

**Shingletown Medical Center, Inc.**

**REPORT ON AUDITED  
FINANCIAL STATEMENTS**

**For The Years Ended June 30, 2010 and 2009**

# SHINGLETOWN MEDICAL CENTER, INC.

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# TCA Partners, LLP

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

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

We have audited the accompanying balance sheets of Shingletown Medical Center, Inc. (the "Center"), a not-for-profit organization, as of June 30, 2010 and 2009 and the related statements of operations and changes in net assets and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 audits 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 Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respect, the financial position of the Center as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United State of America

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2010, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Directors  
Shingletown Medical Center, Inc.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Organization, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

***TCA Partners, LLP***

November 22, 2010

**SHINGLETOWN MEDICAL CENTER, INC.**  
**BALANCE SHEETS**  
**June 30, 2010 and 2009**

	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash	\$ 181,397	\$ 29,971
Patient accounts receivable, net	201,407	263,747
Grants & other receivables	4,688	20,451
Estimated third-party settlements	110,587	99,787
Prepaid expenses and inventories	34,250	25,374
Total current assets	532,329	439,330
Property and equipment, net	978,657	915,854
Total assets	\$ 1,510,986	\$ 1,355,184
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 18,675	\$ 19,673
Accrued payroll and other expenses	64,043	53,416
Deferred revenue	10,670	4,169
Long-term debt, current portion	23,965	24,376
Total current liabilities	117,353	101,634
Long-term debt, net of current portion	52,295	78,871
Total liabilities	169,648	180,505
Net assets:		
Unrestricted	1,341,338	1,174,679
Total liabilities and net assets	\$ 1,510,986	\$ 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, 2010 and 2009**

	2010	2009
Changes in unrestricted net assets:		
Revenues and other support:		
Patient service revenue, net	\$ 1,356,903	\$ 1,262,180
Grant revenue	578,203	492,918
Other	129,024	28,168
Total unrestricted revenues and other support	2,064,130	1,783,266
Expenses:		
Salaries	862,509	828,110
Employee benefits	225,267	233,821
Professional fees	204,084	205,513
Contractual services	153,295	128,521
Supplies	102,023	73,982
Maintenance & repairs	1,206	1,447
Facility expense	45,851	45,651
Telephone & communications	27,291	25,586
Insurance	12,046	11,859
Interest	165	1,262
Depreciation and amortization	44,301	43,068
Provision for uncollectible accounts	39,476	36,770
Other operating expenses	179,957	88,163
Total expenses	1,897,471	1,723,753
Increase in unrestricted net assets	166,659	59,513
Net assets, beginning of year	1,174,679	1,115,166
Net assets, end of year	\$ 1,341,338	\$ 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, 2010 and 2009**

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 166,659	\$ 59,513
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	44,301	43,068
Changes in operating assets and liabilities:		
Change in patient accounts receivable	62,340	(109,573)
Change in grants and contracts receivable	15,763	(4,313)
Change in estimated third-party settlements	(10,800)	4,332
Change in prepaid expenses and other deposits	(8,876)	5,352
Change in accounts payable	(998)	(26,436)
Change in accrued payroll and other expenses	10,627	19,214
Change in deferred revenue	6,501	(13,211)
Net cash provided by (used in) operating activities	285,517	(22,054)
Cash flows from investing activities:		
Acquisition of property and equipment	(107,104)	-
Net cash used in investing activities	(107,104)	-
Cash flows from financing activities:		
Repayment of debt	(26,987)	(24,945)
Net cash used in financing activities	(26,987)	(24,945)
Net increase (decrease) in cash	151,426	(46,999)
Cash at beginning of year	29,971	76,970
Cash at end of year	\$ 181,397	\$ 29,971
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 165	\$ 1,261

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

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 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.

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.

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.

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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.

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.

Inventories

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

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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.

**NOTE 2: PATIENT ACCOUNTS RECEIVABLE**

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

	<u>2010</u>	<u>2009</u>
Medicare	\$ 99,969	\$ 107,962
Medi-Cal	35,450	135,230
Other third-party payors & patients	<u>183,240</u>	<u>114,104</u>
Total before allowance for doubtful accounts	318,659	357,296
Less: allowance for doubtful accounts	<u>(117,252)</u>	<u>(93,549)</u>
Total net patient accounts receivable	<u>\$ 201,407</u>	<u>\$ 263,747</u>

**NOTE 3: 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:

<u>Payor Class</u>	<u>2010</u>	<u>2009</u>
Medicare	31%	30%
Medi-Cal	11%	38%
Other third-party payors & patients	<u>58%</u>	<u>32%</u>
Total	<u>100%</u>	<u>100%</u>

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 4: DISCLOSURES ABOUT FAIR VALUE OF ASSETS**

Shingletown Medical Center has adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FAS 157 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FAS 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

**Level 1** - Quoted prices in active markets for identical assets;

**Level 2** - Observable inputs other than Level I prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets;

**Level 3** - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Pursuant to FAS 157, the Center's investments are classified within Level 2 of the fair-value hierarchy. The types of securities valued based on Level 2 inputs include certificates of deposit.

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2010:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	
<u>Assets:</u>				
Certificates of deposit	-	\$ 181,047	-	\$ 181,047

**NOTE 5: 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, 2010 and 2009 amounted to \$10,670 and \$4,169 respectively. None of the deferred revenue at June 30, 2010 related to federal grants.

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 6: PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2010 and 2009 are comprised of the following:

	2010	2009
Land	\$ 172,396	\$ 172,396
Buildings	998,270	943,027
Equipment	194,451	196,948
Subtotal	1,365,117	1,312,371
Less: Accumulated depreciation	(386,460)	(396,517)
Total	\$ 978,657	\$ 915,854

Depreciation expense for fiscal year ending June 30, 2010 and 2009 is \$44,301 and \$43,068 respectively. The Center did not have any construction in progress at June 30, 2010.

**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.

**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.

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 9: LONG-TERM DEBT**

Long-term debt at June 30, 2010 and 2009 is summarized as follows:

	2010	2009
California Health Facilities Financing Authority – note payable in monthly payments of \$2,160, interest rate of 3.0%, due July 2013. The Note is secured by the Center’s real and personal property.	\$ 76,260	\$ 99,518
Dolphin capital equipment lease	-	3,729
Total long-term debt	\$ 76,260	\$ 103,247
Less: current portion	(23,965)	(24,376)
	\$ 52,295	\$ 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, 2010. Long-term principal debt repayments due in each of the next five fiscal years and thereafter are:

<u>Year</u>	<u>Principal</u>
2011	\$ 23,965
2012	24,665
2013	25,474
2014	2,156
2015	-
Total	\$ 76,260

**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 \$110,587 and \$99,787 as of June 30, 2010 and 2009 respectively. 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.

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**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 years ended June 30, 2010 and 2009, the Center made contributions on the employees' behalf to the 403(b) retirement savings in the amount of \$25,875 and \$24,559 respectively.

**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:

	<u>2010</u>	<u>2009</u>
Health care services	\$ 1,246,389	\$ 1,206,866
General and administrative	651,082	516,887
Total	<u>\$1,897,471</u>	<u>\$ 1,723,753</u>

**SINGLE AUDIT REPORTS**

**SHINGLETOWN MEDICAL CENTER, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2010**

<u>CFDA Contract Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>Department of Health and Human Services:</u>		
Community Health Cluster	93.224*	\$ 300,240
ARRA - Capital Improvement Program	93.703*	136,063
ARRA - Increase Services to Health Centers	93.703*	69,769
Total		<u>\$ 506,072</u>

\*Denotes Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**SHINGLETOWN MEDICAL CENTER, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2010**

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Shingletown Medical Center, Inc. (the "Center") under programs of the federal government for the year ended June 30, 2010. Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Center.

For purposes of the Schedule, federal awards include all grants and contracts entered into directly between the Center, agencies, and departments of the federal government. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government and Non-Profit Organizations.

**NOTE B: BASIS OF ACCOUNTING**

For purposes of the Schedule, expenditures for federal programs are recognized on the accrual basis of accounting. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-122, Cost Principles for Non-Profit Organizations.

**NOTE C: RELATIONSHIP OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO FINANCIAL STATEMENTS**

Consistent with management's policy, federal awards are recorded in various revenue categories. As a result, the amount of total federal awards expended on the Schedule does not agree to total grant revenue on the Statement of Operations and Changes in Net Assets as presented in the Center's Report on Audited Financial Statements.

# TCA Partners, LLP

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

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

We have audited the financial statements of Shingletown Medical Center, Inc. (the "Center") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. 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 of America.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### ***Compliance and Other Matters***

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

Board of Directors  
Shingletown Medical Center, Inc.

This report is intended for the information of the board of directors, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*7CA Partners, LLP*

November 22, 2010

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## *Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance In Accordance with OMB Circular A-133*

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

### ***Compliance***

We have audited the compliance of Shingletown Medical Center, Inc. (the "Center") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-01.

### ***Internal Control Over Compliance***

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

Board of Directors  
Shingletown Medical Center, Inc.

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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-01. 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.

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Center's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the board of directors, management, state and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

*TCA Partners, LLP*

November 22, 2010

**SHINGLETOWN MEDICAL CENTER, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2010**

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued Unqualified

Internal Control over financial reporting:  
 Material weakness identified? \_\_\_\_\_ yes        X   no

Significant deficiency(ies) identified that are  
 Not considered to be material weaknesses? \_\_\_\_\_ yes        X   None Reported

Noncompliance material to financial  
 statements noted? \_\_\_\_\_ yes        X   no

**Federal Awards**

Internal control over major programs:  
 Material weakness identified? \_\_\_\_\_ yes        X   no

Significant deficiency(ies) identified that are  
 not considered to be material weaknesses?   X   yes      \_\_\_\_\_ None Reported

Type of auditor's report issued on compliance  
 for major programs: Unqualified

Any audit findings disclosed that are required to  
 be reported in accordance with Section 510(a)  
 of Circular A-133?   X   yes      \_\_\_\_\_ no

Identification of Major Program

**CFDA Number**

**Name of Federal Program or Cluster**

93.224

U.S. Department of Health and Human Services,  
 Public Health Services,  
 Health Center Cluster.

93.703

ARRA - Increase Services to Health Centers

93.703

ARRA - Capital Improvement Program

Dollar threshold used to distinguish  
 Types A and B programs \$300,000.00

Auditee qualified as low-risk auditee?   X   yes      \_\_\_\_\_ no

**SHINGLETOWN MEDICAL CENTER, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2010**

**II. Current Year Audit Findings and Questioned Costs**

**Financial Statement Findings**

None Reported

**Federal Award Findings And Questioned Costs**

2010-01 Need to enforce regulation of the Sliding Fee Eligibility Determination and Compliance

CFDA Number:	93.224
Program:	Community Health Centers
Compliance Requirement	B. Eligibility
Questioned Cost:	\$0.00

Finding:

Based on the sample tested, SMC allowed unsupported sliding fee schedule discounts during the year. The conclusions of the SMC's staff were not reflected by documents used to demonstrate family income, family size and level of discounts taken.

Criteria:

Grant compliance provisions require that SMC correctly identify a patient's ability to pay and that the rates for services be adjusted accordingly based on the sliding fee schedule.

Effect:

Lack of strict enforcement of the sliding fee eligibility policy and procedure resulted in SMC providing discounted services greater to or less than the appropriate amounts to beneficiaries, and WSMC not adhering to certain grant provisions.

Recommendation:

Management should enforce compliance with the sliding fee policy which requires documentation to be obtained from the patient and retained as support for the sliding fee status. The policy was revised last year but is still not being adhered to.

Management's Response:

Management acknowledges the finding and will work to train staff on the importance of compliance

**III. Prior Year Audit Findings and Questioned Costs**

None Reported