



Northeast Valley Health Corporation

“Caring for our community’s health.”

Northeast Valley Health Corporation
Audited Financial Statements
As of and for the Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	25

Report of Independent Auditors

The Board of Directors Northeast Valley Health Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Valley Health Corporation (NEVHC), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Valley Health Corporation as of December 31, 2019 and 2018, and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Pronouncements

As discussed in Note 2 to the financial statements, Northeast Valley Health Corporation adopted new accounting standards, FASB ASU 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* and FASB ASU 2014-09 - *Revenue from Contracts with Customers (Topic 606)*. Disclosures have been enhanced to reflect the application of the new accounting standards.

Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2020 on our consideration of NEVHC's internal control over financial reporting and on 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 NEVHC'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 the NEVHC's internal control over financial reporting and compliance.

Glendale, California
April 28, 2020

Northeast Valley Health Corporation
Statements of Financial Position

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,732,837	\$ 4,695,979
Short-term investments	7,349,945	9,250,000
Contracts and grants receivables	5,208,569	6,056,136
Patient accounts receivable, net of allowance for uncollectible accounts of \$287,262 in 2019 and \$710,812 in 2018	2,892,781	2,106,282
FQHC settlements receivable, net of allowance for uncollectible accounts of \$471,462 in 2019 and \$137,843 in 2018	2,386,522	1,315,875
Other receivables	5,707,714	3,310,966
Inventory	1,472,368	1,228,419
Prepaid expenses	228,645	341,884
Total current assets	29,979,381	28,305,541
Property and equipment, net	8,479,712	8,456,428
Deposits	345,175	342,727
Total assets	\$ 38,804,268	\$ 37,104,696
LIABILITIES		
Current liabilities		
Accounts payable	\$ 2,096,790	\$ 1,301,701
Accrued employee compensation and benefits	7,807,897	7,014,502
Accrued expenses	2,409,747	2,247,779
Line of credit	2,500,000	2,000,000
Due to subrecipients	569,791	699,674
Current portion of capital lease obligation	156,451	142,115
Current portion of long-term debt	158,144	154,316
Total current liabilities	15,698,820	13,560,087
Long-term liabilities		
Capital lease obligation, net of current portion	366,958	481,745
Long-term debt, net of current portion	305,121	443,676
Long-term estimated third-party payor liability	1,875,596	1,875,596
Total long-term liabilities	2,547,675	2,801,017
Total liabilities	18,246,495	16,361,104
NET ASSETS		
Without donor restrictions	19,982,005	20,565,109
With donor restrictions	575,768	178,483
Total net assets	20,557,773	20,743,592
Total liabilities and net assets	\$ 38,804,268	\$ 37,104,696

See notes to financial statements.

Northeast Valley Health Corporation
Statement of Activities
Year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
REVENUES AND OTHER SUPPORT			
Net patient service revenue	\$ 19,088,544	\$ -	\$ 19,088,544
Managed care contracts	47,062,671	-	47,062,671
Contracts and grants	31,013,813	1,021,569	32,035,382
Donated pharmaceuticals	6,053,023	-	6,053,023
Donated facilities	647,823	-	647,823
Other income	456,666	-	456,666
Net assets released from restrictions	624,284	(624,284)	-
Total revenues and other support	104,946,824	397,285	105,344,109
Expenses			
Program services			
Medical services	77,843,150	-	77,843,150
Other health services	12,986,788	-	12,986,788
Community services	942,167	-	942,167
Pass-through services	3,837,164	-	3,837,164
Total program services	95,609,269	-	95,609,269
Supporting services			
Administrative services	9,682,752	-	9,682,752
Fundraising services	237,907	-	237,907
Total supporting services	9,920,659	-	9,920,659
Total expenses	105,529,928	-	105,529,928
Change in net assets from operations	(583,104)	397,285	(185,819)
Net assets			
Beginning	20,565,109	178,483	20,743,592
Ending	\$ 19,982,005	\$ 575,768	\$ 20,557,773

See notes to financial statements.

Northeast Valley Health Corporation
Statement of Activities
Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
REVENUES AND OTHER SUPPORT			
Net patient service revenue	\$ 17,590,625	\$ -	\$ 17,590,625
Managed care contracts	45,447,567	-	45,447,567
Contracts and grants	29,446,565	720,070	30,166,635
Donated pharmaceuticals	4,427,798	-	4,427,798
Donated facilities	677,193	-	677,193
Other income	1,073,128	-	1,073,128
Net assets released from restrictions	1,014,591	(1,014,591)	-
Total revenues and other support	99,677,467	(294,521)	99,382,946
Expenses			
Program services			
Medical services	73,550,719	-	73,550,719
Other health services	13,267,165	-	13,267,165
Community services	1,209,067	-	1,209,067
Pass-through services	3,570,270	-	3,570,270
Total program services	91,597,221	-	91,597,221
Supporting services			
Administrative services	9,198,677	-	9,198,677
Fundraising services	466,506	-	466,506
Total supporting services	9,665,183	-	9,665,183
Total expenses	101,262,404	-	101,262,404
Change in net assets from operations	(1,584,937)	(294,521)	(1,879,458)
Net assets			
Beginning	22,150,046	473,004	22,623,050
Ending	\$ 20,565,109	\$ 178,483	\$ 20,743,592

See notes to financial statements.

Northeast Valley Health Corporation
Statement of Functional Expenses
Year ended December 31, 2019

	Program Services					Supporting Services			
	Medical Services	Other Health Services	Community Services	Pass-through Services	Total Program Expenses	Administrative Services	Fundraising Services	Total Supporting Services Expenses	Total Expenses
Employee compensation									
Salaries	\$ 46,306,405	\$ 7,436,768	\$ 606,734	\$ 350,410	\$ 54,700,317	\$ 5,064,032	\$ 147,050	\$ 5,211,082	\$ 59,911,399
Fringe benefits	12,359,570	2,389,276	212,108	64,573	15,025,527	1,402,643	36,039	1,438,682	16,464,209
Total employee compensation	58,665,975	9,826,044	818,842	414,983	69,725,844	6,466,675	183,089	6,649,764	76,375,608
Other expenses									
Consultant/contractual services									
medical and other	1,529,716	253,251	901	30,467	1,814,335	1,032,149	5,049	1,037,198	2,851,533
Travel and conferences	34,533	84,037	962	2,913	122,445	34,793	2,948	37,741	160,186
Equipment, maintenance and rental	1,339,158	234,715	7,204	1,840	1,582,917	192,750	739	193,489	1,776,406
Licenses and fees	125,009	24,123	20,655	-	169,787	5,398	-	5,398	175,185
Facilities cost	3,033,024	1,894,692	71,981	10,702	5,010,399	737,713	-	737,713	5,748,112
Facilities cost provided in-kind	647,823	-	-	-	647,823	-	-	-	647,823
Insurance	225,984	39,668	653	-	266,305	113,230	-	113,230	379,535
Supplies	4,762,028	192,907	9,410	2,656	4,967,001	94,350	8,003	102,353	5,069,354
Donated pharmaceutical supplies	5,914,560	-	-	-	5,914,560	-	-	-	5,914,560
Telephone	515,263	222,570	6,194	-	744,027	96,420	619	97,039	841,066
General and administrative	384,122	154,781	5,365	14,448	558,716	393,067	37,460	430,527	989,243
Interest	-	-	-	-	-	135,198	-	135,198	135,198
Sub-grants to subrecipients	-	60,000	-	3,359,155	3,419,155	-	-	-	3,419,155
Total other expenses	18,511,220	3,160,744	123,325	3,422,181	25,217,470	2,835,068	54,818	2,889,886	28,107,356
Total expenses before depreciation and amortization	77,177,195	12,986,788	942,167	3,837,164	94,943,314	9,301,743	237,907	9,539,650	104,482,964
Depreciation and amortization	665,955	-	-	-	665,955	381,009	-	381,009	1,046,964
Total expenses	\$ 77,843,150	\$ 12,986,788	\$ 942,167	\$ 3,837,164	\$ 95,609,269	\$ 9,682,752	\$ 237,907	\$ 9,920,659	\$ 105,529,928

See notes to financial statements.

Northeast Valley Health Corporation
Statement of Functional Expenses
Year ended December 31, 2018

	Program Services					Supporting Services			
	Medical Services	Other Health Services	Community Services	Pass-through Services	Total Program Expenses	Administrative Services	Fundraising Services	Total Supporting Services Expenses	Total Expenses
Employee compensation									
Salaries	\$ 43,997,911	\$ 7,516,000	\$ 794,975	\$ 247,418	\$ 52,556,304	\$ 4,792,294	\$ 271,898	\$ 5,064,192	\$ 57,620,496
Fringe benefits	11,305,216	2,417,533	276,173	91,842	14,090,764	1,784,318	62,831	1,847,149	15,937,913
Total employee compensation	<u>55,303,127</u>	<u>9,933,533</u>	<u>1,071,148</u>	<u>339,260</u>	<u>66,647,068</u>	<u>6,576,612</u>	<u>334,729</u>	<u>6,911,341</u>	<u>73,558,409</u>
Other expenses									
Consultant/contractual services									
medical and other	1,537,458	94,325	150	-	1,631,933	843,462	5,165	848,627	2,480,560
Travel and conferences	49,708	76,372	1,709	-	127,789	76,657	1,193	77,850	205,639
Equipment, maintenance and rental	1,181,516	265,196	4,121	2,058	1,452,891	233,557	1,550	235,107	1,687,998
Licenses and fees	89,222	21,363	18,229	-	128,814	9,569	-	9,569	138,383
Facilities cost	2,734,988	2,000,000	83,645	10,461	4,829,094	774,202	-	774,202	5,603,296
Facilities cost provided in-kind	645,260	-	-	-	645,260	-	-	-	645,260
Insurance	204,431	37,598	693	-	242,722	102,547	-	102,547	345,269
Supplies	4,857,258	272,491	12,328	1,574	5,143,651	73,370	20,455	93,825	5,237,476
Donated pharmaceutical supplies	4,219,472	-	-	-	4,219,472	-	-	-	4,219,472
Telephone	662,250	256,914	11,501	910	931,575	96,817	1,154	97,971	1,029,546
General and administrative	1,094,434	249,400	5,543	6,945	1,356,322	-	102,260	102,260	1,458,582
Interest	-	-	-	-	-	44,809	-	44,809	44,809
Sub-grants to subrecipients	204,000	59,973	-	3,209,062	3,473,035	-	-	-	3,473,035
Total other expenses	<u>17,479,997</u>	<u>3,333,632</u>	<u>137,919</u>	<u>3,231,010</u>	<u>24,182,558</u>	<u>2,254,990</u>	<u>131,777</u>	<u>2,386,767</u>	<u>26,569,325</u>
Total expenses before depreciation and amortization	72,783,124	13,267,165	1,209,067	3,570,270	90,829,626	8,831,602	466,506	9,298,108	100,127,734
Depreciation and amortization	767,595	-	-	-	767,595	367,075	-	367,075	1,134,670
Total expenses	<u>\$ 73,550,719</u>	<u>\$ 13,267,165</u>	<u>\$ 1,209,067</u>	<u>\$ 3,570,270</u>	<u>\$ 91,597,221</u>	<u>\$ 9,198,677</u>	<u>\$ 466,506</u>	<u>\$ 9,665,183</u>	<u>\$ 101,262,404</u>

See notes to financial statements.

Northeast Valley Health Corporation
Statements of Cash Flows

	Years ended December 31	
	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (185,819)	\$ (1,879,458)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	204,511	204,511
Recovery of uncollectible accounts	(27,439)	(27,439)
Depreciation and amortization	1,046,964	1,134,670
Net change in assets:		
Contracts and grants receivables	847,567	(1,700,600)
Patient accounts receivable	(991,010)	53,981
FQHC settlements receivable	(1,043,208)	845,642
Other receivables	(2,396,748)	2,781,629
Inventory	(243,949)	(259,266)
Prepaid expenses	113,239	10,845
Deposits	(2,448)	(37,857)
Net change in liabilities:		
Accounts payable	795,089	108,799
Accrued employee compensation and benefits	793,395	975,660
Accrued expenses	161,968	(846,265)
Due to subrecipients	(129,883)	267,004
Long-term estimated third-party payor liability	-	230,494
Net cash provided by (used in) operating activities	(1,057,771)	1,862,350
Cash flows from investing activities		
Sale (purchase) of short-term investments	1,900,055	(2,850,000)
Purchase of property and equipment	(1,140,021)	(902,119)
Cash provided by (used in) investing activities	760,034	(3,752,119)
Cash flows from financing activities		
Proceeds from line of credit	500,000	2,000,000
Payment of long-term debt	(134,727)	(151,078)
Payment of capital lease obligation	(30,678)	(30,678)
Net cash provided by financing activities	334,595	1,818,244
Net change in cash and cash equivalents	36,858	(71,525)
Cash and cash equivalents at beginning of year	4,695,979	4,767,504
Cash and cash equivalents at end of year	\$ 4,732,837	\$ 4,695,979
Supplemental disclosures		
Interest paid during the year	\$ 135,198	\$ 44,809
Equipment acquired under capital lease agreements	\$ 202,947	\$ 551,588

See notes to financial statements.

NOTE 1 ORGANIZATION AND NATURE OF OPERATIONS

Northeast Valley Health Corporation (NEVHC or the Organization) is a not-for-profit corporation whose mission is to provide quality, safe and comprehensive primary healthcare to medically underserved residents of Los Angeles County, particularly in the San Fernando and Santa Clarita valleys, in a manner that is sensitive to the economic, social, cultural and linguistic needs of the community. NEVHC is supported by federal, state and local grants, private foundation grants and revenues from operations. NEVHC operates 16 community health centers located in San Fernando, Pacoima, Canoga Park, Sun Valley, Santa Clarita, Van Nuys and Valencia. NEVHC also administers the Women, Infant and Children (WIC) Supplemental Nutrition Program at 12 additional locations and houses its administrative services at 5 locations throughout North Los Angeles County. NEVHC is governed by a 16-member Board of Directors, of which greater than 51% are patients of the health centers.

The Organization derives its support from grants and contracts awarded by the United States Department of Health and Human Services (DHHS), State of California, and a host of other local government, private foundations and corporations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which require NEVHC to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of NEVHC's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of NEVHC or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of operations

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to NEVHC's ongoing operations and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 events and results could differ from those assumptions and estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in financial institutions, and all highly liquid debt instruments with original maturities of three months or less.

Short-Term Investments

Short-term investments consist of certificates of deposit with maturities in excess of 90 days and less than one year. The short-term investments are stated at fair value.

Inventory

Inventory is composed of supplies and pharmaceuticals and is recorded at the lower of cost or market on a first in, first out basis. Donated pharmaceuticals are recorded at the public health service price, which approximates fair value.

Property and Equipment

Acquisitions of property and equipment are recorded at cost or, if donated, at fair value at date of donation. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Major improvements and replacements of buildings and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities. Depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the properties:

Equipment and fixtures	3 - 5 years
Computer software	3 - 5 years
Building improvements	7 - 10 years
Buildings	20 - 40 years
Leasehold improvements	shorter of the term of lease or useful life of the asset

Property acquired with federal funds is considered owned by NEVHC while used in the programs for which it was purchased or in other future authorized programs. Its disposition as well as the ownership of any proceeds therefrom is subject to federal regulations. At December 31, 2019 and 2018, net property and equipment included approximately \$5,710,00 and \$6,031,000, respectively, of assets purchased with federal funds.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

NEVHC reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2019 and 2018, there were no events or changes in circumstances that indicate the carrying amount of the property and equipment may not be recoverable.

Donated Facilities

NEVHC receives the use of certain facilities at no cost and at costs below fair value. NEVHC recognizes the difference between the amount paid for occupancy and the actual fair value of occupancy cost as donated facilities. The value of recognized donated facilities was approximately \$648,000 and \$677,000 for the years ended December 31, 2019 and 2018, respectively.

Revenue Recognition

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* and ASU No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The disclosures of revenue have been enhanced in accordance with the standard.

NEVHC has agreements with third-party payors that provide for payment amounts, which differ from its standard charges. A summary of major payment arrangements is as follows:

Net patient service revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

NEVHC participates in the Medicare and Medi-Cal programs as a Federally Qualified Health Center (FQHC). Participation in the Medicare program provides for cost reimbursement as an all-inclusive provider, with reimbursement at a single rate for all types of services provided by NEVHC on an encounter reporting basis. Participation in the Medi-Cal program provides for prospectively determined reimbursements as an all-inclusive provider, with reimbursements at prospective payment rates which are unique to each clinical location for all types of services within each location on an encounter reporting basis.

Sliding fee scale/charity care - NEVHC provides discounted medical, dental, behavioral health and ancillary services to self-pay patients on a sliding fee scale based on the patient's gross income.

Managed care contracts - Payment agreements have been established with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and an independent practice association. Premiums are due monthly (calculated on prospectively determined capitated rates) and are recognized as revenue during the period in which NEVHC is obligated to provide services to its members.

NEVHC has an agreement with an Independent Practice Association (IPA) to provide primary health services to the IPA's HMO members. Under this agreement, NEVHC receives monthly capitation payments based on the number of covered members, regardless of services actually performed by NEVHC. The IPA is financially responsible for all specialty services provided to covered members.

Contracts and grants revenue - Revenue from cost reimbursable grants and contracts is recorded to the extent of expenses incurred applicable to the contract or grant. Any difference between expenses incurred and the total funds received (not to exceed the contract or grant maximum) is recorded as a receivable or an advance whichever is applicable. Revenue from other grants is recognized on an accrual basis as earned according to the provisions of the grant.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions - Unconditional promises to give cash and other assets to NEVHC are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the condition is satisfied or met or the gift is received. Gifts received with donor stipulations that limit the use of the donated assets are reported as contributions with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by NEVHC, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

During the year ended December 31, 2019, NEVHC received approximately 30% of its total net revenues from federal and state grants and contracts, 18% from patient fees (primarily Medi-Cal), 45% from managed care contracts, and 7% from other sources. During the year ended December 31, 2018, NEVHC received approximately 30% of its total net revenues from federal and state grants and contracts, 18% from patient fees (primarily Medi-Cal), 46% from managed care contracts, and 6% from other sources.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization received cost-reimbursable grant awards of \$11,687,613 and \$12,570,882 that have not been recognized at December 31, 2019 and 2018, respectively, because qualifying expenditures have not yet been incurred.

Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization did not have any advances as of December 31, 2019 and 2018.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among Program Services (Medical, Other Health, Community and Pass-through) and Supporting Services (Administrative and Fundraising) benefited. Such allocations are determined by management on an equitable basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional expenses (Continued)

Significant expense categories that are allocated include the following:

Expense	Method of Allocation
Employee compensation	Time and effort
Consultant/contractual services; medical and other	Time and effort
Equipment, maintenance and rental	Time and effort
Facilities cost	Square footage
Supplies	Time and effort
Donated pharmaceutical supplies	Time and effort
Telephone	Time and effort
General and administrative	Time and effort
Sub-grants to subrecipients	Time and effort
Depreciation and amortization	Square footage

Professional Liability Insurance

NEVHC is covered under the Federal Tort Claims Act that provides coverage based upon occurrence. Management is not aware of any pending claims that exceed the limitations provided by this coverage.

Income Taxes

NEVHC is a nonprofit corporation exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d) and is generally not subject to federal or state income taxes.

NEVHC recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position.

The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no uncertain tax positions as of December 31, 2019 and 2018. The Organization's income tax returns remain subject to examination for all tax years ended on or after December 31, 2015 with regard to tax positions and results reported.

Fair Value Measurements

NEVHC's financial assets and liabilities include primarily cash and cash equivalents and receivables, accounts payable and accrued liabilities. Because of the short-term nature of the cash, receivables, accounts payable and accrued liabilities, the carrying amounts of these assets and liabilities approximate their fair value.

NOTE 3 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents NEVHC's financial assets at December 31, 2019 and 2018:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 4,732,837	\$ 4,695,979
Short-term investments	7,349,945	9,250,000
Contracts and grants receivables	5,208,569	6,056,136
Net patient accounts receivable	2,892,781	2,148,315
Net FQHC settlements receivable	2,386,522	1,315,875
Net other receivables	4,966,291	3,310,966
	27,536,945	26,777,271
Less amounts unavailable for use within one year	-	-
Financial assets available to meet general expenditures over the next twelve months	\$ 27,536,945	\$ 26,777,271
Total expenses less depreciation	\$ 104,482,964	\$ 100,127,734
% of total available financial assets over total expenses less depreciation	26%	27%

As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. Moreover, NEVHC has a line of credit (Note 11) available to meet cash flow needs.

NOTE 4 INVESTMENTS

NEVHC records its investments at fair value. U.S. GAAP defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also 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. Three levels of inputs that may be used to measure fair value are established as follows:

- Level 1* Quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2* Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.

NOTE 4 INVESTMENTS (CONTINUED)

Level 3 Valuation is modeled using significant inputs that are unobservable in the market. These unobservable inputs reflect NEVHC's own estimates of assumptions that market participants would use in pricing the asset or liability.

NEVHC's investments totaling \$7,349,945 and \$9,250,000 at December 31, 2019 and 2018, respectively, consist of certificates of deposit with original maturities of greater than 90 days and less than one year. These investments have been categorized as Level 2. NEVHC did not have Level 1 or Level 3 investments as of December 31, 2019 and 2018.

NOTE 5 CONTRACTS AND GRANTS RECEIVABLE

Contracts and grants receivable as of December 31 consist of the following:

	2019	2018
California Department of Health Services	\$ 2,953,770	\$ 4,278,140
U.S. Department of Health and Human Services	835,853	767,572
County of L.A. Department of Health Services	269,332	244,235
Other entities	1,149,614	766,189
	\$ 5,208,569	\$ 6,056,136

NOTE 6 PATIENT AND FQHC REVENUES AND RECEIVABLES

NEVHC receives payment for services rendered from federal, state and local agencies, private insurance carriers, employers, managed care programs, and patients. A summary of the payment arrangements with major third-party payors is as follows:

Medi-Cal

NEVHC is reimbursed at prospectively determined rates which are unique to each clinical location for all types of services within each location on an encounter reporting basis. Final settlement is determined after submission of the annual Medi-Cal Reconciliation Request Form to the California Department of Health Care Services (the "Department") for purposes of determining whether it was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits. NEVHC has recorded a receivable for estimated settlements expected to be received for Medi-Cal Reconciliation Request Forms for the years ended December 31, 2019 and prior. Following submission of the Medi-Cal Reconciliation Request Form, NEVHC will generally receive a tentative settlement from the Medi-Cal program with a final settlement generally made within three years of the date of submission. Department audits for years 2015 and prior have been completed and final settlements received as of December 31, 2019. NEVHC has recognized loss of approximately \$8,645 and \$88,548 in 2019 and 2018, respectively, related to changes in estimates on prior year settlements.

NOTE 6 PATIENT AND FQHC REVENUES AND RECEIVABLES (CONTINUED)

Medicare

NEVHC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by NEVHC and audits thereof by fiscal intermediaries. Final settlements are estimated and recorded in the financial statements in the year in which services are rendered.

For the years ended December 31, 2019 and 2018, revenue from Medi-Cal accounted for approximately 59% and 58%, respectively of net patient revenue. Medicare programs accounted for approximately 7% of NEVHC's net patient fee revenue for the each of the years ended December 31, 2019 and 2018. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE 7 OTHER RECEIVABLES

Other receivables consist of capitation premiums for subscribing participants under NEVHC's health plan contract, outstanding pharmacy reimbursements, and uncollected incentives under the Organization's participation in the Health Information Technology for Economic and Clinical Health (HITECH) Act.

During 2019 and 2018, NEVHC applied for participation in the Medicaid Eligible Professionals Electronic Healthcare Record (EHR) Incentive Program under HITECH. NEVHC was approved for certain qualified first year payments and subsequent year incentives for demonstrating meaningful use. Included in other income in the statements of activities is approximately \$127,500 and \$462,400 of EHR revenue recognized during 2019 and 2018, respectively. Amounts receivable related to the EHR Program, included as other receivables in the statements of financial position, totaled approximately \$306,000 and \$433,500 at December 31, 2019 and 2018, respectively.

NOTE 8 PROPERTY AND EQUIPMENT

The summary of property and equipment and related accumulated depreciation and amortization are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 253,187	\$ 253,187
Buildings and improvements	12,831,339	11,720,918
Equipment and fixtures	4,857,409	4,654,410
Computer hardware and software	3,799,653	3,808,972
Automobiles	<u>259,479</u>	<u>236,856</u>
	22,001,067	20,674,343
Less accumulated depreciation and amortization	<u>13,582,464</u>	<u>12,617,215</u>
	8,418,603	8,057,128
Construction in progress	<u>61,109</u>	399,300
Net property and equipment	<u>\$ 8,479,712</u>	<u>\$ 8,456,428</u>

NOTE 8 PROPERTY AND EQUIPMENT (CONTINUED)

Total provision for depreciation and amortization amounted to \$1,046,964 and \$1,134,670 for the years ended December 31, 2019 and 2018, respectively.

The December 31, 2019 and 2018 buildings and improvements balances include NEVHC's equities in the San Fernando and Pacoima Health Center properties. These equities are the percentage allocation in the reduction of the \$250,000 note on the properties from the inception of the note through August 31, 1990 and include building improvements. The initial percentage allocation basis used was determined by the relationship between federal and non-federal funding of the corporation, as determined by the DHHS from July 1, 1971 through December 31, 1978.

A real property agreement between the U.S. Office of Economic Opportunity (OEO) and NEVHC was recorded with the title for the San Fernando Health Center's land and building. The note payable to finance such land and building was modified to reflect a 100% federal government interest in such land and building. The general nature of the modification was to effect a federal government recognition of the interest of the mortgagor and to establish a procedure whereby, upon any default by the Organization, OEO or its successor (DHHS), could exercise certain options as Trustor, to assure the continued use of the land and building for the purpose for which the government had assisted in its acquisition.

NOTE 9 LONG-TERM DEBT

The summary of long-term debt is as follows:

	2019	2018
Commercial note payable to CPCA Ventures, interest payable monthly at 3.175% per annum through maturity date of November 1, 2022. The debt is collateralized by substantially all of NEVHC's assets.	\$ 433,975	\$ 573,652
Auto loan payable to Sunrise Ford. Payable \$464 monthly including principal and interest at 1.9% per annum through September 2019, secured by the automobile acquired from proceeds of the loan.	-	4,146
Auto loan payable to Sunrise Ford. Payable \$429 monthly including principal and interest at 0.9% per annum through November 2020, secured by the automobile acquired from proceeds of the loan.	4,693	9,768
Auto loan payable to Sunrise Ford. Payable \$457 monthly including principal and interest at 0.9% per annum through November 2020, secured by automobile acquired from proceeds of the loan.	5,009	10,426

Northeast Valley Health Corporation
Notes to Financial Statements
Years ended December 31, 2019 and 2018

NOTE 9 LONG-TERM DEBT (CONTINUED)

	2019	2018
Auto loan payable to Nissan of Mission Hills. Payable \$428 monthly including principal and interest at 4.99% per annum through February 2024, secured by automobile acquired from proceeds of the loan.	19,588	-
	463,265	597,992
Less current portion	158,144	154,316
Long- term debt, net of current portion	\$ 305,121	\$ 443,676

Scheduled annual maturities of long-term debt as of December 31, 2019 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2020	\$ 158,144
2021	153,410
2022	145,506
2023	4,931
2024	1,274
	\$ 463,265

The above agreements require NEVHC to maintain compliance with certain financial and nonfinancial covenants including the maintenance of a debt service coverage ratio. NEVHC met all the debt coverage ratio and nonfinancial covenant requirements for the year ended December 31, 2019.

NOTE 10 CAPITAL LEASE OBLIGATION

NEVHC has a lease arrangement with third parties for equipment that is accounted for as capital leases. The carrying value of the assets under the agreements totaled \$579,999 and \$553,770 at December 31, 2019 and 2018, respectively. The cost of equipment acquired under capital leases during the year ended December 31, 2019 totaled \$202,947 and \$551,588 during the years ended December 31, 2019 and 2018, respectively.

The schedule of future minimum lease payments including interest at rates of 7% - 17% per annum together with the present value of the future minimum lease payments are as follows:

Northeast Valley Health Corporation
Notes to Financial Statements
Years ended December 31, 2019 and 2018

NOTE 10 CAPITAL LEASE OBLIGATION (CONTINUED)

Years ending December 31,	Amount
2020	\$ 185,779
2021	170,590
2022	156,519
2023	132,559
2024	24,604
Total minimum lease payments	670,051
Less amount representing interest	146,642
Present value of future minimum lease payments	523,409
Less current portion	156,451
	\$ 366,958

NOTE 11 COMMITMENTS

Line of Credit

The Organization has a secured revolving line of credit loan with a local bank with a credit limit of \$4,000,000 which shall remain in full force and effect until such time as all of the loans are fully settled or until such time as the parties may agree in writing to terminate the agreement. The terms of the line of credit require pledging of all assets as security for any and all obligations taken by the Organization under this agreement. It also requires the Organization to comply with certain financial and nonfinancial covenants, including a debt service coverage ratio. The Organization has outstanding borrowings of \$2,500,000 and \$2,000,000 against the line of credit as of December 31, 2019 and 2018, respectively.

Operating Leases

The Organization occupies certain facilities under non-cancelable operating leases on various dates through 2033. The required future minimum rental payments under the terms of the leases at December 31, 2019 are as follows:

Years ending December 31,	Amount
2020	\$ 2,927,753
2021	2,739,638
2022	2,238,143
2023	2,217,460
2024	1,442,591
Thereafter	2,478,414
	\$ 14,043,999

Total rent expense for facilities amounted to approximately \$3,038,000 and \$2,587,000, for the years ended December 31, 2019 and 2018, respectively, and are included with the facilities cost in the Statements of Functional Expenses.

NOTE 12 CONTINGENCIES

Government Grants

NEVHC has received local, state and federal funds for specific purposes that are subject to review and audit by the contracting agencies. Although such audits could generate expenditure disallowances under the terms of the grants or contracts, management believes that any required reimbursements will not be material.

Government Reimbursement

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased 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 exclusion from government healthcare program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. NEVHC is subject to similar regulatory reviews.

Employee Termination Benefits

NEVHC employees may accumulate vacation during their employment with NEVHC and redeem unused vacation time in cash upon termination of employment, subject to certain limitations. In addition, employees may accumulate sick leave up to a maximum of 288 hours. Employees with two or more years of continuous service may receive an amount equal to 50% of their accrued unused sick leave, payable to a maximum of 144 hours, at their applicable rate of pay at the time of separation unless terminated for cause. No payment for unused sick pay accrual will be made to employees who have less than two years continuous service upon leaving NEVHC, regardless of the reason.

The estimated amounts of accrued vacation pay and sick leave at December 31, 2019 totaled approximately \$3,064,000 and \$1,339,000, respectively. The estimated amounts of accrued vacation pay and sick leave at December 31, 2018 totaled approximately \$2,938,000 and \$1,300,000, respectively. Such amounts are included in accrued employee compensation and benefits in the accompanying statements of financial position.

Litigation

NEVHC is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, it is management's opinion that the liability, if any, from these actions will not have a material adverse effect on NEVHC's financial position.

NOTE 13 CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents and Short-Term Investments

Financial instruments that potentially subject NEVHC to concentrations of credit risk consist principally of accounts receivable and cash and cash equivalents and short-term investments. NEVHC maintains its cash and cash equivalents and short-term investment balances in a financial institution. These balances, at times, may exceed federally insured limits. At December 31, 2019, the Organization had approximately \$5,290,000 in cash that exceeded the federally insured limits and therefore is exposed to significant concentration of credit risk.

Accounts Receivable

NEVHC's accounts receivable comprises of contracts and grants receivable, patient accounts receivable, FQHC settlements receivable and other receivables. At December 31, 2019, approximately 15% of the total accounts receivable of approximately \$15,454,000 were comprised of FQHC receivables. At December 31, 2018 approximately 10% of the total accounts receivable of approximately \$12,789,000 were comprised of FQHC receivables. NEVHC recognizes that revenue and receivables from government agencies are significant to NEVHC's operations but do not believe that there are significant credit risks associated with these government agencies.

NOTE 14 NET ASSETS

Net assets with donor restrictions totaling approximately \$576,000 and \$178,000 at December 31, 2019 and 2018, respectively, are available for program purposes. Net assets totaling approximately \$624,000 and \$1,015,000 for the years ended December 31, 2019 and 2018, respectively, were released from restrictions and used for operating purposes.

NOTE 15 RETIREMENT PLAN

NEVHC has established a Tax Sheltered Annuity Plan under Section 403(b) of the Internal Revenue Code. During the years ended December 31, 2019 and 2018, NEVHC paid 5.5% of participating employees' eligible compensation. An employee becomes eligible to receive the employer contribution as of the first day of the month following their completion of 1000 hours of service. Employees will continue to receive the NEVHC contribution to the plan after the end of each calendar quarter for eligible employees who work at least 250 hours during the quarter. NEVHC's contribution expense for the years ended December 31, 2019 and 2018 amounted to approximately \$2,834,000 and \$2,524,000 respectively, and are included with fringe benefits cost in the Statements of Functional Expenses.

NOTE 16 SELF-INSURED WORKERS' COMPENSATION INSURANCE

In 2013, NEVHC entered into an agreement to become self-insured for its workers' compensation insurance through a nonprofit mutual benefit corporation (the Group) organized under the Nonprofit Mutual Benefit Corporation Law of California. The Group retains responsibility for the payment of medical, indemnity and legal costs of claims up to the self-insured retention of \$500,000. The Group is then covered by a supplemental excess insurance policy that provides coverage in excess of \$500,000 up to the statutory limit per occurrence. Through the Group, NEVHC also has Employers Liability coverage of \$1,000,000.

The State of California Department of Industrial Relations, Office of Self-Insurance Plans (OSIP) has a financial security requirement for Self-Insurance Plans. Due to this requirement, the Group has obtained a surety bond totaling approximately \$45,925,000 as of December 31, 2018 (the most recent audited financial information available). As a condition from the surety carriers in return for obtaining the surety bond posted by the Group to OSIP, each participating member Group is required to sign a General Agreement of Indemnity. In the event the surety carrier is called upon to satisfy any outstanding obligation of the Group, the insurer has the right of indemnification from each member on a joint and several bases. There were 66 members in the Group as of December 31, 2018.

NOTE 17 CHARITY CARE

The Organization provides care to patients who are unable to pay for services, based on federal guidelines and/or the Organization's Sliding Fee Schedule Program under its charity care policy without charge or at amounts less than its established rates (Note 2). Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not included in patient services revenues. Sliding fee discounts for self-pay patients for the years ended December 31, 2019 and 2018, totaled approximately \$14,095,000 and \$11,716,000, respectively.

The Organization determines costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies and other operating expenses based on data from its accounting system. The costs of caring for charity care patients for the year ended December 31, 2019 and 2018 amounted to \$11,929,000 and \$10,943,000, respectively. Funds received from gifts and grants to subsidize charity services provided for the years ended December 31, 2019 and 2018 amounted to \$5,940,000 and \$4,311,000, respectively.

NOTE 18 LONG-TERM ESTIMATED THIRD-PARTY PAYOR LIABILITY

As of December 31, 2019 and 2018, the Organization had conservatively recorded a \$1,975,596 long-term liability to the California Department of Health Care Services (DHCS) related to adjustments to its Medi-Cal Prospective Payment System (PPS) reimbursement rates for Medi-Cal visits billed during the period of July 1, 2005 through December 31, 2018.

The adjustment pertained to certain reimbursements for pharmaceuticals separately billed by the Organization during the above specified period, which, according to DHCS, was already included in the Organization's adjusted Medi-Cal PPS reimbursement rates which were originally established based on cost data for the 1999 and 2000 fiscal years.

In 2019, the Organization submitted a Proposed Mitigation Plan to DHCS describing its understanding with respect to the various cost elements already contained in its adjusted Medi-Cal PPS reimbursement rates. However, pending a resolution of this matter including appropriate response from DHCS, the Organization has opted to conservatively record a total of \$1,975,596 liability with a budgeted repayment plan of equal quarterly payments through a seven-year period. As of April 28, 2020, the DHCS continues to review the Organization's Proposed Mitigation Plan and the Organization continues to await a notification from DHCS on their acceptance of the Proposed Mitigation Plan.

NOTE 19 SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain type of public places and business. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which NEVHC operates.

It is unknown how long these conditions will last and what the complete financial effect will be to the Organization. However, management does not expect the impact to be material to the Organization's December 31, 2019 financial statements.

Management has evaluated subsequent events through April 28, 2020, the date on which the financial statements were available to be issued. Other than the coronavirus outbreak disclosure described above, there were no other material subsequent events that required recognition or additional disclosures in these financial statements.

**Report of Independent Auditors 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
Northeast Valley Health Corporation**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeast Valley Health Corporation (NEVHC), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated April 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NEVHC'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of NEVHC's internal control. Accordingly, we do not express an opinion on the effectiveness of NEVHC'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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Vagness & Company LLP". The signature is written in a cursive, flowing style.

Glendale, California
April 28, 2020



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Northeast Valley Health Corporation

"Caring for our community's health."

Northeast Valley Health Corporation
Single Audit Report
Year Ended December 31, 2019
with Report of Independent Auditors

An independently owned member
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Certified Public Accountants and Business Consultants

Northeast Valley Health Corporation
Single Audit Report
Year Ended December 31, 2019
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Report of Independent Auditors 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 Northeast Valley Health Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast Valley Health Corporation (NEVHC), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated April 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NEVHC'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of NEVHC's internal control. Accordingly, we do not express an opinion on the effectiveness of NEVHC'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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether NEVHC's 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Glendale, California
April 28, 2020**

Report of Independent Auditors on Compliance for Each Major Federal Program, on Internal Control over Compliance, and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Directors Northeast Valley Health Corporation

Report on Compliance for Each Major Federal Program

We have audited Northeast Valley Health Corporation's (NEVHC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NEVHC's major federal programs for the year ended December 31, 2019. NEVHC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of NEVHC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 NEVHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NEVHC's compliance.



Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of NEVHC 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 NEVHC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 NEVHC'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 a combination of deficiencies, in internal control over compliance, such that there is 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



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Northeast Valley Health Corporation as of and for the year ended December 31, 2019, and have issued our report thereon dated April 28, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vacques & Company LLP

**Glendale, California
April 28, 2020**

**Northeast Valley Health Corporation
Schedule of Expenditures of Federal Awards
Year ended December 31, 2019**

Federal Grant / Pass-Through Grantor / Program Title	Pass-Through/ Grantor's Number	CFDA Number	Passed-Through to Subrecipients	Federal Expenditures
MAJOR PROGRAMS				
<u>Department of Agriculture</u>				
<i>Direct Program:</i>				
Special Supplemental Nutrition Program for Women, Infants and Children	15-10098	10.557	\$ -	\$ 11,359,621
<u>Department of Health & Human Services</u>				
<i>Direct Program:</i>				
Capital Development Grant		93.526	-	967,403
Health Infrastructure Investment Program	C8DCS29776		-	-
		Total major programs	-	\$12,327,024
NON-MAJOR PROGRAMS				
<u>Department of Health & Human Services</u>				
<i>Direct Programs:</i>				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	H80CS00139	93.224	3,359,155	13,828,803
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	H76HA00159	93.918	-	447,805
Children's Health Insurance Program Centers for Medicare & Medicaid Services - Connecting Kids to Coverage Outreach and Enrollment Cooperative Agreements	1Y1CMS331723-01-00	93.767	-	121,601
<i>Passed through the California Family Health Council, Inc</i> Family Planning Services/Title X	2694-5320-71209-17-18	93.217	-	351,706
<i>Passed through the California Department of Public Health</i> Organized Approaches to Increase Colorectal Cancer Screening Program Colorectal Cancer Screening Project - Screening for Life HIV Care Formula Grants	17-10942	93.800	-	34,933
Center for Infectious Diseases, Office of AIDS - Access, Adherence, and Navigation Program	17-10629	93.917	-	112,393
<i>Passed through the California Department of Health Care Services</i> State Targeted Response to the Opioid Crisis Grants The Center at Sierra Health Foundation MAT Access Points Project - California Association of DUI Treatment Programs	H79T1081686 H79T1081686	93.788 93.788	 -	 50,000 44,833
			-	94,833
Medical Assistance Program <i>Passed through the California Department of Public Health</i> Teen Pregnancy Prevention Program - Information and Education Program <i>Passed through the County of Los Angeles - Public Health</i> Medical Assistance Program - Children's Health Outreach, Enrollment, Utilization & Retention Services Prevention and Early Intervention Outreach Services Whole Person Care Outreach and Engagement Services	16-10208 PH002501 PH002501 PH002501	93.778 93.778 93.778 93.778	 - - -	 66,452 112,726 88,739 6,525
		Total CFDA 93.788	-	274,442
<i>Passed through the County of Los Angeles - Public Health</i> HIV Emergency Relief Project Grants Ambulatory/Outpatient Medical Services Mental Health, Psychiatry Services Medical Care Coordination Services Oral Health Care Support Services Benefits Speciality Services	PH-002367 PH-003362 PH-002342 H-204507 PH-002902	93.914 93.914 93.914 93.914 93.914	 - - - - -	 188,533 71,001 326,450 333,653 50,112
		Total CFDA 93.914	-	969,749
<i>Passed through University of California, Los Angeles</i> Ryan White Title IV Women, Infants, Children, Youth and Affected Family Members AIDS Healthcare	H12HA28848	93.153	-	78,426
<i>Passed through The Regents of the University of California</i> Translation and Implementation Science Research for Heart, Lung, Blood Diseases, and Sleep Disorders Enhancing Patient and Organizational Readiness for Cardiovascular Risk Reduction Cancer Cause and Prevention Research Colorectal Cancer Screening Research Project	U01HL142109 R03CA230947	93.840 93.393	 -	 40,885 11,427
<i>Passed through Eunice Kennedy Shriver National Institute of Child Health & Human Development</i> Child Health and Human Development Seattle Hospital - Well Child Care Parent Coach Project	5R01HD088586	93.865	-	147,884
<u>Department of Housing & Urban Development</u>				
<i>Passed through Los Angeles Housing & Community Investment Department</i> AIDS Housing Opportunity Program Housing Opportunities for Persons with AIDS				
	C-127718	14.241	-	90,584
<u>Department of Agriculture</u>				
<i>Passed through County of Los Angeles - Public Health</i> Supplemental Nutrition Assistance Program Champions for Change - Healthy Communities Initiative				
	PH-003227	10.561	-	282,281
<i>Passed through California State University Northridge</i> Hispanic-Serving Institutions Education Grants Program - CSUN Lactation Education	N/A	10.223	-	9,440
		Total non-major programs	\$3,359,155	\$16,897,192
		Total federal programs	\$3,359,155	\$29,224,216

See notes to schedule of expenditures of federal awards.

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Northeast Valley Health Corporation (NEVHC) 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 NEVHC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of NEVHC.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 allowable or are limited as 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.

Subject to limitations, NEVHC is allowed to use a provisional indirect cost rate of 10.8% for all programs related to grants, contracts and agreements with the federal government, for the eight-month period ended December 31, 2019, and therefore does not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 RELATIONSHIP OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE FINANCIAL STATEMENTS

Consistent with management's policy, federal awards are recorded in the same account categories as grants from other sources, which are together reported as grant revenues in NEVHC's Audited Financial Statements. As a result, the amount of total federal awards expended on the Schedule does not agree to total grant revenue reported in NEVHC's Audited Financial Statements.

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on the financial statements whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditors’ report issued on compliance for Major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Section 2 CFR 200.516(a)? No

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
93.526	Health Infrastructure Investment Program
Dollar threshold used to distinguish between Type A and Type B programs	\$876,726
Auditee qualified as a low-risk auditee?	Yes

**Northeast Valley Health Corporation
Schedule of Findings and Questioned Costs
Year ended December 31, 2019**

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings

None.

**Northeast Valley Health Corporation
Status of Prior Year Audit Findings
Year ended December 31, 2019**

No matters were reported.



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