

Audited Financial Statements

Tri-City Health Center, Inc.

For The Years Ended June 30, 2019 and 2018

Tri-City Health Center, Inc.

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Independent Auditor's Report

Board of Directors
Tri-City Health Center, Inc.
Fremont, California

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-City Health Center, Inc. (the "Center"), which comprise the balance sheets as of June 30, 2019 and 2018 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-City Health Center, Inc. as of June 30, 2019 and 2018 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the Center adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

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, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019 on our consideration of the Center'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 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 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 Center's internal control over financial reporting and compliance.

CAW, LLP

Fresno, California

October 28, 2019

Tri-City Health Center, Inc.
Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,243,216	\$ 7,570,310
Patient accounts receivable, net	3,215,814	2,707,114
Grants, contracts, and other receivables	2,794,091	1,871,064
Estimated third-party payor settlements	1,426,301	971,005
Inventory	160,212	144,862
Prepaid expenses & other assets	285,885	261,810
Total current assets	12,125,519	13,526,165
Property and equipment, net	22,939,570	22,076,082
Total assets	\$ 35,065,089	\$ 35,602,247
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Long-term debt, current portion	\$ 598,066	\$ 479,469
Accounts payable and accrued expenses	1,767,241	1,314,130
Accrued payroll & other liabilities	1,268,737	1,240,247
Deferred revenue	367,532	108,458
Estimated third-party payor settlements	1,651,813	2,578,003
Total current liabilities	5,653,389	5,720,307
Long-term debt		
Principal amount	12,606,663	13,288,277
Unamortized debt issuance costs	(137,089)	(144,348)
Long-term debt, less unamortized debt issuance costs	12,469,574	13,143,929
Other liabilities	13,863	13,863
Total liabilities	18,136,826	18,878,099
Net Assets:		
Net assets with donor restrictions	4,032	29,225
Net assets without donor restrictions	16,924,231	16,694,923
Total net assets	16,928,263	16,724,148
Total liabilities and net assets	\$ 35,065,089	\$ 35,602,247

See accompanying Notes to the Financial Statements

Tri-City Health Center, Inc.
Statements of Operations and Changes in Net Assets
For the years ended June 30, 2019 and 2018

	2019	2018
Change in net assets without donor restrictions		
Revenues and other support:		
Patient service revenue, net	\$ 26,097,758	\$ 23,532,959
Provisions for bad debts	(283,264)	(539,987)
Net patient service revenues less provision for bad debts	25,814,494	22,992,972
Capitation revenue	1,591,954	1,681,081
Grant revenue	11,413,911	10,969,328
Contributions and other	2,335,091	2,535,803
Net assets released from donor restrictions	25,193	-
Total revenues and other support	41,180,643	38,179,184
Expenses:		
Salaries and benefits	23,260,132	20,760,650
Medical contractual services	8,359,256	7,330,968
Purchased services	636,609	871,246
Supplies	3,212,057	3,362,772
Travel, conferences, and meetings	610,990	424,136
Facility costs	1,604,770	1,552,987
Insurance	120,735	79,997
Depreciation and amortization	997,203	826,010
Interest	722,046	722,945
Other	1,427,537	1,224,237
Total expenses	40,951,335	37,155,948
Excess of revenues over expenses	229,308	1,023,236
Change in net assets with donor restrictions		
Contributions	-	29,225
Net assets released from donor restriction	(25,193)	-
Change in net assets with donor restriction	(25,193)	29,225
Increase in net assets	204,115	1,052,461
Net Assets		
Beginning of year	16,724,148	15,671,687
End of year	\$ 16,928,263	\$ 16,724,148

See accompanying Notes to the Financial Statements

Tri-City Health Center, Inc.
Statement of Cash Flows
For the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 204,115	\$ 1,052,461
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	997,203	826,010
Amortization of debt issuance costs	7,259	6,474
Changes in operating assets and liabilities:		
Patient accounts receivable	(508,700)	(325,702)
Grants, contracts, and other receivables	(923,027)	(828,327)
Estimated third-party payor settlements	(1,381,486)	136,190
Inventory	(15,350)	(28,861)
Prepaid expenses and other assets	(24,075)	120,750
Accounts payable and accrued expenses	453,111	275,056
Accrued compensation & other liabilities	28,490	264,458
Deferred revenue	259,074	51,167
Other liabilities	-	13,863
Net cash provided by (used in) operating activities	(903,386)	1,563,539
Cash flows from investing activities		
Sale/maturity of investments	-	1,001,949
Acquisition of property and equipment	(1,860,691)	(7,508,536)
Net cash used in investing activities	(1,860,691)	(6,506,587)
Cash flows from financing activities		
Proceeds from new debt	-	4,618,578
Principal payments on long-term debt	(563,017)	(484,565)
Net cash provided by financing activities	(563,017)	4,134,013
Net increase (decrease) in cash and cash equivalents	\$ (3,327,094)	\$ (809,035)
Cash, cash equivalents and board designated assets:		
Beginning of year:	7,570,310	8,379,345
End of year:	\$ 4,243,216	\$ 7,570,310
Supplemental disclosure of cash flow information		
Interest paid	\$ 722,046	\$ 722,945

See accompanying Notes to the Financial Statements

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

Organization and Operations:

Tri-City Health Center, Inc. (the “Center”) is a non-profit corporation operating under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Center's purpose is to provide primary and preventative health care and related medical and health education services to persons of low to moderate income. Grants and contracts are primarily restricted for use toward program expenditures or purchases of property and equipment; other support is unrestricted, although intended to support the stated charitable purpose of the agency.

Basis of Accounting:

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

Net Assets:

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations. This includes board designated funds, which have been set aside.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may be, or will be, met either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Of the cash balances, as of June 30, 2019 and 2018, \$500,000 and \$500,000 was covered by federal depository insurance respectively and \$3,743,216 and \$7,070,310 was uninsured, respectively.

Accounts Receivable:

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Center bills third-party payors directly and bills the patient when the patient’s liability is determined. Patient accounts receivable are due in full when billed.

Inventories:

Inventories consist of pharmaceutical, medical and office supplies and are stated at cost. Due to rapid turnover of supplies, cost approximates market value.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment:

Property and equipment are carried at cost or estimated fair value at date of acquisition. The Center capitalizes all acquisitions of \$5,000 or greater. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets ranging from three to 39 years. Leasehold improvements are amortized on a straight-line method over the estimated useful life of the improvement or the term of the lease, whichever is less. Construction-in-progress is recorded at cost and is capitalized upon completion. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

Third-Party Contractual Agreements:

The Center has agreements with Medicare and Medi-Cal that provide payments under Prospective Payment Systems (“PPS”). Medicare payment under the FQHC PPS are 80% of the lesser of the health center's actual charge or the applicable PPS rate (patient coinsurance will be 20% of the lesser of the health center's actual charge or the applicable PPS rate). In the case of Medi-Cal, payments under the PPS system are final, unless the number of reimbursable visits is changed as a result of an audit by the State of California, Department of Healthcare Services. In addition, under the Medi-Cal PPS, the Center may apply for a change-in-scope of services annually provided it meets requirements for a change in scope. This process may result in additional Medi-Cal reimbursement for the Center.

Estimated Third-party Payor Settlements:

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

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management believes these estimates are reasonable.

Revenue Recognition:

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

Donated Services, Materials and Facilities:

The Center regularly solicits contributions of services, materials, and facilities from the community. These contributions are recorded at fair market value as contribution revenue and contract service, supply, or facility expense. There were no donated services, materials or facilities for the years ended June 30, 2019 and 2018.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes:

The Center has been recognized by the Internal Revenue Service as a non-profit corporation as described in Sec. 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Sec 501(a) of the IRC and California Revenue and Taxation Code Sec 23701(d).

The Center files a United States federal tax return and a California state tax return and has determined that its major tax jurisdictions are the United States and California. The Center's returns are subject to examination by federal and state taxing authorities generally for three years after they are filed.

Reclassification:

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

Subsequent Events:

The Center has evaluated events and transactions that occurred after June 30, 2019, and through October 28, 2019, the date the financial statements were available to be issued.

Recently Adopted Accounting Pronouncement:

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* regarding the reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017. The pronouncement replaces the three classes of net assets with two new classes, requires the reporting of expenses by function and natural classification, enhances disclosures on liquidity and availability of resources, and includes several other less significant reporting enhancements. The Center has adopted this new pronouncement for the year ended June 30, 2019 and the prior year presentation is conformed except where not required.

Note 2: Patient Accounts Receivable

Patient accounts receivable was comprised of the following payors at June 30, 2019 and 2018:

	2019	2018
Medi-Cal	\$ 2,797,693	\$ 2,315,449
Medicare	235,066	215,567
Other third-party payors	197,550	211,599
Private pay	231,438	70,651
Gross patient accounts receivable	3,461,747	2,813,266
Less allowances for contractual adjustments	(245,933)	(106,152)
Total patient accounts receivable, net	\$ 3,215,814	\$ 2,707,114

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 3: Grants, Contracts, and Other Receivables

Grants, contract, and other receivables were comprised of the following at June 30, 2019 and 2018:

	2019	2018
Alameda County BHCS Mental Health Plan	\$ 70,097	\$ 112,544
Alameda County Office of AIDS	153,930	158,307
Housing and Community Development	27,279	44,680
Alameda County Health Care for the Homeless	110,845	40,483
CFHC Title X	96,291	43,688
Health Pac	1,269,380	523,568
330 – Community Health Cluster	462,455	481,315
Managed care risk pool receivable	370,738	-
Insurance recovery receivable	-	200,000
Other	233,076	266,479
Total	\$2,794,091	\$1,871,064

Note 4: Estimated Third-Party Payor Settlements

Medicare and Medi-Cal reimburse the Center at a tentative rate with a final settlement determined after the audit of the annual cost report submitted by the Center. Depending on the result of the audit, the Center might be obligated to refund part of the reimbursement to Medicare and Medi-Cal or vice versa. The Center has recorded an estimated receivable from third-party payors at June 30, 2019 and 2018 of \$1,426,301 and \$971,005 respectively and liability to third-party payors at June 30, 2019 and 2018 of \$1,651,813 and \$2,578,003, respectively.

Note 5: Property and Equipment

Land, building and equipment at June 30, 2019 and 2018 was comprised of the following:

	2019	2018
Land	\$ 4,353,191	\$ 4,353,191
Building and building improvements	19,777,478	19,161,480
Furniture and equipment	5,231,426	4,280,934
Construction in progress	256,047	58,267
Subtotal	29,618,142	27,853,872
Accumulated depreciation	(6,678,082)	(5,777,790)
Total	\$ 22,939,570	\$ 22,076,082

Depreciation and amortization expense for the years ending June 30, 2019 and 2018 was \$997,203 and \$826,010, respectively.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 6: Net Patient Revenue

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

Medicare:

Covered services rendered to Medicare program beneficiaries are paid based on a prospective payment system (PPS). Medicare payment under the FQHC PPS are 80% of the lesser of the health center's actual charge or the applicable PPS rate (patient coinsurance will be 20% of the lesser of the health center's actual charge or the applicable PPS rate). Accordingly, to the extent a health center's charge is below the applicable PPS rate, Medicare FQHC reimbursement can be limited.

Medi-Cal:

Medical and dental services rendered to Medi-Cal beneficiaries are paid under the Prospective Payment System (PPS) using rates established by the Center's "Base Year" cost report filed under the previous cost based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center's scope of service.

Managed care contracts and other:

The Center is a member of the Alameda Health Consortium (the "Consortium"), which is a partnership between eight federally qualified health centers committed to providing a comprehensive range of professional health care and social services. The Consortium contracts with various managed care organizations and administers those contracts on behalf of the eight partner health centers. As part of those contracts, the Center receives capitated payments from the Consortium for providing primary care services to covered patients.

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

Note 7: Deferred Revenue

Deferred revenue was comprised of the following at June 30, 2019 and 2018:

	2019	2018
Sobrato Foundation	\$ -	\$ 30,625
Alameda Alliance – Health Home	-	56,250
Epic	293,534	-
Other	73,998	21,583
Total	\$ 367,532	\$ 108,458

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 8: Long-term Debt

Long-term debt at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Note payable to Bank of The West dated August 27, 2013 payable in monthly installments of \$10,879. The loan bears interest at a rate of 5.26% per annum and matures August 27, 2023. The loan is secured by the Center's property.	\$ 1,558,805	\$ 1,605,625
Note payable to Nonprofit Finance Fund dated December 21, 2016 for \$6,000,000. The loan bears interest at a rate of 6.25% per annum. Monthly interest-only payments until the completion of construction (up to one year), converting to an amortizing seven year term loan based on a 15 year amortizing schedule. The loan is secured by the Center's property.	5,426,037	5,731,798
Note payable to Bank of the West dated September 27, 2017 payable in monthly installments of \$26,422. The loan bears interest at a rate of 4.65% per annum and matures September 27, 2027. The loan is secured by the Center's property.	4,471,571	4,575,100
Loan agreement with Nonprofit Finance Fund dated June 16, 2017 for up to \$2,100,000 to finance construction at the Center's Irvington clinic site. The loan bears interest at a rate of 5.5% per annum and matures July 1, 2023. The loan is secured by the Center's property.	1,748,316	1,855,223
Total long-term debt	13,204,729	13,767,746
Less: current portion	(598,066)	(479,469)
	\$ 12,606,663	\$ 13,288,277

The Center has obtained a \$300,000 revolving line-of-credit. There was no outstanding balance as of June 30, 2019 and 2018. The line-of-credit matures December 15, 2020.

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

Year	Principal
2020	\$ 598,066
2021	587,298
2022	621,855
2023	658,470
2024	1,981,289
Thereafter	8,757,751
Total	\$ 13,204,729

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 9: Retirement Plan

The Center sponsors a tax-deferred annuity plan qualified under section 403(b) of the Internal Revenue Code and is available to all full-time and part-time staff who complete one year of continuous employment. Tri-City Health Center, Inc. contributes 2% to 4% of eligible employees' salaries based on duration of employment and matches up to 2% of employee contributions. Participating employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code at their discretion. The Center's contribution to the plan totaled \$446,670 and \$388,944 for the years ended June 30, 2019 and 2018, respectively.

Note 10: Commitments and Contingencies

Medical Malpractice Claims:

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

Risks and uncertainties:

Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

Operating Lease Commitments:

The Center leases certain facilities and equipment under operating leases expiring at various times through 2023. The future minimum lease payment for the succeeding years under these committed lease arrangements is approximately: \$543,089 in 2020, \$384,231 in 2021, \$359,610 in 2022, \$329,908 in 2023, and \$231,638 in 2024. Total rent expense for the years ended June 30, 2019 and 2018 was \$562,525 and \$489,954, respectively.

Note 11: Related Party Transactions

The Alameda Health Consortium (the "Consortium"), is a partnership between eight health service organizations to provide a comprehensive range of professional health care and social services. The Consortium's purpose was to introduce the managed care business to its member clinics by servicing as a network of management service organizations which administers a risk sharing arrangement between the member clinics. The Center receives capitated payments from the Consortium for providing primary care services to covered patients. The Center periodically receives additional cash payments under the risk sharing arrangement, called risk pool distributions, from excess cash received by the Consortium on behalf of member clinics to pay their respective outstanding claims for services.

During the years ended June 30, 2019, and 2018 revenue related these additional risk pool distributions totaled \$1,533,394 and \$2,035,678, respectively. The Center has recorded a receivable related to the risk pool distributions in the amounts of \$370,738 and \$0 for the years ended June 30, 2019 and 2018, respectively.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 12: Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Expenses for the year ended June 30, 2019 include:

	Program Services	Fund Raising	General & Administration	Total
Salaries and benefits	\$ 16,681,017	\$ 354,920	\$ 6,224,195	\$ 23,260,132
Medical contractual services	7,485,693	185,059	688,504	8,359,256
Purchased services	5,159	3,000	628,450	636,609
Supplies	2,956,762	10,371	244,924	3,212,057
Travel, conferences, and meetings	374,906	24,416	211,668	610,990
Facility costs	954,143	1,859	648,768	1,604,770
Insurance	-	-	120,735	120,735
Depreciation and amortization	813,075	-	184,128	997,203
Interest	71,409	-	650,637	722,046
Other	518,793	45,900	862,844	1,427,537
Total expenses	\$ 29,860,957	\$ 625,525	\$ 10,464,853	\$ 40,951,335

Expenses for the year ended June 30, 2018 include:

Healthcare services	\$ 28,499,822
General and administrative	<u>8,656,126</u>
Total	<u>\$ 37,155,948</u>

Note 13: Donor Restricted Net Assets

Contributions, including government grants and contracts, are recorded as donor restricted if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restrictions ends or purpose restriction is accomplished, donor restricted assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Net assets with donor restrictions were comprised of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Capital Campaign	\$ 4,032	\$ 29,225

Net assets released from restrictions due to accomplishing the restricted purpose were \$25,193 for the year ended June 30, 2019.

Tri-City Health Center, Inc.
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 14: Information Regarding Liquidity and Availability of Resources

The Center regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Center has various sources of liquidity at its disposal, including cash and cash equivalents, various receivables, and a line of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing activities of providing healthcare-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The Center strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments. The following table reflects the Center's financial assets as of June 30, 2019 reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date.

Cash and cash equivalents	\$ 4,243,216
Patient accounts receivable	3,215,814
Grant receivable	2,794,091
Estimated third-party payor settlements	1,426,301
Other receivable	<u>285,885</u>
Total financial assets	11,965,307
Deferred revenue	(367,532)
Restricted by donors	<u>(4,032)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 11,593,743</u></u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Center operates with a balanced budget and anticipates collecting sufficient patient service revenue to cover general expenditures not covered by grants or donor-restricted resources. The Center also has a line of credit available to meet short-term needs. See note 9 for information about this arrangement.

SUPPLEMENTAL INFORMATION

Independent Auditor's Report on Supplemental Information

Board of Directors
Tri-City Health Center, Inc.
Fremont, California

Our audit was conducted for the purpose of forming an opinion on the financial statements of Tri-City Health Center, Inc. as a whole. The schedule of Alameda County programs is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

CHW. LLP

Fresno, California
October 28, 2019

Tri-City Health Center, Inc.
Schedule of Alameda County Programs
For the year ended June 30, 2019

Program Name	County Department	Master Contract Number	Contract Period	Contract Amount	Expenditure	Amount Received from County
PATH	ACBHS	900120-16521	7/1/18 - 6/30/19	278,624	274,478	284,491
Harms Reduction/Needle Exchange	Office of AIDS	900120-17068	7/1/18 - 6/30/19	210,271	205,577	219,459
Project Independence	Housing and Community Development	14048	7/1/16 - 1/31/20	680,685	191,577	207,095
Transvision	Office of AIDS	900120-16039	1/1/18 - 12/31/18	80,000	37,180	35,835
Transvision	Office of AIDS	900120-17748	1/1/19 - 6/30/19	31,418	31,285	38,057
Ryan White A	Office of AIDS	900120-16399	3/1/18 - 2/28/19	439,380	303,206	218,989
Ryan White A	Office of AIDS	900120-17821	3/1/19 - 2/28/20	587,407	180,938	135,673
Ryan White B	Office of AIDS	900120-16402	4/1/18 - 3/31/19	71,595	52,532	54,350
Ryan White B	Office of AIDS	900120-17835	4/1/19 - 3/31/20	71,595	17,754	11,806
Community Dental Care Coordinator	Public Health	14872	4/13/17 - 12/31/20	562,500	157,330	106,254
HOPWA	Housing and Community Development	16406	12/1/17 - 11/30/18	85,000	49,803	52,044
HOPWA	Housing and Community Development	18034	12/1/18 - 11/30/19	85,000	45,105	20,924
Street Medicine	Public Health	900120-12769	10/1/15 - 9/30/18	600,000	54,757	103,706
Street Medicine	Public Health	900120-17307	10/1/18 - 6/30/19	185,694	185,694	71,425
Mental and Behavioral Health Career Pathways Services	ACBHS	15892	10/1/17 - 3/31/19	289,930	170,173	218,216
PrEP Navigation Program	Office of AIDS	PHG12HA62000	1/1/18 - 9/30/18	148,780	57,521	78,805
ARISE: Asian Wellness Project	ACBHS	900120-16348	7/1/18 - 6/30/19	290,000	178,960	109,463
Employability Medical Evaluations for General Assistance Clients	Social Services Agency	900120-14653	7/1/18 - 6/30/19	99,900	8,640	5,850
Total				4,797,779	2,202,510	1,972,442

SINGLE AUDIT REPORTS

Tri-City Health Center, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Federal Grant / Program Title	Federal CFDA Number	Pass-Through Identification Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES:				
Direct Programs:				
Community Health Cluster	*93.224	N/A		\$ 4,247,525
Ryan White Part C	93.918	N/A	\$ 826,336	988,138
Ryan White Part C – Capacity Development	93.918	N/A		62,508
Subtotal			826,336	5,298,171
Passed Through:				
California Family Health Council, Inc.:				
Family Planning Program Title X	93.217	936-5320- 71209-17-18		201,363
County of Alameda:				
Ryan White Part A	93.914	16399/14793		484,144
Ryan White Part B	93.917	16402/17835		70,286
PrEP Navigation	93.940	PHG12HA6200		57,521
Transvision	93.940	16039/17748		68,465
Total federal financial assistance			\$ 826,336	\$ 6,179,950

* Denotes major program

Tri-City Health Center, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the expenditures of Tri-City Health Center, Inc. (the “Center”) under programs of the federal government for the year ended June 30, 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 the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Center.

Note B: 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. The Center uses the federal de minimis cost rate.

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

Independent Auditor's Report

Board of Directors
Tri-City Health Center, Inc.
Fremont, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tri-City Health Center, Inc. (the "Center"), which comprise the balance sheets as of June 30, 2019 and 2018 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-City Health Center, Inc. internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-City Health Center, Inc. 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.

CAW. LLP

Fresno, California

October 28, 2019

**Report on Compliance For Each Major Federal Program
And Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Tri-City Health Center, Inc.
Fremont, California

Report on Compliance for Each Major Federal Program

We have audited Tri-City Health Center, Inc. (the "Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Tri-City Health Center, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Tri-City Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CAW. LLP

Fresno California
October 28, 2019

Tri-City Health Center, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
Internal Control over financial reporting: Material weakness identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs: Material weakness identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Major Programs

Community Health Custer	<u>CFDA Number</u>	93.224
Dollar threshold used to distinguish Types A and B programs		\$ 750,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Tri-City Health Center, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings: None

Federal Award Findings And Questioned Costs: None

III. Prior Year Audit Findings and Questioned Costs: None