



*Reports of Independent Auditors and
Financial Statements with
Supplementary Information*

**Cares Community Health
dba One Community Health**

December 31, 2019 and 2018

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Report of Independent Auditors

To the Board of Directors
Cares Community Health dba One Community Health

Report on the Financial Statements

We have audited the accompanying financial statements of Cares Community Health dba One Community Health (OCH), which comprise the balance sheets as of December 31, 2019 and 2018, the related statements of operations, cash flows, and functional expenses 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 misstatements, 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 audits 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 OCH as of December 31, 2019 and 2018, and the changes in its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditure of federal awards, as required by Title 2 U.S. Code of Federal Regulations 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 other 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 expenditure of federal awards 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 reported dated September 30, 2020, on our consideration of OCH'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 OCH'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 OCH's internal control over financial reporting and compliance.

Moss Adams LLP

Sacramento, California
September 30, 2020

Financial Statements

Cares Community Health dba One Community Health
Balance Sheets
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,461,308	\$ 1,490,044
Investments	31,839,885	25,529,175
Patient accounts receivable, net	1,401,452	4,748,318
Pharmacy accounts receivable, net	2,251,000	2,520,056
Grants and contracts receivable	1,398,458	1,762,384
Other accounts receivable	-	21,058
Inventories	1,307,397	1,289,046
Prepaid expenses	692,563	603,696
	<u>41,352,063</u>	<u>37,963,777</u>
NONCURRENT ASSETS		
Security deposit	53,599	86,147
Estimated third-party payor settlements	2,724,578	4,288,529
Property and equipment, net	20,003,324	21,314,494
	<u>20,003,324</u>	<u>21,314,494</u>
Total assets	<u>\$ 64,133,564</u>	<u>\$ 63,652,947</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 4,301,631	\$ 4,962,317
Deferred revenue	72,624	25,744
Long-term debt, current portion	568,311	551,733
	<u>568,311</u>	<u>551,733</u>
Total current liabilities	4,942,566	5,539,794
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	7,903,487	8,520,065
	<u>7,903,487</u>	<u>8,520,065</u>
Total liabilities	<u>12,846,053</u>	<u>14,059,859</u>
NET ASSETS		
Without donor restrictions	51,287,511	49,593,088
	<u>51,287,511</u>	<u>49,593,088</u>
Total net assets	<u>51,287,511</u>	<u>49,593,088</u>
Total liabilities and net assets	<u>\$ 64,133,564</u>	<u>\$ 63,652,947</u>

Cares Community Health dba One Community Health
Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
REVENUES		
Ancillary outpatient revenue, net of contractual allowances	\$ 16,047,919	\$ 11,525,392
Provision for uncollectible accounts	(3,503,429)	(498,847)
Net ancillary outpatient revenue	12,544,490	11,026,545
Pharmacy revenue, net of contractual allowances	51,857,380	48,660,109
Provision for uncollectible accounts	(970,215)	(820,301)
Cost of goods sold	(34,319,142)	(31,127,937)
Net pharmacy revenue	16,568,023	16,711,871
Grants and contracts	6,231,250	6,595,597
Contributions	14,065	16,598
Other revenue	139,760	122,203
Total revenues	35,497,588	34,472,814
EXPENSES		
Program expenses		
Medical	14,418,463	11,766,618
Pharmacy	4,841,505	4,869,963
Behavioral health	1,393,512	2,467,242
Dental	3,255,921	2,543,710
Optometry	561,657	218,051
Enabling services	3,075,805	3,188,891
Total program expenses	27,546,863	25,054,475
Management and general	11,579,864	10,734,864
Total expenses	39,126,727	35,789,339
Net operating loss	(3,629,139)	(1,316,525)
NONOPERATING REVENUE		
Net unrealized gain (loss) on investments	4,657,188	(5,248,501)
Investment income, net	681,395	4,648,796
Other nonoperating loss	(15,021)	(121,415)
Total nonoperating revenue (expense)	5,323,562	(721,120)
CHANGE IN NET ASSETS	1,694,423	(2,037,645)
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	49,593,088	51,630,733
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year	\$ 51,287,511	\$ 49,593,088

Cares Community Health dba One Community Health
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,694,423	\$ (2,037,645)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,482,804	1,455,084
Loss on disposal of property and equipment	18,544	138,874
Unrealized (gains) losses on investments	(4,657,188)	5,248,501
Provision for uncollectible accounts	4,473,644	1,319,148
Changes in:		
Patient accounts receivable	(156,563)	(3,889,845)
Pharmacy accounts receivable	(701,159)	(1,111,095)
Grants and contracts receivable	363,926	(134,005)
Other accounts receivable	21,058	5,506
Estimated third-party payor settlements	1,563,951	676,232
Inventories	(18,351)	(271,098)
Prepaid expenses	(88,867)	(45,873)
Security deposit	32,548	1,000
Accounts payable and accrued expenses	(660,686)	(1,498,884)
Deferred revenue	46,880	(188,006)
Net cash provided by (used in) operating activities	<u>3,414,964</u>	<u>(332,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(190,178)	(1,641,014)
Purchase of investments	(5,397,109)	(25,147,360)
Proceeds from sale of investments	<u>3,743,587</u>	<u>24,771,131</u>
Net cash used in investing activities	<u>(1,843,700)</u>	<u>(2,017,243)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt	(600,000)	(539,402)
Proceeds from long-term debt	<u>-</u>	<u>2,441,671</u>
Net cash (used in) provided by financing activities	<u>(600,000)</u>	<u>1,902,269</u>
Change in cash and cash equivalents	971,264	(447,080)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,490,044</u>	<u>1,937,124</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,461,308</u>	<u>\$ 1,490,044</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest paid	<u>\$ 271,278</u>	<u>\$ 312,071</u>

Cares Community Health dba One Community Health
Statement of Functional Expenses
Year Ended December 31, 2019

December 31, 2019

EXPENSES	Medical	Pharmacy	Behavioral Health	Dental	Optometry	Enabling Services	Management and General	Total
Wages and benefits	\$ 9,524,948	\$ 526,393	\$ 1,159,170	\$ 2,147,328	\$ 18,732	\$ 1,875,018	\$ 7,341,432	\$ 22,593,021
Doctors, contracted	1,637,910	-	-	-	472,200	-	-	2,110,110
Pharmacy staff	-	3,053,179	-	-	-	-	-	3,053,179
Other professional fees	170,219	260,151	19,508	140	33	237,956	1,391,629	2,079,636
Emergency financial assistance	4,336	-	10,676	215,622	-	532,887	146,891	910,412
Medical supplies	878,872	20,507	10,704	406,105	-	-	-	1,316,188
Laboratory fees	297,061	-	-	-	-	-	-	297,061
Telephone and utilities	141,154	36,667	9,814	29,774	5,186	35,015	203,184	460,794
Insurance	69,714	-	-	1,906	-	-	93,863	165,483
Repairs and maintenance	271,570	70,007	11,928	59,211	10,259	60,764	114,179	597,918
Computer hardware / software support	375,792	105,447	105,915	79,435	18,789	88,387	956,930	1,730,695
Depreciation and amortization	461,116	336,678	20,829	196,107	17,914	106,104	344,056	1,482,804
Interest expense	121,551	32,223	5,490	26,558	4,722	27,969	51,957	270,470
Other costs	464,220	400,253	39,478	93,735	13,822	111,705	935,743	2,058,956
Total expenses	\$ 14,418,463	\$ 4,841,505	\$ 1,393,512	\$ 3,255,921	\$ 561,657	\$ 3,075,805	\$ 11,579,864	\$ 39,126,727

Cares Community Health dba One Community Health
Statement of Functional Expenses
Year Ended December 31, 2018

December 31, 2018

EXPENSES	Medical	Pharmacy	Behavioral Health	Dental	Optometry	Enabling Services	Management and General	Total
Wages and benefits	\$ 6,712,364	\$ 413,918	\$ 2,087,343	\$ 1,759,162	\$ 2,881	\$ 1,742,314	\$ 6,639,323	\$ 19,357,305
Wages and benefits	1,738,067	-	80,475	-	168,375	-	-	1,986,917
Pharmacy staff	-	3,111,128	-	-	-	-	-	3,111,128
Other professional fees	179,796	101,900	21,298	31,011	138	190,168	1,178,373	1,702,684
Emergency financial assistance	8,606	328	9,398	188,401	-	947,654	357,679	1,512,066
Medical supplies	357,021	397,926	9,005	148,877	-	-	9,978	922,807
Laboratory fees	127,357	-	-	-	-	-	-	127,357
Telephone and utilities	238,150	30,828	18,068	29,337	3,591	25,819	70,774	416,567
Insurance	90,496	376	196	1,474	47	245	98,279	191,113
Repairs and maintenance	365,566	48,084	24,468	47,357	7,859	30,614	67,570	591,518
Computer hardware / software support	351,792	69,361	79,551	37,534	9,229	77,749	479,582	1,104,798
Depreciation and amortization	714,071	304,865	48,660	177,326	11,591	60,883	137,688	1,455,084
Interest expense	196,637	25,770	13,414	25,176	3,195	16,784	34,878	315,854
Other costs	686,695	365,479	75,366	98,055	11,145	96,661	1,660,740	2,994,141
Total expenses	\$ 11,766,618	\$ 4,869,963	\$ 2,467,242	\$ 2,543,710	\$ 218,051	\$ 3,188,891	\$ 10,734,864	\$ 35,789,339

Cares Community Health dba One Community Health

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and operation – Cares Community Health dba One Community Health (OCH) is a Federally Qualified Health Center (FQHC) located in mid-town Sacramento and provides medical, dental, mental health, pharmacy, and other related services for all individuals with an emphasis on medically underserved patients.

Beginning July 2014, OCH became a FQHC Look Alike and achieved full FQHC status in May 2016. This status allows OCH to bill for services provided to qualified Medicare and Medi-Cal insured patients at an enhanced fee which approximates the true cost of primary care visits.

Since 1989, and prior to becoming a FQHC, OCH operated as OCH for AIDS Research, Education, and Services – Sacramento. The organization was created to medically assist individuals who had acquired the Human Immunodeficiency Virus (HIV) or Acquired Immune Deficiency Syndrome (AIDS). In 2013, OCH's Board of Directors expanded its services to encompass all medically underserved individuals. The corporate name has since been changed to Cares Community Health dba One Community Health.

Medical billing, grants and contracts, contributions, and pharmacy operations primarily support OCH.

Basis of presentation – The financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. At times, cash and cash equivalents held by OCH exceed Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits.

Investments – Investments consist of managed accounts, primarily fixed income, U.S. government treasury notes, U.S. government agency asset-backed securities, and equity securities – common stock. Investments are stated at fair value. Realized gains, interest and dividends, and investment fees are included in the statements of operations as investment income.

All investments are classified as trading securities. Therefore, unrealized gains and losses are included in the performance indicator.

Accounts receivable – Accounts receivable are reduced by an allowance for doubtful accounts and contractual adjustments. In evaluating the collectability of accounts receivable, OCH analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, OCH analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

Cares Community Health dba One Community Health Notes to Financial Statements

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), OCH records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

OCH recorded an allowance for doubtful accounts of \$3,405,808 and \$501,111 as of December 31, 2019 and 2018, respectively. There were write-offs of patient accounts receivable in the amount of \$598,732 and \$0 recorded for the years ended December 31, 2019 and 2018, respectively.

Inventories – Inventories consist of medical supplies and pharmaceuticals and are stated at the lower of cost or net realizable value (first in-first out method). Because of its status as a federal grantee, OCH's pharmacy is eligible to participate in the federal 340B drug discount program. The program allows pharmaceuticals sold to eligible clients to be purchased at significant discounts. The pharmacy cost of goods sold reflects these discounts.

Property and equipment, net – Property and equipment purchased or acquired, with an original cost of \$5,000 or more, are stated at acquisition cost or fair value on the date of purchase or donation, net of accumulated depreciation. Major additions which extend the asset's useful life are capitalized.

Depreciation is provided on a straight-line basis over the lesser of the estimated useful life of the assets or the lease term for assets under capital leases and leasehold improvements as follows:

Building	25 years
Leasehold improvements	7 to 25 years
Furniture and fixtures	10 years
Computer equipment	5 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restriction unless use of the assets is restricted by the donor.

Impairment of long-lived assets – OCH evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset carrying amount is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Cares Community Health dba One Community Health

Notes to Financial Statements

Net assets – OCH classifies net assets as follow:

Net assets without donor restrictions – Represent resources available to support OCH's operations, and resources with no use or time restrictions that have become available for use by OCH, in accordance with the intention of the donor. A portion of these net assets may be designated by the Board of Directors for specific purposes. As of December 31, 2019 and 2018, OCH had no board designated net assets.

Net assets with donor restrictions – Represent those resources the use of which has been restricted by donors to specific use or the passage of time. The release of net assets from restrictions results from the satisfaction of the restricted purposes specified by the donors, or the passage of time, or both. As of December 31, 2019 and 2018, OCH had no net assets with donor restrictions.

Net ancillary outpatient revenue – OCH has agreements with third-party payors that provide for payments to OCH at amounts different from its established rates. Net ancillary outpatient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

During 2019 and 2018, net ancillary outpatient revenues in the accompanying statements of operations were decreased by \$1,828,042 and \$245,991, respectively, to reflect changes in the estimated allowance for doubtful accounts from the prior year.

Sliding fee scales – OCH provides medical, dental, and behavioral health services to eligible patients at a discounted rate or for a nominal fee, based on eligibility determined by the patient's household size and income.

Pharmacy revenue – Pharmacy revenue is recognized as prescriptions are filled. OCH participates in the Federal 340B Drug Pricing Program (340B Program) which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. OCH earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. 340B Program revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs, administrative and filling fees.

HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Grant and contracts revenues – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities.

Cares Community Health dba One Community Health Notes to Financial Statements

The change in accounting principle was adopted on a modified prospective basis and as a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019. The effect of adopting the new standard had no impact to the amount of contributions or grant revenue recognized in the year ended December 31, 2019, in comparison to the prior year.

Grants and contracts are recognized as revenue and reported as increases in net assets when a donor makes a promise to give that is, in substance, unconditional. Grants and contracts with donor stipulations that limit their use are recorded as increases to net assets without donor restrictions if the restrictions are met in the fiscal year in which the contributions are recognized, otherwise, they are recorded as increases to net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Grants and contracts that are conditioned upon certain performance requirements and/or the incurrence of qualifying expenses are accounted for as conditional contributions and recognized as revenue when the conditions have been met. Amounts received prior to meeting the conditions are reported as refundable advances until conditions have been met. Grant and contract activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Advertising – OCH expenses advertising costs when incurred. Total advertising costs charged to various activities during the years ended December 31, 2019 and 2018, was \$144,960 and \$803,302, respectively, and is included in other costs on the statements of operations and statements of functional expenses.

Income taxes – OCH has been granted tax-exempt status by the Internal Revenue Service pursuant to code section 501(c)(3) and also by the California Revenue and Tax Code Section 23701d. OCH has no unrecognized tax positions or uncertain tax positions requiring accrual. Accordingly, no provision for income taxes has been included in the accompanying financial statements. However, OCH files informational returns annually with federal and state taxing authorities.

Functional expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses such as depreciation, interest, telephone, and utilities are allocated on the basis of square footage. Benefits are allocated on the basis of salary expense by department. Other expenses are directly charged to the functions they benefit.

Performance indicator – The statements of operations include a performance indicator. Changes in net assets is consistent with industry practice and includes contributions and grants of long-lived assets (including assets acquired using contributions and grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

New accounting pronouncements – In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new accounting standard develops a common revenue standard that will remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, provide more useful information to users of financial statements, and simplify the preparation of financial statements. In June 2020, FASB deferred the amended implementation date by one year. Application of this standard is effective for OCH beginning January 1, 2020. OCH is currently evaluating the impact of adoption of the new standard on its financial statements.

Cares Community Health dba One Community Health

Notes to Financial Statements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements in the financial statements of lessees. The adoption of ASU 2016-02 is effective for OCH beginning January 1, 2022, and management is currently evaluating the impact of the provisions of the new standard on its financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. OCH recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. OCH's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date, and before financial statements are available to be issued. Subsequent events have been evaluated through September 30, 2020, the date the financial statements were available to be issued.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic and a public health emergency. The COVID-19 pandemic has not resulted in closure of OCH's facilities, however OCH continues to monitor the situation closely and could close its facilities if government mandated. Facility closures or disruption in operations of OCH's customers, suppliers, or third party payors could adversely impact OCH's results of operations to the extent that COVID-19 or any other epidemic harms the global economy. OCH cannot estimate the impact on its operations and financial results, and the duration and intensity of the impact of the coronavirus and resulting disruption to OCH's operations is uncertain.

In 2020, OCH received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), under the CARES Act in the amount of \$224,519, and OCH was required to sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to help prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to coronavirus, limitations of out-of-pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. Also anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. Management is still determining their ability to comply with these terms and conditions.

NOTE 2 – NET ANCILLARY OUTPATIENT REVENUE

OCH is approved as an FQHC for both Medicare and Medi-Cal reimbursement and has agreements with third-party payors that provide payments to OCH at amounts different from its established rates. These payment arrangements include:

Medi-Cal – Covered FQHC services rendered to Medi-Cal program beneficiaries are paid based on a prospective reimbursement methodology. OCH is reimbursed at a set encounter rate for all services provided. Services not covered under the FQHC benefit are paid based on established fee schedules. OCH is required to submit an annual reconciliation request to the California Department of Health Care Services (DHCS) 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.

Cares Community Health dba One Community Health Notes to Financial Statements

OCH has recorded estimated settlements receivable of \$2,605,019 as of December 31, 2019, for the reconciliation requests submitted for the fiscal years 2015 through 2019, and \$4,096,771 as of December 31, 2018, for the reconciliation requests submitted for the fiscal years 2015 through 2018. Such amounts are included in the total estimated third-party payer settlements as reported on the balance sheets. Following submission of the reconciliation request, OCH will generally receive a tentative settlement from DHCS, with a final settlement made within three years of the date of submission. Management believes that any adjustment from subsequent audit by DHCS will not materially affect the financial statements of OCH.

Medicare – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. OCH is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by OCH and audit thereof by the Medicare fiscal intermediary. OCH recorded an estimated third-party payor settlement receivable for Medicare cost reimbursement in the amount of \$119,559 and \$191,758 as of December 31, 2019 and 2018, respectively, which are included in the total estimated third-party payer settlements as reported on the balance sheets. Services not covered under the FQHC benefit are paid based on established fee schedules.

Other third-party payors – OCH has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to OCH under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

The following is the mix of net ancillary outpatient revenue for the years ended December 31:

	2019	2018
Medi-Cal and related programs	\$ 9,905,569	\$ 6,186,840
Medicare	2,481,729	2,337,637
Commercial and other third party payors	1,740,441	1,487,845
Self-pay	1,333,420	1,192,360
	15,461,159	11,204,682
Less: Contractual discounts, allowances, and provision for bad debt	(2,916,669)	(178,137)
Net ancillary outpatient revenue	\$ 12,544,490	\$ 11,026,545

Approximately 80% and 76% of ancillary outpatient service revenue was from participation in the Medicare and Medi-cal programs for the years ended December 31, 2019 and 2018, respectively.

Cares Community Health dba One Community Health

Notes to Financial Statements

NOTE 3 – PATIENT ACCOUNTS RECEIVABLE

OCH grants credit without collateral to its patients, most of whom are residents of Sacramento County and surrounding areas and are insured under third-party payor agreements.

The following comprise the patient accounts receivable balance as of December 31:

	<u>2019</u>	<u>2018</u>
Medi-Cal and related programs	\$ 4,119,103	\$ 3,417,566
Medicare	162,672	672,645
Commercial and other third party payors	256,638	554,138
Self-pay	<u>268,847</u>	<u>605,080</u>
Patient accounts receivable, gross	4,807,260	5,249,429
Less: Allowance for doubtful accounts	<u>(3,405,808)</u>	<u>(501,111)</u>
Patient accounts receivable, net	<u>\$ 1,401,452</u>	<u>\$ 4,748,318</u>

The mix of receivables from patients and third-party payors, calculated on the basis of gross amounts due as of December 31, is as follows:

	<u>2019</u>	<u>2018</u>
Medi-Cal and related programs	86%	65%
Medicare	3%	13%
Commercial insurance and other third party payors	5%	11%
Self-pay	<u>6%</u>	<u>11%</u>
Total	<u>100%</u>	<u>100%</u>

NOTE 4 – GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable include the following amounts earned but not yet received by the grantor as of December 31:

	<u>2019</u>	<u>2018</u>
Sacramento County Department of Public Health	\$ 725,607	\$ 1,237,896
U.S. Department of Health and Human Services	591,209	426,706
Sacramento Housing & Redevelopment Agency	47,305	70,171
Other	<u>34,337</u>	<u>27,611</u>
Total grants and contracts receivable	<u>\$ 1,398,458</u>	<u>\$ 1,762,384</u>

Grants and contracts receivable from Sacramento County Department of Public Health and U.S. Department of Health and Human Services comprise 94% of the outstanding balance as of December 31, 2019 and 2018.

Cares Community Health dba One Community Health

Notes to Financial Statements

NOTE 5 – INVESTMENTS

Investments reported at fair market value consist of the following as of December 31:

	2019	2018
Managed accounts, primarily fixed income	\$ 4,940,926	\$ 2,451,558
U.S. government treasury notes	3,538,484	1,102,412
U.S. government agency asset-backed securities	534,710	444,974
Equity securities – common stock	22,825,765	21,530,231
	<u>\$ 31,839,885</u>	<u>\$ 25,529,175</u>

NOTE 6 – FAIR VALUE MEASUREMENTS

OCH applies the guidance FASB ASC 820, *Fair Value Measurements*, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for the asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including OCH own credit risk.

In addition to defining fair value, the standard expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

Cares Community Health dba One Community Health Notes to Financial Statements

The following tables present information about OCH's assets measured at fair value on a recurring basis as of December 31:

	Fair Value Measurements Using			Total Balance at December 31, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Managed accounts, primarily fixed income	\$ 4,940,926	\$ -	\$ -	\$ 4,940,926
U.S. government treasury notes	-	3,538,484	-	3,538,484
U.S. government agency asset-backed securities	-	534,710	-	534,710
Equity securities – common stock	22,825,765	-	-	22,825,765
	<u>\$ 27,766,691</u>	<u>\$ 4,073,194</u>	<u>\$ -</u>	<u>\$ 31,839,885</u>

	Fair Value Measurements Using			Total Balance at December 31, 2018
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Managed accounts, primarily fixed income	\$ 2,451,558	\$ -	\$ -	\$ 2,451,558
U.S. government treasury notes	-	1,102,412	-	1,102,412
U.S. government agency asset-backed securities	-	444,974	-	444,974
Equity securities – common stock	21,530,231	-	-	21,530,231
	<u>\$ 23,981,789</u>	<u>\$ 1,547,386</u>	<u>\$ -</u>	<u>\$ 25,529,175</u>

As of December 31, 2019 and 2018, the Level 2 instruments listed in the fair value hierarchy tables above are valued using the following techniques and inputs:

U.S. government treasury notes – The fair value of U.S. government treasury notes classified as Level 2 is primarily determined by the market approach using broker feeds and Electronic Communication Networks (ECNs). Significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, including market research publications, and vendor trading platform data.

U.S. government agency asset-backed securities – The fair value of U.S. government agency asset-backed securities classified as Level 2 is primarily determined by the market approach using multi-dimensional, collateral specific spread/prepayment speed tables. Significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, including market research publications, new issue data, monthly payment information, and collateral performance.

Cares Community Health dba One Community Health
Notes to Financial Statements

NOTE 7 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following as of December 31:

	2019	2018
Land	\$ 2,609,000	\$ 2,609,000
Building	7,462,162	7,462,162
Leasehold improvements	13,331,138	13,263,963
Furniture and equipment	4,809,834	4,705,376
Property and equipment, cost	28,212,134	28,040,501
Less: accumulated depreciation and amortization	(8,208,810)	(6,726,007)
Property and equipment, net	\$ 20,003,324	\$ 21,314,494

Depreciation and amortization expense totaled \$1,482,804 and \$1,455,084 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 – LONG-TERM DEBT AND LINE OF CREDIT

In December 2016, OCH entered into a financing agreement with California Enterprise Development Authority (CEDA) and Wells Fargo Bank to issue revenue bonds for a principal amount of \$9,500,000 to refinance an existing loan and finance the construction, development, renovation, furnishing, and equipping of OCH's community healthcare center located in Sacramento, California. Per the financing agreement, Wells Fargo Bank will lend OCH the proceeds received by CEDA from the sale of the bonds. The bonds are collateralized by OCH's clinical facilities located in Sacramento, California. The loan bears interest at 3.05% per annum and matures in December 2032. The balance of the loan is \$8,471,798 and \$9,071,798 as of December 31, 2019 and 2018, respectively.

Under the financing agreement, OCH is required to maintain certain financial covenants, which are minimum debt service coverage, maintaining net income on an annual basis, and liquidity ratios. As of December 31, 2019, OCH was not in compliance with the minimum debt service coverage ratio requirement and the requirement to provide audited financial statements within 150 days of fiscal year end. OCH was granted a waiver of condition from Wells Fargo Bank for both instances of noncompliance. As of December 31, 2018, OCH was not in compliance with the minimum net income requirement and the requirement to provide audited financial statements within 150 days of fiscal year end, and OCH was granted a waiver of condition from Wells Fargo Bank for both instances of noncompliance.

Cares Community Health dba One Community Health

Notes to Financial Statements

Aggregate annual maturities of long-term debt are as follows for the years ended December 31:

Years Ended December 31,

2020	\$	568,311
2021		586,876
2022		605,290
2023		624,282
2024		643,344
Thereafter		<u>5,443,695</u>
	\$	<u><u>8,471,798</u></u>

In addition, OCH has a revolving bank line of credit that expires in November 2020, providing for advances up to \$4,000,000, and bearing interest at the prime rate (4.75% at December 31, 2019). There were no borrowings against the line outstanding as of December 30, 2019 and 2018. The line is collateralized by OCH's inventory, accounts receivable, equipment, and intangible assets.

NOTE 9 – COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

Grants and contracts – Grants awarded to OCH are subject to the funding agencies' criteria, contract terms, and regulations under which expenditures may be charged, and are subject to review and audit by the grantor agencies. Such audits may determine that certain costs charged do not comply with the grant terms and criteria and in such cases, OCH would be held responsible for repayment of the costs or be subject to reduction of future funding in the amount of the costs in question. Management does not anticipate material questioned costs for contracts and grants administered during the period. Continuing program funding from federal and state sources is contingent upon availability of funds and project performance.

Operating leases – OCH leases facilities and equipment under operating leases. The leases expire on various dates through 2024, and have various renewal options. The total amount of the payments is being charged to expense using a straight-line method over the term of the lease.

Future minimum lease payments are as follows for the years ending December 31:

Years Ended December 31,

2020	\$	496,202
2021		408,601
2022		252,898
2023		257,555
2024		<u>19,528</u>
	\$	<u><u>1,434,784</u></u>

Rental expense included in management and general expenses totaled \$644,025 and \$642,309 for the years ended December 31, 2019 and 2018, respectively.

Cares Community Health dba One Community Health Notes to Financial Statements

340B Program – OCH participates in the 340B Program enabling OCH to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change.

Health care reform legislation – The Patient Protection and Affordable Care Act (PPACA) allowed for the expansion of Medicaid members in the State of California. Any further federal or state changes in funding could have an impact on OCH. With the changes in the executive branch, the future of PPACA and impact of future changes in Medicaid to OCH is uncertain at this time.

Medical malpractice claims – OCH purchases professional liability insurance coverage from an insurance company to cover medical malpractice claims. The policy is a claims-made policy covering losses up to \$1,000,000 per claim and \$6,000,000 in aggregate. OCH intends to maintain these coverages on a continuous basis. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon OCH's claims experience, no such accrual has been made for medical malpractice costs for the years ended December 31, 2019 and 2018. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Contingencies – OCH is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of OCH.

NOTE 10 – RELATED-PARTY TRANSACTIONS

In 2011, the Board made the decision that OCH should become a FQHC to serve all of Sacramento. At that time, it also created a private foundation, CARES Foundation (the Foundation).

The Foundation was created for the express purpose of supporting and promoting organizations that engage in activities that directly or indirectly further the prevention of HIV/AIDS, provide services to individuals with HIV/AIDS, and/or improve the welfare of individuals with HIV/AIDS in the Sacramento region.

Once the Foundation was established, it took the deliberate step to separate itself from the founding organization, OCH. These steps included recruiting board members with no prior affiliation with the founding organization but with an interest in promoting the mission of the Foundation. Additionally, the grant making process was promulgated to assure that no agency, including OCH, received special consideration in approval of Foundation issued grants.

Effective March 28, 2015, OCH and the Foundation entered into a one-year management agreement to provide management services to the Foundation. This agreement is subject to renewal on an annual basis. As of December 31, 2019 and 2018, OCH and the Foundation are operating under the March 28, 2015, agreement and are in the process of renewing the agreement. During 2019 and 2018, the Foundation paid \$11,390 and \$15,810, respectively, to OCH for management fees and rent. Additionally, OCH recognized revenue from grants provided by the Foundation totaling \$421,348 and \$197,889 during 2019 and 2018, respectively.

Cares Community Health dba One Community Health

Notes to Financial Statements

OCH has also entered into the following transactions with the employers of various board members during the years ended December 31:

	<u>2019</u>	<u>2018</u>
Expenses		
EAP Services (Magellan)	\$ 7,320	\$ 6,625
Contracted medical provider expense (Sutter Medical)	75,970	3,116
	<u> </u>	<u> </u>
Total	<u>\$ 83,290</u>	<u>\$ 9,741</u>

NOTE 11 – EMPLOYEE BENEFIT PLAN

OCH's 401(k) Savings Plan commenced on July 1, 2004, and is available to employees who have completed 90 days of employment and have attained the age of 18. Under the plan, eligible employees are able to defer a selected percentage of their annual compensation. For employees who have completed one year of eligible service and are 18 or older, OCH will make a matching contribution to the plan equal to the participant's contribution up to a maximum of 4% of the employee's compensation. OCH's contribution to the plan totaled \$567,216 and \$467,739 for the years ended December 31, 2019 and 2018, respectively.

NOTE 12 – LIQUIDITY AND AVAILABILITY

OCH has a goal to maintain cash and short-term investment balances on hand to meet at least 30 days of ordinary business expenses, which are on average \$3,215,895 and \$2,941,590 as of December 31, 2019 and 2018, respectively. OCH has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As of December 31, 2019 and 2018, OCH had a working capital surplus of \$36,409,497 and \$32,423,983, and average days' cash and short-term investments on hand of 333 and 287 days, respectively.

OCH's financial assets are available within one year of the balance sheet date for general expenditures as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,461,308	\$ 1,490,044
Investments available for current use	31,839,885	25,529,175
Patient accounts receivable, net	1,401,452	4,748,318
Pharmacy accounts receivable, net	2,251,000	2,520,056
Grants and contracts receivable	1,398,458	1,762,384
Other accounts receivable	<u>-</u>	<u>21,058</u>
	<u> </u>	<u> </u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 39,352,103</u>	<u>\$ 36,071,035</u>

Supplementary Information

Cares Community Health dba One Community Health
Schedule of Expenditure of Federal Awards
Year Ended December 31, 2019

Federal Grantor / Pass-Through Grantor Program or Cluster Title	CFDA Number	Award Period	Award Number	Federal Expenditures
<i>U.S. Department of Health and Human Services</i>				
<i>Direct Programs:</i>				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	9/1/18 - 8/31/19	PA06HA32166010	\$ 96,965
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	9/1/19 - 8/31/20	P06HA337300100	10,467
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	4/1/18- 3/31/19	H76HA007031701	127,208
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	4/1/19- 3/31/20	H76HA007031800	345,262
				<u>579,902</u>
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6/1/18 - 5/31/19	H80CS28364-04-01	349,268
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6/1/18 - 5/31/19	H80CS28364-04-02	65,540
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6/1/18 - 5/31/19	H80CS28364-04-03	217,654
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6/1/19 - 5/31/20	H80CS28364-05-00	427,575
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6/1/19 - 5/31/20	H80CS28364-05-02	47,068
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6/1/19 - 5/31/20	H80CS28364-05-04	18,285
<i>Subtotal Consolidated Health Centers cluster</i>				<u>1,125,390</u>
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	8/1/18 - 7/31/19	H12HA247760700	208,526
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	8/1/19 - 7/31/20	H12HA247760800	141,479
				<u>350,005</u>
<i>Subtotal Direct Programs</i>				<u>2,055,297</u>
<i>Pass-Through Programs From:</i>				
Sacramento County - HIV Emergency Relief Project Grants	93.914	3/1/18 - 2/28/19	7207500-13/20-704	432,965
Sacramento County - HIV Emergency Relief Project Grants	93.914	3/1/19 - 2/29/20	7207500-13/20-704	1,004,693
Sacramento County - HIV Emergency Relief Project Grants	93.914	4/1/18- 3/31/19	7207500-13/20-133	292,547
Sacramento County - HIV Emergency Relief Project Grants	93.914	4/1/19 - 2/28/20	7207500-13/20-133	699,715
Sacramento County - HIV Emergency Relief Project Grants	93.914	9/30/18 - 9/30/19	7207500-13/20-133	438,023
				<u>2,867,943</u>
Sierra Health Foundation - California State Opioid Response	93.788	6/1/2018 - 8/31/20	CA19MAT021	14,463
<i>Subtotal Pass-Through Programs</i>				<u>2,882,406</u>
<i>Total U.S. Department of Health and Human Services</i>				<u>4,937,703</u>
<i>U.S. Department of Housing and Urban Development</i>				
<i>Pass-Through Programs From:</i>				
Sacramento County - Housing Opportunities for Persons with AIDS	14.241	1/1/19 - 12/31/19	CAH18F002	214,000
<i>Total U.S. Department of Housing and Urban Development</i>				<u>214,000</u>
<i>Total Expenditures of Federal Awards</i>				<u>\$ 5,151,703</u>

Cares Community Health dba One Community Health
Notes to the Schedule of Expenditure of Federal Awards
Year Ended December 31, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditure of federal awards (the Schedule) includes the federal grant activity of Cares Community Health dba One Community Health (OCH) 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 OCH, it is not intended to and does not present the balance sheet, statement of operations, or cash flows of OCH.

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.

NOTE 3 – INDIRECT COST RATE

OCH has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – SUBRECIPIENTS

OCH did not pass-through federal awards to sub-recipients during the year ended December 31, 2019.

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*

To the Board of Directors
Cares Community Health dba One Community Health

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 Cares Community Health dba One Community Health (OCH), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCH'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 OCH's internal control. Accordingly, we do not express an opinion on the effectiveness of OCH'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 the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

OCH's Response to the Finding

OCH's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. OCH's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 OCH's internal control or on compliance. This report is an integral part of the 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.

Moss Adams LLP

Sacramento, California
September 30, 2020

Report of Independent Auditors on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Cares Community Health dba One Community Health

Report on Compliance for Each Major Program

We have audited Cares Community Health dba One Community Health's (OCH) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on OCH's major federal programs for the year ended December 31, 2019. OCH'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 the terms and conditions of its federal award applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of OCH'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 OCH'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 OCH's compliance.

Opinion on Each Major Federal Program

In our opinion, OCH 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 OCH 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 OCH'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 OCH'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.

Moss Adams LLP

Sacramento, California
September 30, 2020

Cares Community Health dba One Community Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Section I – Summary of Auditor’s Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of each major federal program and type of auditor’s report issued on compliance for each major federal program:

<i>CFDA Numbers</i>	<i>Name of Major Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for each Major Federal Program</i>
93.914	HIV Emergency Relief Project Grants	<i>Unmodified</i>
93.224	Consolidated Health Centers Cluster	<i>Unmodified</i>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Cares Community Health dba One Community Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Section II – Financial Statement Findings

**Reference
Number**

Finding

2019-001

Audit adjustments (Significant Deficiency)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition: OCH's financial statements required adjustments to be in conformity with GAAP requirements. Areas in which adjustments were proposed by the auditors include:

- Patients accounts receivable
- Net ancillary outpatient revenue
- Pharmacy inventory and cost of goods sold

Context: OCH should present their financial statements in conformity with GAAP requirements. Timely and thorough review of balance sheet accounts, including estimates, is necessary to identify necessary adjustments.

Cause: OCH maintains policies and procedures which include preparation and review of routine monthly journal entries and reconciliations. However, OCH did not identify certain necessary adjustments required to present the financial statements in accordance with GAAP or identify the needed adjustments on a timely and accurate basis.

Effect: Adjusting journal entries were proposed during the financial statement audit.

Recommendation: In order to avoid unanticipated adjustments at the end of the year, and to ensure that financial results are reported accurately, we recommend OCH strengthen policies and procedures surrounding its monthly financial close and reporting process. Such policies and procedures should be sufficient to ensure significant accounts are reconciled to supporting documentation consistently and timely. Reconciliations should be prepared and reviewed by knowledgeable individuals to identify necessary adjustments and determine if balances are accurately reported.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation given by Moss Adams. OCH plans to update their policies and procedures surrounding the monthly close and review process to ensure reconciliations of key accounts are performed timely, adjustments are accurately recorded, and reconciliations are reviewed by the CFO or other appropriate personnel.

**Cares Community Health dba One Community Health
Corrective Action Plan
Year Ended December 31, 2019**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	<p>OCH will be updating policies and procedures around monthly revenue reporting and reconciliations.</p> <p>Created Revenue Analysis Schedule (includes Beginning Balance, Charges, Payments, Adjustments, Reclass, Net Activity, Ending Balance, Encounter Data) on a month to month by service line. This report rolls to a summary page of all activity for entire year. This report is utilized for monthly financial reporting.</p>	10/31/2020	Talia Peterson, CFO



Talia Peterson
Chief Financial Officer

**Cares Community Health dba One Community Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person	Status
2018-001	OCH will be updating monthly close appropriate adjust for third party payer settlements and outpatient revenue. Subsequently, reconciliation of AR accounts will be reviewed and approved by the CFO on a quarterly basis.	9/1/2020	Talia Peterson, CFO	Talia Peterson, CFO, completed a full revenue analysis and reconciliation to ensure no discrepancies between our PMS and General Ledger. This finding reoccurred in 2019 due to issues with OCHIN EPIC reports and transitioning CFOs.
2018-002	OCH will be updating procedures with appropriate staff to ensure are following OCH Sliding Fee Scale policy. Patients with Self-Pay balances are not sent a statement until review of the balance and qualification are completed.	Completed	Talia Peterson, CFO	Updated Sliding Fee procedures and workflows and provided training to Eligibility and Front Desk staff. Corrective action has been taken and the finding is fully corrected.



Talia Peterson
Chief Financial Officer

