activities as a component of operating expenses.

The Health Center is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medi-Cal reimbursement purposes. The Health Center has agreements with third-party payers that provide for payments to the Health Center 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 prospective payment (PPS) reimbursement methodology. The Health Center is entitled to a set amount for each patient visit regardless of the service rendered. Certain additional fees are paid after submission of an annual cost report by the Health Center and audit thereof by the Medicare fiscal intermediary.

Medi-Cal. Covered FQHC services rendered to Medi-Cal programs beneficiaries are paid on a prospective payment (PPS) reimbursement methodology. The Health Center is entitled to a set encounter rate based on costs of operation per delivery location for all services under the plan. The Health center is paid a portion of this rate for managed care patients during the year of service with the final settlement determined after submission of an annual reconciliation report filed by the Health Center to the State of California Department of Health Care Services. By statute the State has up to four years to pay the settlement amounts. The managed care differential rate is reflected in Patient Receivables.

Other. The Health Center participates in the various state programs, like the Cancer Detection Program, Family Pact and Every Woman Counts. These are fee for service programs and only available to income qualified patients. Revenue is recognized based on historical collection amounts.

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Uninsured. As required by Section 330 of the Public Health Service Act (42 U.S.C. 25-4b), the Health Center has established a sliding fee program. All charges for these qualifying patients are written down to a nominal fee of between \$25 and \$40 depending on income. These nominal amounts are recognized as income for the services provided.

The Health Center receives approximately \$12.00 per member per month payments from the managed care organization and this amount along with other payments can create a total payment in excess of the PPS payment which is then refundable to the State. These over payments were approximately \$643,634 as of December 31, 2019.

The Health Center recognizes patient service revenue at the full PPS rate for governmental payers, and the estimate of full realizable value for other payers, based on historical activity. The 2019 patient service revenue increased approximately \$1,333,000 due to change in estimate related to dates of service prior to January 1, 2019.

Approximately 97 percent of net patient service revenues are from participation in the Medicare and state-sponsored Medi-Cal programs for the year ended December 31, 2019. 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.

Patient service revenue, recognized for the year ended December 31, 2019, was approximately:

Medi-Cal	\$ 25,528,824
Medicare	7,489,856
Private insurance	608,243
Other third-party payers and patients	<u>205,095</u>
 Total	 <u><u>\$ 33,832,018</u></u>

Note 5: Concentration of Credit Risk

The Health Center 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, 2019, was:

Medi-Cal	62%
Medicare	24%
Private insurance	12%
Other third-party payers and patients	<u>2%</u>
	<u><u>100%</u></u>

Shasta Community Health Center
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Note 6: Receivables

Patient, grants and other receivables consist of:

Patient accounts receivable, gross	\$ 2,333,846
Allowance for uncollectible accounts	<u>(711,000)</u>
Patient accounts receivable, net of allowance	<u><u>\$ 1,622,846</u></u>
Grants due in less than one year	<u><u>\$ 648,743</u></u>
Other receivables	
Amount due from 340B contract pharmacies	\$ 807,866
Amount due for Quality Incentive Program	1,326,609
Amount due from others	<u>304,426</u>
	<u><u>\$ 2,438,901</u></u>

Note 7: Conditional Grants and Contributions

The Health Center has received the following conditional promises to give at December 31, 2019, that are not recognized in the consolidated financial statements:

Award	Award Amount	Through 2019	Funding Available
Health Center Program Cluster	\$ 6,033,134	\$ 3,356,818	\$ 2,676,316
Teaching Health Center Grant	891,390	441,390	450,000
Ryan White Program	249,349	170,473	78,876
Whole Person Care	633,400	225,814	407,586
Telemedicine/SOHIP/Home Care Coordinator	474,502	106,910	367,592
OSHDP-Song Brown Residency	1,198,230	785,192	413,038
CalMed Residency	225,000	37,500	187,500
Shasta County Department of Mental Health - Substance Abuse	142,775	48,855	93,920
County Medical Services Program - Respite Pilot	<u>300,000</u>	<u>-</u>	<u>300,000</u>
	<u><u>\$ 10,147,780</u></u>	<u><u>\$ 5,172,952</u></u>	<u><u>\$ 4,974,828</u></u>

Shasta Community Health Center
Notes to Consolidated Financial Statements
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Note 8: Investment and Investment Return

The Health Center carries all investments in mutual funds with readily determinable fair values based on quoted prices in active markets (all Level 1 instruments). Realized gains and losses are included in the change in net assets without donor restrictions in the accompanying statement of activities.

Investments at December 31, 2019, consisted of the following:

Long-Term Investments

Mutual funds	<u>\$ 10,694,209</u>
Total investment return comprised of the following:	
Unrealized gain recognized during the period on equity securities still held at the reporting date	<u>\$ 431,640</u>

Note 9: Property and Equipment

Property and equipment, net of accumulated depreciation, consisted of the following at December 31, 2019:

Land and improvements	\$ 9,469,895
Buildings and improvements	28,187,176
Leasehold improvements	762,688
Furniture and fixtures	949,029
Office equipment	579,379
Medical and dental equipment	2,065,168
Vehicles	699,750
Computer hardware and software	3,205,220
Construction in progress	<u>74,343</u>
	45,992,648
Accumulated depreciation	<u>(13,998,509)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 31,994,139</u>

Note 10: Notes Receivable

In conjunction with the New Market Tax Credit transaction (see *Note 17*), the Health Center issued three unsecured note receivables.

Shasta Community Health Center
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Note A – Shasta Investment Fund, LLC in the amount of \$5,000,000 matures on December 31, 2020, and interest accrues monthly at a rate of 1.385 percent. 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 – Shasta Investment Fund, LLC in the amount of \$7,249,600 matures on December 31, 2043, and interest accrues monthly at a rate of 1.385 percent. 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.

Note 1 – Chase NMTC SIF, LLC in the amount of \$6,276,650 matures on June 21, 2047, and interest accrues monthly at a rate of 1.00 percent. Interest only payments are due quarterly beginning September 10, 2017, and continuing through June 10, 2024. From September 10, 2024 through March 10, 2047, principal and interest payments of \$76,456 are due quarterly. All accrued unpaid interest and principal are due on the maturity date.

The Health Center has a note receivable to a third party that originated in 2016 with an original balance of \$2,000,000. Interest accrues monthly at a rate of 3.00 percent. The note matures on April 20, 2020, with any unpaid principal and interest due within thirty days after maturity date at a rate of 10.00 percent. Monthly payments are due in the amount of \$56,000. The balance of the note at December 31, 2019, was \$229,974.

Note 11: Long-Term Debt

The Health Center has an unsecured line of credit with Merchants Bank of Commerce - Redding for \$1,500,000. The line of credit expires on August 1, 2020. Borrowings under the line of credit bear interest at prime plus 0.5 percent with a minimum rate of 4.875 percent. There have been no borrowings as of December 31, 2019.

	Long-Term Debt (Excluding Leases)	Capital Lease Obligations
Note payable to California Health Facilities Financing Authority payable monthly, including interest at 3 percent, due August 2024, secured by real property in the City of Shasta Lake. Unamortized debt issuance costs was \$1,474 at December 31, 2019.	\$ 138,883	\$ -
Total long-term debt carried forward	138,883	-

Shasta Community Health Center
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The Health Center has long-term debt of the following:

Total long-term debt carried forward	\$ 138,883	\$ -
<p>Qualified low income investment loan from a qualified equity investor (QEI), Primary Care Development Corporation (PCDC) in the original amount of \$4,000,000, bearing interest at 5.325 percent. Interest-only payments are payable on the 1st day of each month, beginning July 1, 2017. Monthly interest and principal payments commenced September 1, 2018, due on the first day of each month. All unpaid principal and interest due June 21, 2024. Loan is secured by real property. Unamortized debt issuance costs for the PCDC loans were \$47,887 at December 31, 2019.</p>	3,844,959	-
<p>Qualified low income investment loan from a qualified equity investor (QEI), in the original amount of \$5,000,000, bearing interest at 1.2628 percent. Interest-only payments are payable on the 1st day of March, June, September and December. All unpaid principal and interest due December 31, 2019. Loan is secured by real property.</p>	5,000,000	-
<p>Qualified Low Income Community Investment (QLICI) loans from qualified equity investors (QEI) in the original amounts of \$12,460,000 bearing interest at 1.2628 percent. 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. Unamortized debt issuance costs for the QLICI and LIIF loans were \$567,026 at December 31, 2019.</p>	12,460,000	-
<p>Qualified Low Income Community Investment (QLICI) loans from qualified equity investors (QEI) in the original amounts of \$9,260,000 bearing interest at 1.1099 percent. Interest-only payments are payable on the 1st day of March, June, September and December. Quarterly interest and principal payments commence September 1, 2024, due on the first day of March, June, September and December of each year, through June 21, 2047. All accrued interest and unpaid principal due December 31, 2047. Loan is secured by real property. Unamortized debt issuance costs for the QLICI loans were \$381,265 at December 31, 2019.</p>	9,260,000	-
<p>Capital lease obligations include printers under multiple capital leases that expire in December 2023 and June 2024. The leases are secured by the printers and require monthly payments of principal and interest at rates of 15.95 percent and 20.36 percent per annum.</p>	-	19,429
	30,703,842	19,429
Less unamortized debt issuance costs	997,652	-
Less current maturities	5,151,325	3,549
	\$ 24,554,865	\$ 15,880

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Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2019, are:

	Long-Term Debt	Capital Lease Obligations
2020	\$ 5,151,325	\$ 6,673
2021	366,831	6,673
2022	399,173	6,674
2023	432,777	6,310
2024	3,719,741	1,163
Thereafter	20,633,995	-
	\$ 30,703,842	27,493
Less amount representing interest		8,064
Present value of future minimum lease payments		19,429
Less current maturities		3,549
Noncurrent portion		\$ 15,880

The Health Center is subject to certain loan agreement covenants that require the maintenance of certain financial ratios, minimum net asset balances and timely delivery of audited financial statements. Management has reported the noncompliance to the bank requiring audited financial statements to be provided within 120 and 150 days after fiscal year end and the bank has issued a waiver letter for the noncompliance of the Health Center based solely on the default status of these covenants for the year ended December 31, 2019.

Note 12: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Health Center and its participating physicians and other licensed or certified health care practitioners, covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Health Center's claim experience, no accrual has been made for the Health Center's medical malpractice costs for the year ended December 31, 2019. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

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Notes to Consolidated Financial Statements
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Note 13: Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

Subject to expenditures for specified purpose	
Medical services	\$ 43,495
Dental services	13,191
Outreach and education	3,837
Purchase of equipment	<u>14,721</u>
	<u>\$ 75,244</u>

Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose by the donors as follows for the year ended December 31, 2019:

Subject to expenditures for specified purpose	
Medical services	\$ 526,601
Dental services	2,136
Purchase of equipment	<u>182,851</u>
	<u>\$ 711,588</u>

Note 14: Operating Leases

The Health Center has operating leases for certain facilities which expire in various years through 2027. These leases generally contain renewal options for periods ranging from one to ten years.

Future minimum lease payments at December 31, 2019, are:

2020	\$ 263,427
2021	264,747
2022	265,239
2023	267,411
2024	136,944
Thereafter	<u>419,124</u>
Future minimum lease payments	<u>\$ 1,616,892</u>

Rent expense under operating leases totaled \$329,265 for the year ended December 31, 2019.

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Note 15: Retirement Plan

The Health Center has adopted an Internal Revenue Code Section 403(b) defined contribution plan covering substantially all employees. The Health Center provides a matching contribution equal to 100 percent of each participant's eligible contribution that does not exceed 5 percent of qualifying annual compensation. The matching contribution has a five-year vesting period. Retirement plan expense of \$924,594 was recognized during the year ended December 31, 2019.

Note 16: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; 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 or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019:

	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Mutual funds	\$ 10,694,209	\$ 10,694,209	\$ -	\$ -

Shasta Community Health Center
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Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Health Center has no securities classified as Level 2 or 3.

Note 17: New Market Tax Credits

2013 New Market Tax Credit Transaction

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 11*). 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 a 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 were 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.

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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 \$211,124 were made during 2019, which were eliminated for the purposes of the consolidated financial statements. Rent payments beginning February 25, 2021, will be \$227,515 per quarter which will increase approximately 2.5 percent each year through December 5, 2033. The rental expense and rental income will be intercompany transactions that will be eliminated in future years for purposes of the consolidated financial statements.

2017 New Market Tax Credit Transaction

On June 21, 2017, Shasta Community Health Center and Anderson Property Corporation entered into a transaction which generated NMTC under Section 45D. The transaction was initiated when Chase Community Equity LLC (Chase) contributed \$3,223,350 to Chase NMTC Shasta Investment Fund, LLC (the "Fund"). The Health Center in turn loaned the Fund a total of \$6,276,650 (*Note 11*).

The Fund loaned \$8,000,000 to PCDC Health Opportunities Fund XVI LLC, a subsidiary of Primary Care Development Corporation (PCDC) and \$1,500,000 to CNMC Sub-CDE 146, LLC, a subsidiary of Chase New Market Corporation (Chase NMTC), for purposes of making Qualified Equity Investments in the combined amount of \$9,500,000, generating \$3,750,000 in NMTCs.

PCDC and Chase NMTC provided a total of \$9,260,000 in loan proceeds to Anderson Property Corporation for the purpose of constructing a new health clinic in Anderson, California. The transaction was structured to a 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 Fund, thus allowing the option for the Health Center to forgive remaining project related debt controlled by the Fund.

Anderson Property Corporation used the loan proceeds to build a new clinic totaling 16,288 square feet of medical, clinical and administrative space for use by the Health Center. The property is located at 2965 East Street in Anderson, California. The debt is guaranteed and secured by the real property. The property qualifies as low-income property under Section 45D. As such, the financing arrangements between Anderson Property Corporation and the lenders qualifies as a QLICI and generate NMTCs.

The Health Center also contributed land costs totaling \$601,000 directly to Anderson Property Corporation, which was eliminated in the consolidated financial statements. The Health Center and Anderson Property Corporation entered into a rental agreement on June 21, 2017, for which the Health Center is renting the building from Anderson Property Corporation. Rent payments began August 25, 2018, and are \$33,195 per quarter. The rental expense and rental income will be intercompany transactions that will be eliminated in future years for purposes of the consolidated financial statements.

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Notes to Consolidated Financial Statements
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Note 18: 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 3*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowance for adjustments included in net patient service revenue are described in *Notes 1 and 4*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 12*.

Litigation

In the normal course of business, the Health Center is, from time to time, subject to allegations that may or may not result in litigation. The Health Center 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.

Self-Insurance

Under the Health Center's insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Health Center 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 Health Center's estimates of the aggregated liability for claims incurred and totaled approximately \$750,000 at December 31, 2019. The amount of actual losses incurred could differ materially from these estimates. Under the terms of the insurance policy, the Health Center is at risk for covered claims submitted not to exceed \$100,000 per person per year. Based on the employee census at December 31, 2019, the Health Center is indemnified for claims in excess of \$4,224,691 in aggregate by the stop-loss commercial coverage.

Shasta Community Health Center
Notes to Consolidated Financial Statements
December 31, 2019

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 Health Center 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 Health Center's compliance with these regulations, and it is not possible to determine the effect (if any) such claims or penalties would have upon the Health Center.

Note 19: Subsequent Event Disclosure

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically an increased no-show rate as well as reduction in services at certain locations.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. In response to the economic impact of COVID-19, the Health Center received the following:

- In April 2020, the Health Center was approved for a Paycheck Protection Program (PPP) Loan in the amount of \$6,145,386. This program was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and has certain allowable uses over a covered period of 24-weeks from the initial distribution date. There is a forgiveness provision which if followed could result in an all or partial loan forgiveness. Any unforgiven portion of the loan will have a term of five years at an interest rate of 1 percent.

Shasta Community Health Center
Notes to Consolidated Financial Statements
December 31, 2019

- In April and May of 2020, the Health Center received additional federal grant awards from the Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding totaling \$1,837,566. Each grant award contains specific terms and conditions that must be followed when utilizing this funding.
- In April and May of 2020 the Health Center received \$905,546 of additional funding support from the Provider Relief Fund of the CARES Act. The funding must be utilized for healthcare-related expenses or lost revenue attributable to COVID-19.

The overall financial impact and duration of COVID-19 cannot be reasonably estimated at this time.

Subsequent events have been evaluated through June 19, 2020, which is the date the financial statements were available to be issued.

Note 20: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition with the issuance of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contracts costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. In June 2020, the Financial Accounting Standards Board amended the effective date for the revenue recognition standard for certain entities that have not issued their financial statements. The standard allows either full or modified retrospective adoption with an amended effective for the Organization's annual period beginning December 15, 2019, and any interim periods therein. The Organization is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Other Information

Shasta Community Health Center
Consolidating Schedule – Statement of Financial Position Information
December 31, 2019

	Shasta Community Health	SCHC Property Corporation	Anderson Property Corporation	Eliminating Entries	Consolidated Total
Assets					
Current assets					
Cash and cash equivalents	\$ 12,617,745	\$ 21,086	\$ 113,208	\$ -	\$ 12,752,039
Patient accounts receivable, net	1,622,846	-	-	-	1,622,846
Estimated Medi-Cal settlements, current	1,780,099	-	-	-	1,780,099
Grants receivable	648,743	-	-	-	648,743
Other receivables	2,438,901	-	-	-	2,438,901
Supplies inventory	171,828	-	-	-	171,828
Prepaid expenses and other	1,323,244	22,498	-	-	1,345,742
Notes receivable	5,229,974	-	-	-	5,229,974
Total current assets	<u>25,833,380</u>	<u>43,584</u>	<u>113,208</u>	<u>-</u>	<u>25,990,172</u>
Noncurrent assets					
Cash limited to use	-	114,400	61,460	-	175,860
Investments	10,694,209	-	-	-	10,694,209
Property and equipment, net	9,389,457	12,055,464	8,635,021	1,914,197	31,994,139
Deposits	465,754	-	-	-	465,754
Estimated Medi-Cal settlements	2,448,630	-	-	-	2,448,630
Notes receivable	13,526,250	-	-	-	13,526,250
Total noncurrent assets	<u>36,524,300</u>	<u>12,169,864</u>	<u>8,696,481</u>	<u>1,914,197</u>	<u>59,304,842</u>
Total assets	<u>\$ 62,357,680</u>	<u>\$ 12,213,448</u>	<u>\$ 8,809,689</u>	<u>\$ 1,914,197</u>	<u>\$ 85,295,014</u>
Liabilities and Net Assets					
Current liabilities					
Accounts payable	\$ 1,068,616	\$ -	\$ -	\$ -	\$ 1,068,616
Payroll and related expenses	2,668,122	-	-	-	2,668,122
Other accrued expenses	408,180	-	-	-	408,180
Deferred revenue	24,026	-	-	-	24,026
Estimated Medi-Cal settlements	643,634	-	-	-	643,634
Notes payable, current portion	151,325	5,000,000	-	-	5,151,325
Capital lease payable, current portion	3,549	-	-	-	3,549
Estimated self-insurance costs	750,000	-	-	-	750,000
Total current liabilities	<u>5,717,452</u>	<u>5,000,000</u>	<u>-</u>	<u>-</u>	<u>10,717,452</u>
Noncurrent liabilities					
Deferred compensation	147,560	-	-	-	147,560
Notes payable	3,783,156	11,892,974	8,878,735	-	24,554,865
Capital leases payable	15,880	-	-	-	15,880
Total noncurrent liabilities	<u>3,946,596</u>	<u>11,892,974</u>	<u>8,878,735</u>	<u>-</u>	<u>24,718,305</u>
Net assets					
Without donor restrictions – undesignated	42,618,388	(4,679,526)	(69,046)	1,914,197	39,784,013
Without donor restrictions - designated by the Board for operating reserve	10,000,000	-	-	-	10,000,000
With donor restrictions	75,244	-	-	-	75,244
Total net assets	<u>52,693,632</u>	<u>(4,679,526)</u>	<u>(69,046)</u>	<u>1,914,197</u>	<u>49,859,257</u>
Total liabilities and net assets	<u>\$ 62,357,680</u>	<u>\$ 12,213,448</u>	<u>\$ 8,809,689</u>	<u>\$ 1,914,197</u>	<u>\$ 85,295,014</u>

Shasta Community Health Center
Consolidating Schedule – Statement of Activities Information
Year Ended December 31, 2019

	Shasta Community Health Center		SCHC Property Corporation		Anderson Property Corporation		Eliminating Entries	Consolidated Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Revenue								
Net patient service revenue	\$ 34,104,019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,104,019
Federal 330 grant revenue	5,578,039	-	-	-	-	-	-	5,578,039
340B revenue	6,877,083	-	-	-	-	-	-	6,877,083
Meaningful use revenue	119,000	-	-	-	-	-	-	119,000
Interest income	258,593	5	-	-	402	-	-	259,000
Quality improvement revenue	2,575,300	-	-	-	-	-	-	2,575,300
Other revenue	326,790	524	206,053	-	156,780	-	(362,833)	327,314
Total revenue	<u>49,838,824</u>	<u>529</u>	<u>206,053</u>	<u>-</u>	<u>157,182</u>	<u>-</u>	<u>(362,833)</u>	<u>49,839,755</u>
Support								
Grants, contracts and contributions	2,773,919	657,793	-	-	-	-	-	3,431,712
In-kind contributions	1,515,497	-	-	-	-	-	-	1,515,497
Total support	<u>4,289,416</u>	<u>657,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,947,209</u>
Net Assets Released from Restrictions								
Satisfied by purpose	526,601	(526,601)	-	-	-	-	-	-
Satisfied by purchase of property and equipment	184,987	(184,987)	-	-	-	-	-	-
Total net assets released from restrictions	<u>711,588</u>	<u>(711,588)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>54,839,828</u>	<u>(53,266)</u>	<u>206,053</u>	<u>-</u>	<u>157,182</u>	<u>-</u>	<u>(362,833)</u>	<u>54,786,964</u>
Expenditures								
Programs services	37,846,984	-	857,122	-	518,828	-	(253,983)	38,968,951
Supporting services	12,911,434	-	367,338	-	172,942	-	(108,850)	13,342,864
Total expenditures	<u>50,758,418</u>	<u>-</u>	<u>1,224,460</u>	<u>-</u>	<u>691,770</u>	<u>-</u>	<u>(362,833)</u>	<u>52,311,815</u>
Unrealized gain on investments	(431,640)	-	-	-	-	-	-	(431,640)
Loss on disposal of property	52,681	-	636	-	(18)	-	-	53,299
Other losses	(378,959)	-	636	-	(18)	-	-	(378,341)
Total expenses and losses	<u>50,379,459</u>	<u>-</u>	<u>1,225,096</u>	<u>-</u>	<u>691,752</u>	<u>-</u>	<u>(362,833)</u>	<u>51,933,474</u>
Change in Net Assets	4,460,369	(53,266)	(1,019,043)	-	(534,570)	-	-	2,853,490
Net Assets,								
Beginning of Year	<u>48,158,019</u>	<u>128,510</u>	<u>(3,660,483)</u>	<u>-</u>	<u>465,524</u>	<u>-</u>	<u>1,914,197</u>	<u>47,005,767</u>
Net Assets, End of Year	<u>\$ 52,618,388</u>	<u>\$ 75,244</u>	<u>\$ (4,679,526)</u>	<u>\$ -</u>	<u>\$ (69,046)</u>	<u>\$ -</u>	<u>\$ 1,914,197</u>	<u>\$ 49,859,257</u>

Supplementary Information

Shasta Community Health Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures	Total Federal Expenditures Not Subject to Single Audit
U.S. Department of Health and Human Services/ Consolidated Health Centers – Health Center Program Cluster	93.224	NA	\$ -	\$ 1,657,616	\$ -
U.S. Department of Health and Human Services/ Grants for New and Expanded Services under the Health Center Program – Health Center Program Cluster	93.527	NA	-	3,920,423	-
Total Health Center Program Cluster			-	5,578,039	-
U.S. Department of Health and Human Services/ Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	NA	-	236,350	-
U.S. Department of Health and Human Services/ Substance Abuse and Mental Health Services Administration/California Department of Health Care Services/Aegis Treatment Centers, LLC/ Opioid STR	93.788	T1080222	-	188,673	-
U.S. Department of Homeland Security Emergency Management Agency/United Way Worldwide/ Shasta County Department of Housing and Community Action Program/Emergency Food and Shelter National Board Program	97.024	LRO: 089600-024 Phase 35	-	1,410	-
U.S. Department of Health and Human Services/ Affordable Care Act/Teaching Health Center Graduate Medical Education Payments	93.530	NA	-	-	888,105
Total expenditures of federal awards			\$ -	\$ 6,004,472	\$ 888,105

Shasta Community Health Center
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Shasta Community Health Center under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Shasta Community Health Center it is not intended to and does not present the financial position, changes in net assets or cash flows of Shasta Community Health Center.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Shasta Community Health Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. Shasta Community Health Center did not have any federal loan programs during the year ended December 31, 2019.

**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
Shasta Community Health Center
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 (the "Health Center"), which comprise the consolidated statement of financial position as of December 31, 2019, 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 June 19, 2020, which contained an "Emphasis of Matter" paragraph regarding changes in accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Shasta Community Health Center's 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shasta Community Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Shasta Community Health 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 Health Center'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 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.

Board of Directors
Shasta Community Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shasta Community Health Center's consolidated 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 Health Center'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 Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
June 19, 2020

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

Independent Auditor's Report

Board of Directors
Shasta Community Health Center
Redding, California

Report on Compliance for Major Federal Program

We have audited Shasta Community Health Center's (the "Health Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Shasta Community Health Center's major federal program for the year ended December 31, 2019. Shasta Community Health Center's major federal program is 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Shasta Community Health Center's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Shasta Community Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Board of Directors
Shasta Community Health Center

Opinion on Major Federal Program

In our opinion, Shasta Community Health Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Shasta Community Health Center 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 Shasta Community Health Center's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Shasta Community Health 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
June 19, 2020

Shasta Community Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

7. The Health Center's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Health Center qualified as a low-risk auditee? Yes No

Shasta Community Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

Shasta Community Health Center
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Findings Required to be Reported by Uniform Guidance

Reference Number	Finding
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No matters are reportable.

Shasta Community Health Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Finding	Status
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No matters are reportable.