

Audited Financial Statements

Santa Rosa Community Health Centers

For The Years Ended June 30, 2019 and 2018

Santa Rosa Community Health Centers

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Independent Auditor's Report

Board of Directors
Santa Rosa Community Health Centers
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of Santa Rosa Community Health Centers (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 Santa Rosa Community Health Centers 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 1, the Center adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* 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 November 21, 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
November 21, 2019

Santa Rosa Community Health Centers
Balance Sheets
June 30, 2019 and 2018

	June 30,	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 3,030,409	\$ 7,345,580
Investments	3,217,854	3,092,385
Assets limited as to use:		
Held by trustee	535,849	529,970
Board designated assets	268,298	268,298
Patient accounts receivable, net	8,686,863	9,138,386
Grant, contract and other receivables	1,469,483	1,478,805
Prepaid expenses and other assets	211,961	201,376
Total current assets	17,420,717	22,054,800
Restricted assets	20,197	19,324
Investments, net of current	8,096,018	7,756,338
Other assets	1,485,384	1,285,384
Property and equipment, net	39,214,301	28,053,834
Total assets	\$ 66,236,617	\$ 59,169,680
Liabilities and net assets		
Current liabilities		
Current portion of long-term debt	\$ 604,755	\$ 590,772
Accounts payable and accrued expenses	1,019,056	1,237,093
Construction costs payable	2,059,029	-
Accrued payroll and other related liabilities	3,905,808	3,575,556
Accrued bond interest	218,799	222,934
Estimated third-party settlements payable	1,339,693	2,678,447
Deferred revenue	170,527	194,778
Total current liabilities	9,317,667	8,499,580
Long-term debt, net of current portion	15,095,233	15,782,892
Unamortized debt issuance costs	(120,468)	(231,394)
Total liabilities	24,292,432	24,051,078
Net assets		
With donor restrictions	1,426,145	3,943,433
Without donor restrictions	40,518,040	31,175,169
Total net assets	41,944,185	35,118,602
Total liabilities and net assets	\$ 66,236,617	\$ 59,169,680

See accompanying Notes to the Financial Statements

Santa Rosa Community Health Centers
Statements of Operations and Changes in Net Assets
For the years ended June 30,

Changes in net assets without donor restrictions	<u>2019</u>	<u>2018</u>
Revenue and other support		
Patient and third party revenue, net	44,449,902	41,242,808
Provision for uncollectible accounts	(24,097)	(1,048,826)
Net patient revenue less provision	44,425,805	40,193,982
Grant revenue	7,214,446	9,916,579
Contribution revenue	1,029,799	2,149,842
Fire-related revenue	10,180,590	8,714,118
Other revenues	11,042,808	9,380,693
Net assets released from restriction	5,031,833	-
Total unrestricted revenue and other support	<u>78,925,281</u>	<u>70,355,214</u>
Expenses		
Salaries and benefits	47,587,327	43,289,653
Medical contractual services	5,015,112	4,277,963
Purchased services	4,400,051	3,628,881
Supplies	5,711,988	6,389,773
Communications	376,382	487,084
Repair and maintenance	1,976,156	1,208,807
Facilities	2,498,367	1,893,423
Depreciation	1,576,530	1,300,861
Insurance	305,347	269,782
Interest	621,377	624,017
Other	1,113,243	1,448,923
Fire-related expense and loss	730,412	8,745,638
Total expenses	<u>71,912,292</u>	<u>73,564,805</u>
Excess of revenues over expenses	7,012,989	(3,209,591)
Net unrealized gains	539,937	632,235
Grants for acquisition of property and equipment	1,789,945	5,759,860
Change in net assets without donor restrictions	<u>9,342,871</u>	<u>3,182,504</u>
Changes in net assets with donor restrictions		
Contributions	2,514,545	3,926,800
Released from restrictions	(5,031,833)	-
Change in net assets with donor restrictions	<u>(2,517,288)</u>	<u>3,926,800</u>
Change in net assets	6,825,583	7,109,304
Net assets		
Beginning of year	35,118,602	28,009,298
End of year	<u>41,944,185</u>	<u>35,118,602</u>

See accompanying Notes to the Financial Statements

Santa Rosa Community Health Centers
Statements of Cash Flows
For the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 6,825,583	\$ 7,109,304
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,576,530	1,300,861
Unrealized gain on investments	(539,937)	(632,235)
Changes in operating assets and liabilities:		
Patient accounts receivable	451,523	(585,382)
Grant, contracts, and other receivables	9,322	363,839
Prepaid expenses and other assets	(210,585)	(226,804)
Accounts and construction payable and other	1,840,993	(168,474)
Accrued payroll and related liabilities	330,252	380,954
Deferred revenue	(24,251)	24,989
Accrued bond interest	(4,135)	(4,691)
Estimated third-party payor settlements	(1,338,754)	-
Net cash provided by operating activities	8,916,541	5,418,560
Cash flows from investing activities:		
Change in restricted assets	(873)	(1,223)
Change in assets held by trustee	(5,879)	4,069
Purchases of investments, net	185,713	3,890,659
Acquisition of property and equipment	(12,736,997)	(7,277,525)
Net cash used in investing activities	(12,558,036)	(3,392,158)
Cash flows from financing activities:		
Principal payments on long-term debt	(673,676)	(331,338)
Net cash used in financing activities	(673,676)	(331,338)
Net increase (decrease) in cash and cash equivalents	\$ (4,315,171)	\$ 1,695,064
Cash and Cash Equivalents:		
Cash at beginning of year:	7,345,580	5,650,516
Cash at end of year:	\$ 3,030,409	\$ 7,345,580
Supplemental disclosure of cash flow information:		
Interest paid	\$ 621,377	\$ 624,017

See accompanying Notes to the Financial Statements

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

Organization:

Santa Rosa Community Health Centers (the “Center”) is a not-for-profit, public benefit corporation located in Santa Rosa, California. The Center is licensed as a Federally Qualified Health Center (FQHC) and provides patient care at several outpatient clinic sites. The Center provides high quality and cost effective primary care, preventive care, dental care, and supportive services to the low-income and culturally diverse communities of Sonoma County and is a partner in the training of Family Practice Residents. Revenues are generated primarily from government grants, contracts, patient share of payments and third-party insurance and episodic care payments.

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 with Donor Restrictions: Contributions, including government grants and contracts, are recorded as restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, 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.

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.

Cash and Cash Equivalents:

The Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Center routinely invests surplus operating funds in highly liquid instruments, such as money markets or mutual funds. Of the cash balances as of June 30, 2019 and 2018, \$3,048,707 and \$7,345,580, respectively, exceeded the federal depository insurance.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the balance sheet. Unrealized gains and losses are included in the statement of operations. Investments with maturities greater than one year are classified as long term.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use:

Assets held by trustee consist of cash held under bond indenture agreements. Board designated assets include assets set aside by the Board of Directors for specific reasons, such as future capital improvements, over which the Board retains control and may subsequently use for other purposes at its discretion. Restricted assets is a donor restricted contribution to the Center.

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. Accounts are considered delinquent and subsequently written off based on individual credit evaluation and specific circumstances of the account.

Property, Building and Equipment:

Land, building and equipment are recorded at cost at the 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 forty 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. Interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. 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 that provide payments under a cost-based reimbursement system and with Medi-Cal that provide payments under the Prospective Payment System ("PPS"). In the case of Medicare, reasonable estimates are made and reported in the period services are rendered, and differences between the estimates and actual receipts are included in the statement of operations in the period in which they are determined. In the case of Medi-Cal, payments under the 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. 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.

Charity Care:

The Center provides care without charge or at amounts less than established rates, to patients who meet certain criteria under a charity care policy. Because the Center does not pursue collection of amounts determined to qualify as charity care, it is not reported as revenue.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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. The most significant estimates applicable to these financial statements include: the collectability of accounts receivable, useful lives of property and equipment, and third-party payor settlements.

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.

At June 30, 2019 and 2018, the Center has received payment of conditional grants, contracts and loans from grantors in the aggregate amount of \$170,527 and \$194,778, respectively; that have been recognized as deferred revenue until actually earned. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the specified periods the Center may have to pay back the funds received.

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 tax years of 2016 through 2018 remain open and subject to examination by the appropriate government agencies in the United States and California.

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. The Center has estimated the approximate fair value of the services and supplies contributed in the year ended June 30, 2019 and 2018 to be \$813,564 and \$713,745, respectively.

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.

Deferred revenue:

Deferred revenue consists of grants or donations received in advance of the services to be provided by the Center. Management assesses the individuals grants and anticipates meeting all the requirements for revenue recognition within the next twelve months.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 2: Fair Value of Financial Instruments

Financial Accounting Standards Board’s (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, requires the fair value of financial assets and liabilities to be determined using a specific fair-value hierarchy. The objective of the fair value measurement of financial instruments is to reflect the hypothetical amounts at which the Center could sell assets or transfer liabilities in an orderly transaction between market participants at the measurement date. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

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

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

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

Pursuant to FASB ASC 820, the Center’s investments are classified within Level 1 and Level 2 of the fair-value hierarchy. The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
June 30, 2019:				
Mutual funds	389,701		389,701	
ETF and Alternative	693,968		693,968	
Corporate and Govt bonds	2,845,827		2,845,827	
Equities – stock	4,166,522	4,166,522	-	-
Total	\$ 8,096,018	\$ 4,166,522	\$ 3,929,497	\$ -
June 30, 2018:				
Money market	\$ 448,745	\$ 448,745	\$ -	\$ -
Mutual funds	523,555		523,555	
Exchange traded funds	2,249,814		2,249,814	
Corporate bonds	2,017,063		2,017,063	
Equities – stock	5,609,547	5,609,547	-	-
Total	\$ 10,848,723	\$ 6,058,291	\$ 7,498,344	\$ -

The carrying amounts reported in the balance sheets for other financial assets and liabilities that are not measured at fair value on a recurring basis including patient accounts receivable, grant, contract, and other receivables, estimated third-party payor settlements, accounts payable and other accrued expenses, accrued payroll and related liabilities, deferred revenue, and long term debt approximate fair value.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 3: Assets Limited as to Use

As of June 30, 2019 and 2018, assets limited as to use held by trustee were \$804,147 and \$798,268, respectively. Assets held by trustee are held by fiscal agents to be used only for specific purposes including: capital outlay, payments of certain long-term debt and maintaining required reserves.

The Board of Directors had designated cash and cash equivalents totaling \$268,298 and \$268,298 for the Center's mission oriented purposes as of June 30, 2019 and 2018, respectively.

Note 4: Patient Accounts Receivable

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 2,692,896	\$ 1,955,660
Medi-Cal	7,233,705	8,900,560
Other third-party payors	459,458	788,138
Private pay	<u>264,320</u>	<u>658,806</u>
Gross patient accounts receivable	<u>10,650,379</u>	<u>12,303,165</u>
Less allowances for contractual adjustments	<u>(1,963,516)</u>	<u>(3,164,779)</u>
Total patient accounts receivable, net	<u>\$ 8,686,863</u>	<u>\$ 9,138,386</u>

Note 5: Information Regarding Liquidity and Availability of Resources

The Center strives to maintain liquid financial assets sufficient to cover 30 days of general expenditures. 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.

	<u>2019</u>
Cash and cash equivalents	\$ 3,030,409
Investments	11,313,872
Patient accounts receivable	<u>8,686,863</u>
Total financial assets	23,031,144
Deferred revenue	<u>170,527</u>

Financial assets available to meet cash needs for general expenditures within one year \$ 22,860,617

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. Refer to the statement of cash flows which identifies the sources and uses of the Center's cash and shows positive cash generated by operations for fiscal year 2019 and 2019.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 5: Grants, Contracts and Other Receivables

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

	2019	2018
Community Health Centers Center – Section 330 Grant	\$ 385,387	\$ 396,412
Ryan White Part B,C,D and other	522,666	313,572
County of Sonoma – SAMHSA and Mental Health	37,235	76,097
Other HRSA Grants	31,550	47,560
North Bay Regional Center	-0-	274,234
Title X	55,173	41,511
Other	437,472	329,419
Total	\$1,469,483	\$1,478,805

Note 6: Property and Equipment

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

	2019	2018
Land	\$ 3,500,000	\$ 3,500,000
Building and building improvements	21,002,314	20,862,160
Leasehold improvements	2,254,978	2,254,978
Equipment	6,297,142	6,145,252
Construction in progress	13,760,189	1,399,054
Subtotal	46,814,622	34,161,444
Accumulated depreciation	(7,600,321)	(6,107,610)
Total	\$ 39,214,301	\$ 28,053,834

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$1,576,530 and \$1,300,861, respectively.

Construction in progress at June 30, 2019 consists of dollars incurred for the Vista rebuilding. The funding source for the project is insurance proceeds, and grants and donations for this specific purpose, with any additional resources being funded from ongoing operations. As of June 30, 2019, the remaining estimated costs to complete the project are at about \$2,500,000.

Note 7: Retirement Plan

The Center sponsors a tax-deferred annuity plan qualified under section 403(b) of the Internal Revenue Code. All 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 is based on the employees' compensation and years of service and totaled \$749,378 and \$616,735 for the years ended June 30, 2019 and 2018, respectively.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 8: Other Assets

Other assets at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Other non-current asset	\$ 215,384	\$ 215,384
Advances to physicians	1,270,000	1,070,000
	<u>\$ 1,485,384</u>	<u>\$ 1,285,384</u>

Amortization expense for other assets for the years ended June 30, 2019 and 2018 amounted to \$-0-.

Note 9: Deferred Revenue

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

	<u>2019</u>	<u>2018</u>
Medtronic	\$ -	\$ 194,778
Public Health Institute	61,602	-
Partnership Health	45,991	-
Other	62,934	-
Total	<u>\$ 170,527</u>	<u>\$ 194,778</u>

Note 10: Functional Expenses

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

	<u>Program services</u>	<u>General and admin</u>	<u>Total</u>
Salaries and benefits	\$ 37,163,074	\$ 10,892,513	\$ 48,055,587
Professional fees	5,146,963	2,560,574	7,707,537
Supplies and other	9,779,118	2,628,075	12,407,193
Occupancy	860,764	451,862	1,312,626
Insurance	151,921	79,521	231,442
Deprecation	1,419,291	157,239	1,576,530
Interest	595,486	25,891	621,377
	<u>\$ 55,116,617</u>	<u>\$ 16,795,675</u>	<u>\$ 71,912,292</u>

	<u>2018</u>
Healthcare services	\$ 57,833,269
General and administrative	15,731,536
Total	<u>\$ 73,564,805</u>

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 11: Long-term Debt

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

	2019	2018
California Municipal Finance Authority (CFMA) Insured Revenue Bonds Series 2018, principal maturing in varying annual amounts starting February 1, 2019 and ending February 1, 2034 having varying coupon rates ranging from 2% to 5%. Unamortized debt issuance costs were 453,257 as of June 30, 2019. These bonds are collateralized by a Deed of Trust made as of July 12, 2018.	\$ 11,312,304	\$ 11,855,209
Summit State Bank loan, due November 25, 2025; payable in monthly installments of \$12,264.34, consisting of interest and principal, with all remaining balances due upon maturity. The loan bears interest at 3.63% and is collateralized by property on Lombardi Court.	2,179,336	2,244,979
Summit State Bank loan, due May 25, 2026; payable in monthly installments of \$12,270.73, consisting of interest and principal, with all remaining balances due upon maturity. The loan bears interest at 3.63% and is collateralized by property on Dutton Avenue.	2,208,348	2,273,476
Total long-term debt	15,699,988	16,373,664
Less: current portion	(604,755)	(590,772)
	\$ 15,095,233	\$15,782,892

Under the terms of the indenture agreements, the Center is required to maintain certain deposits with a trustee. Such deposits are recorded as assets limited as to use cash in the Balance Sheets. The indenture agreements place limits on the occurrence of additional borrowings and require that the Center satisfy a debt of service coverage ratio as long as the bonds are outstanding. As of June 30, 2019 and 2018, the Center was in compliance with the various loan covenants associated with the trust agreement.

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

Year	Principal
2020	\$ 604,755
2021	625,391
2022	650,392
2023	675,863
2024	708,058
Thereafter	12,435,529
Total	\$15,699,988

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 12: 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 agreements with third party payors follows:

Medicare - Medical services rendered to Medicare program beneficiaries are paid under a cost-based reimbursement system. The Center is reimbursed at a tentative ("interim") rate, with final settlement determined after submission of the annual cost report by the Center and audit thereof by the fiscal intermediary. All such reports have been audited by Medicare through June 30, 2018.

Medi-Cal - Medical and dental services rendered to Medi-Cal beneficiaries are paid under the Prospective Payment System (PPS). For clinic sites that existed prior to 2000, the PPS rates were established by the Center's "Base Year" cost report filed under the previous cost based reimbursement system. For clinics opened after that date, PPS rates are established using the rates of three similar clinics or based on an initial year cost report. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center's scope of service. The Center's PPS reconciliations have been audited by Medi-Cal through June 30, 2015, for all sites.

Managed care contracts and other - The Center has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. 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 13: Concentration of Credit Risk

The Center grants credit without collateral to its patients and third-party payors. Patient accounts receivable from the government agencies administering the Medicare and the Medi-Cal programs and private insurance companies administering the Medi-Cal Managed Care programs represent the only concentrated group of credit risk for the Center and management does not believe that there are significant credit risks associated with these agencies and private insurance companies. Other contracted and private pay patient receivables consist of payors and individuals involved in diverse activities, subject to differing economic conditions and does not represent any concentrated risks to the center. Significant concentrations of net patient accounts receivable as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Medicare	21%	19%
Medi-Cal	67%	68%
Private Pay	5%	9%
Private Insurance	7%	4%
	<u>100%</u>	<u>100%</u>

For the year ended June 30, 2019 and 2018, the Center received \$12,246,279 and \$9,916,579, respectively, in Community Health Center grants from the Department of Health and Human Services, which represents 13% and 15% of the total revenue received.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 14: Commitments and Contingencies

Operating leases - 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: \$336,179 in 2020, \$343,784 in 2021, \$273,924 in 2022, and \$16,549 in 2023.

Litigation, malpractice, and workers' compensation claims - The Center is deemed an employee of the federal government and is covered for malpractice insurance under the Federal Tort Claims Act ("FTCA"). 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.

Third-party settlement - 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. As of June 30, 2019 and 2018, the Center has recorded a liability related to third-party settlements in the amounts of \$1,339,693 and \$2,678,447, respectively.

Note 15: Extraordinary Item: Wildfires

In October 2017, multiple significant fires destroyed homes and businesses in Santa Rosa and the surrounding areas. Many employees of the Center were evacuated, and at fourteen lost their personal residences to the fires. The Vista campus sustained substantial damage from the fires. While it is too early to estimate the financial impact of the damage and business interruption, management expects operations to be negatively affected for at least the full 2020 and partial 2021 fiscal years. Insurance recoveries for business interruption and property insurance are recorded in these June 30, 2019 financial statements. During the fiscal year, the limit for business interruption was met and coverage ceased.

During the year ended June 30, 2018, significant costs related to the building improvements, furniture, and equipment of the Vista campus were written off. The value of the land and building shell was not written down at this time. The Vista campus was reopened on August 19, 2019. Any excess costs of reconstruction not covered by insurance will be funded from grants for this purpose, donations, and existing operations and reserves.

Santa Rosa Community Health Centers
Notes to the Financial Statements
For the years ended June 30, 2019 and 2018

Note 16: Related Party Transactions

The Center is a member of the Redwood Community Health Centers Coalition (“RCHC”), which is a network of 17 Community Health Centers. RCHC provides member Health infrastructure, expertise, and program support on a contractual basis. RCHC also owns a subsidiary, Redwood Community Health Centers Network (“RCHN”), which manages contracts with managed care organizations for RCHC and provides hosting services and support related to electronic health records. RCHN also maintains a management agreement with Redwoods Community Care Organization LLC (“RCCO”), an independent for-profit organization, which has been accepted as a Medicare Accountable Care Organization through the Shared Savings Program to help facilitate coordination and cooperation among health care providers. RCCO is in the process of being dissolved as of June 30, 2019.

The Center paid \$0 for services from RCHN and \$426,804 for services from RCHC in the year ending June 30, 2019. The Center, along with the other founding Community Health Centers center members, has agreed to provide a loan to RCCO to help finance the start-up costs of the organization. As of June 30, 2019 and 2018 the Center has loaned \$125,000 to RCCO, which is recorded as a receivable for the Center. By agreement these loans will be repaid with interest before any revenue sharing from Medicare is distributed to any of the members of the Accountable Care Organization. However, the Center has created an allowance for this receivable as of June 30, 2019 in full.

Note 17: Investments

Investments include the following at June 30, 2019 and 2018.

	2019	2018
Money market and cash	3,217,854	448,745
Corporate bonds	1,261,132	2,017,063
Exchange traded funds	-0-	2,249,814
US Government bonds	1,584,695	-0-
Alternative investments	693,968	-0-
Equities – common stock	4,166,522	5,609,547
Mutual funds	389,701	523,555
Total	\$ 11,313,872	\$ 10,848,723

Net income from investments is primarily comprised of interest and dividend income less any realized losses on sale of investments, which amounted to \$69,493 and \$55,513 for the years ended June 30, 2019 and 2018, respectively. The Center had unrealized gains in the amount of \$539,927 and \$632,235 for the years ended June 30, 2019 and 2018.

Note 18: Subsequent Events

The Center has evaluated all events and transactions that occurred after June 30, 2019, and through November 21, 2019, the date of the financial statements and notes to financial statement were available to be issued. The Vista campus re-opened after fire damage on August 19, 2019. In October 2019, the Center suffered power outages and multiple days of evacuations due to wildfires. The financial impact is estimated to be around \$1 million dollars.

SINGLE AUDIT REPORTS

**Santa Rosa Community Health Centers
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019**

Federal Grant / Program Title	Federal CFDA Number	Pass-Through Identification Number	6/30/2019
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES:			
Direct Programs:			
Consolidated Health Centers	*93.224	N/A	\$ 5,470,019
Ryan White Part C Outpatient EIS Program	93.918	N/A	451,814
Ryan White Title IV	93.153	N/A	301,879
Maternal and Child Health	93.110	N/A	50,535
Subtotal			<u>6,274,247</u>
Passed Through:			
Essential Access Health:			
Family Planning Program Title X	93.217	71209-18	252,299
California Department of Public Health:			
Ryan White Part B HIV Care Formula	93.917	11090	874,601
CAPREP- Maternal, Child, Adolescent Health Division	93.092	10321	126,145
County of Sonoma			
Bridge Health Services	93.243	SM060916	393,148
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through:			
Redwood Community Health Centers Coalition:			
CalFresh	10.561	RFA 17-01	20,761
			<u>20,761</u>
Total federal financial assistance			<u><u>\$ 7,941,199</u></u>

* Denotes major program

Santa Rosa Community Health Centers
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 Santa Rosa Community Health Centers (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 used the federal de minimis cost rate.

Note C: Pass-Through Awards

Santa Rosa Community Health Centers provided federal awards to sub recipients as follows:

Cluster/Program	Sub recipient	CFDA Number	Amount Expended
Ryan White Part B HIV Care Formula	West County Health, Inc.	93.917	\$ 175,450
Community Health Centers Cluster	Petaluma Health	93.224	57,953
Ryan White Part B HIV Care Formula	Food for Thought	93.917	255,000
Ryan White Part B HIV Care Formula	Face to Face	93.917	69,187
			<u>\$ 557,590</u>

**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
Santa Rosa Community Health Centers
Santa Rosa, 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 Santa Rosa Community Health Centers (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 November 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Santa Rosa Community Health Centers 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 Santa Rosa Community Health Centers 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
November 21, 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
Santa Rosa Community Health Centers
Santa Rosa, California

Report on Compliance for Each Major Federal Program

We have audited Santa Rosa Community Health Centers (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 the requirements of laws, regulations, contracts, and grants 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, Santa Rosa Community Health Centers 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 Santa Rosa Community Health Centers 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
November 21, 2019

**Santa Rosa Community Health Centers
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?	_____ Yes	___X___ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	___X___ None Reported
Noncompliance material to financial statements noted?	_____ Yes	___X___ No

Federal Awards

Internal control over major programs: Material weakness identified?	_____ Yes	___X___ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	___X___ 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)?	_____ Yes	___X___ No

Major Programs

Consolidated Health	<u>CFDA Number</u> 93.224	
Dollar threshold used to distinguish Types A and B programs	\$ 750,000	
Auditee qualified as low-risk auditee?	___X___ Yes	_____ No

**Santa Rosa Community Health Centers
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 Reported

Federal Award Findings And Questioned Costs: None Reported

III. Prior Year Audit Findings and Questioned Costs

None