

Shingletown Medical Center, Inc.

**REPORT ON AUDITED
FINANCIAL STATEMENTS**

For The Year Ended June 30, 2009

SHINGLETOWN MEDICAL CENTER, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1
FINANCIAL STATEMENTS	
Balance Sheet.....	2
Statement of Operations and Changes in Net Assets.....	3
Statement of Cash Flow	4
Notes to Financial Statements	5-11

TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon Avenue, Suite 211, Fresno, CA 93720
Voice (559) 431-7708 Fax (559) 431-7685

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Shingletown Medical Center, Inc.
Shingletown, California

We have audited the accompanying balance sheet of Shingletown Medical Center, Inc. (the "Center"), a not-for-profit organization, as of June 30, 2009 and the related statement of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Clinic's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 2009, and the results of its operations and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

TCA Partners, LLP

October 28, 2009

SHINGLETOWN MEDICAL CENTER, INC.
BALANCE SHEET
June 30, 2009

	2009
ASSETS	
Current assets:	
Cash	\$ 29,971
Patient accounts receivable, net of allowances of \$93,549	263,747
Grants & other receivables	20,451
Estimated third-party settlements	99,787
Prepaid expenses and inventories	25,374
Total current assets	439,330
Property and equipment, net of accumulated depreciation of \$396,517	915,854
Total assets	\$ 1,355,184
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	\$ 19,673
Accrued payroll and other expenses	53,416
Deferred revenue	4,169
Long-term debt, current portion	24,376
Total current liabilities	101,634
Long-term debt, net of current portion	78,871
Total liabilities	180,505
Net assets:	
Unrestricted	1,174,679
Total liabilities and net assets	\$ 1,355,184

The accompanying notes are an integral part of these financial statements.

SHINGLETOWN MEDICAL CENTER, INC.
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
For The Years Ended June 30, 2009

	2009
Changes in unrestricted net assets:	
Revenues and other support:	
Patient service revenue, net	\$ 1,262,180
Grant revenue	492,918
Other	28,168
Total unrestricted revenues and other support	1,783,266
Expenses:	
Salaries	828,110
Employee benefits	233,821
Professional fees	205,513
Contractual services	128,521
Supplies	73,982
Maintenance & repairs	1,447
Facility expense	45,651
Telephone & communications	25,586
Insurance	11,859
Interest	1,262
Depreciation and amortization	43,068
Provision for uncollectible accounts	36,770
Other operating expenses	88,163
Total expenses	1,723,753
Increase in unrestricted net assets	59,513
Net assets, beginning of year	1,115,166
Net assets, end of year	\$ 1,174,679

The accompanying notes are an integral part of these financial statements.

SHINGLETOWN MEDICAL CENTER, INC.
STATEMENT OF CASH FLOWS
For The Years Ended June 30, 2009

	2009
Cash flows from operating activities:	
Change in net assets	\$ 59,513
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation and amortization	43,068
Changes in operating assets and liabilities:	
Change in patient accounts receivable	(109,573)
Change in grants and contracts receivable	(4,313)
Change in estimated third-party settlements	4,332
Change in prepaid expenses and other deposits	9,315
Change in inventory	(3,963)
Change in accounts payable	(26,436)
Change in accrued payroll and other expenses	19,214
Change in deferred revenue	(13,211)
Net cash provided used in operating activities	(22,054)
Cash flows from financing activities:	
Proceeds from new debt	-
Repayment of debt	(24,945)
Net cash used in financing activities	(24,945)
Net decrease in cash	(46,999)
Cash at beginning of year	76,970
Cash at end of year	\$ 29,971
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	\$ 1,261

The accompanying notes are an integral part of these financial statements.

SHINGLETOWN MEDICAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Shingletown Medical Center, Inc. (the "Center") is a federally qualified health center that works to improve, promote and maintain the physical and emotional health of residents in the communities it serves. The Center primarily earns revenues by providing physician and related health care services through a clinic located in Shingletown, California. The Center derives support through grants and contracts with the U.S. Department of Health and Human Services and the State of California Department of Health Services and other state and local agencies.

Presentation

The financial statements have been prepared to present the financial position, results of operations and cash flows of the Center in accordance with the American Institute of Certified Public Accountants' *Accounting and Audit Guide for Health Care Organizations*, dated May 1, 2008. The Guide incorporates the requirements of Statements of Financial Accounting Standards for financial statement presentation for not-for-profit organizations.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standard Board (FASB) issued FASB Statement No. 157, "*Fair Value Measurement*" (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No.157 is effective for fiscal years beginning after November 15, 2007. In February 2007, the FASB issued SFAS No.159, "*The Fair Value Option for Financial Assets and Financial Liabilities- including an amendment of FAS Statement No.159*", (SFAS No 159) providing companies with an option to report selected financial assets and liabilities at fair value. This statement is effective in the fiscal year ending June 30, 2009. The Center believes the adoption of SFAS No. 157 and SFAS 159 has no material impact on its financial statements.

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 new system are final, unless the number of reimbursable visits is changed as a result of an audit by the State of California, Department of Health Services.

Patient Accounts Receivable

Accounts receivable are recorded at gross value along with a corresponding allowance for doubtful accounts. Allowance accounts are estimated for each type of receivable based on the Center's experience in collecting those receivables, historical collection information and existing economic conditions. Patient account receivables are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

SHINGLETOWN MEDICAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation of property and equipment is computed on the straight-line method over the estimated lives of depreciable assets as follows: Building and building improvements from 15-40 years; and equipment, furniture and fixtures from 3-10 years. Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless the donor restricts use of the assets. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service. Donor restricted contributions for property and equipment whose restrictions are met within the same year as received are reported as unrestricted contributions.

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 23701d.

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Center does not pursue collection of amounts determined to qualify as charity care and they are not reported as revenue.

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. When the qualifying capital asset is financed with proceeds from tax exempt externally restricted borrowing, and if temporary investments have been purchased with those proceeds, then interest costs are reduced by the interest earned on the temporary investments.

Revenue Recognition

It is the policy of the Center to recognize revenues from federal grants and state contracts to the extent of expenses incurred not to exceed grant and contract awards. When the grant and contract budgets do not coincide with the Center's reporting period, revenues are recognized on a pro-rata basis as earned. Revenue for grants from other private sources is recognized to the extent of cash received and the grant is earned. Patient service revenue is recorded at the Center's established rates with sliding fee scale adjustments, provision for uncollectible accounts, and contractual allowances deducted to arrive at net patient service revenue.

SHINGLETOWN MEDICAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Vacation Pay

The Center permits its employees to accumulate vacation credit hours over their working career and to redeem such unused vacation hours in cash upon termination of employment. Vacation benefits may be accumulated to a maximum of 240 hours. Employees earn vacation hours based on length of service. Employees will not earn any additional credit hours until previously accumulated vacation benefits have been used.

Inventories

Inventories are stated at cost, determined using the first-in, first-out method.

Use of Estimates

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

**SHINGLETOWN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2: CASH

Cash consisted of the following at June 30:

	2009
Petty cash	\$ 350
Checking and certificates of deposit	29,621
Total cash	\$ 29,971

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. Of the bank balances, per the various financial institutions as of June 30, 2009, all were covered by federal depository insurance.

NOTE 3: PATIENT ACCOUNTS RECEIVABLE

The patient accounts receivable balance as of June 30 is comprised of the following:

	2009
Medicare	\$ 107,962
Medi-Cal	135,230
Other third-party payors & patients	114,104
Total before allowance for doubtful accounts	357,296
Less: allowance for doubtful accounts	(93,549)
Total net patient accounts receivable	\$ 263,747

NOTE 4: CONCENTRATIONS OF CREDIT RISK

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party agreements. The mix of receivables from patients and third-party payors at June 30 was as follows:

Payor Class	2009
Medicare	30%
Medi-Cal	38%
Other third-party payors & patients	32%
Total	100%

SHINGLETOWN MEDICAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2009 are comprised of the following:

	2009
Land	\$ 172,396
Buildings	943,027
Equipment	196,948
Subtotal	1,312,371
Less: Accumulated depreciation	(396,517)
Total	\$ 915,854

Depreciation expense for fiscal year ending June 30, 2009 is \$43,068. The Center did not have any construction in progress at June 30, 2009.

NOTE 6: DEFERRED REVENUE

The Center has received State, Federal and other funds in the form of grants, which are subject to review and audit by the grantor agencies. Additionally, funds received in advance of their corresponding expenditure are considered to be refundable until such expenditure is incurred. Revenue recognition is also deferred until expenditures are realized. Deferred revenues in this category as of June 30, 2009 amounted to \$4,169. None of the deferred revenue at June 30, 2009 related to federal grants.

NOTE 7: NET PATIENT SERVICE REVENUE

The Center is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medi-Cal reimbursement purposes. The Center has agreements with third-party payors that provide payments to the Center at amounts different from its established rates. A summary of the payment arrangements with government and third party payors is as 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 annual cost report by the center and audit thereof by the fiscal intermediary.

Medi-Cal: Medical services rendered to Medi-Cal beneficiaries are paid under a Prospective Payment System, using rates established by the Center’s “Base Year - fiscal year ended June 30, 2000” cost reports filed under the previous cost-based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center’s scope of service.

Insurance: The Center has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Center under these agreements includes prospectively determined rates and discounts from established charges.

SHINGLETOWN MEDICAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8: MALPRACTICE CLAIMS

The U.S. Department of Health and Human Services has deemed the Center and its practicing physicians 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.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

NOTE 9: LONG-TERM DEBT

Long-term debt at June 30, 2009 is summarized as follows:

	2009
California Health Facilities Financing Authority – note payable in monthly payments of \$2,160, interest rate of 3%, due July 2013. The Note is secured by the Center's real and personal property.	\$ 99,518
Dolphin capital equipment lease	3,729
Total long-term debt	\$ 103,247
Less: current portion	(24,376)
	\$ 78,871

The above notes payable require the Center to maintain certain financial and non-financial covenants. The Center met all of these requirements for the fiscal year ending June 30, 2009.

Long-term principal debt repayments due in each of the next five fiscal years and thereafter are:

	Principal
2010	\$ 24,376
2011	25,173
2012	26,031
2013	25,511
2014	2,156
Total	\$103,247

SHINGLETOWN MEDICAL CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10: CONTINGENCIES

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

NOTE 11: ESTIMATED THIRD-PARTY SETTLEMENTS

The Center has recorded an estimated receivable due from government payors of \$99,787 as of June 30, 2009. In the opinion of management, final settlement of the associated cost reports will not materially affect the financial statements of the Center.

NOTE 12: LITIGATION

In the normal course of business, the Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Center's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The 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 each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

NOTE 13 PROFIT SHARING PLAN

All full-time and part-time employees may make pre-tax deferrals of their pay through a personally selected 403(b) retirement savings plan. During the year ended June 30, 2009, the Center made contributions on the employees' behalf to the 403(b) retirement savings in the amount of \$24,559.

NOTE 14: FUNCTIONAL CLASSIFICATION OF EXPENSES

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

	2009
Health care services	\$ 1,206,866
General and administrative	516,887
Total	\$ 1,723,753