Audited Financial Statements

Open Door Community Health Centers

For the Years Ended December 31, 2019 and 2018

Open Door Community Health Centers

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Healthcare Audit, Tax & Consulting Services

Independent Auditor's Report

Board of Directors
Open Door Community Health Centers
Arcata, California

Report on the Financial Statements

We have audited the accompanying financial statements of Open Door Community Health Centers (the "Center"), which comprise the balance sheets as of December 31, 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 Open Door Community Health Centers as of December 31, 2019 and 2018 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note A, the Center adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU No. 2018-08, *Not-for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU No. 2016-01, *Financial Instruments,* ASU No. 2016-02, *Leases (Topic 842),* ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, for the year ended December 31, 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 March 23, 2020 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.

CHW, LLP
Fresno, California
March 23, 2020

Open Door Community Health Centers
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 13,121,382	$12,207,051
Assets limited as to use	100,272	40,000
Investments, short-term	1,744,773	1,496,128
Patient accounts receivable, net	3,174,391	3,140,801
Grant and other receivables	5,945,365	6,765,236
Estimated third-party payor settlements	6,336,185	4,744,825
Inventories	711,345	711,836
Prepaid and other current assets	621,353	529,370
Total current assets	31,755,066	29,635,247
Investments, long-term	886,488	720,662
Assets limited as to use, net	78,664	118,933
Right-of-use assets	5,162,436	-
Property and equipment, net	28,242,744	29,218,239
Total assets	$ 66,125,398	$ 59,693,081
Liabilities And Net Assets		
Liabilities:		
Current liabilities:		
Long-term debt, current	$ 180,637	$ 803,696
Operating lease liability, current	969,236	-
Accounts payable and accrued expenses	1,412,803	1,007,540
Accrued payroll and related liabilities	4,650,249	4,174,415
Estimated third-party payor settlements	1,536,854	2,232,464
Deferred revenue	26,342	414,443
Total current liabilities	8,776,121	8,632,558
Operating lease liability, non-current	4,098,929	-
Long-term debt		
Principal amount	19,985,558	20,160,291
Unamortized debt issuance costs	(151,612)	(230,714)
Long-term debt, less unamortized debt issuance costs	19,833,946	19,929,577
Total liabilities	32,708,996	28,562,135
Net assets:		
Net assets without donor restrictions	32,951,344	31,130,946
Net assets with donor restrictions	465,058	-
Total liabilities and net assets	$ 66,125,398	$ 59,693,081

See accompanying Notes to the Financial Statements

Open Door Community Health Centers
Statements of Operations and Changes in Net Assets
For the years ended December 31, 2019 and 2018

	2019	2018
Change in net assets without donor restrictions		
Revenue and other support:		
Patient service revenues, net	$ 39,976,719	$ 40,383,381
Capitation revenue	6,090,990	6,114,827
Grant revenue	8,452,496	8,203,004
340B revenue	16,012,219	15,779,957
Contributions	5,400	55,029
Other	1,270,806	639,327
Net assets released from donor restrictions	575,194	-
Total revenue and other support	72,383,824	71,175,525
Expenses:		
Salaries and benefits	45,614,566	43,638,780
Payroll related expenses	4,981,045	4,678,049
Healthcare services and supply	4,020,641	3,460,480
Occupancy expense	3,817,695	3,761,148
Depreciation and amortization	2,709,910	1,898,157
Equipment expense	3,267,111	2,831,986
Contract services	3,074,933	2,244,694
Office expense	762,773	726,771
Training, development, education, and travel	1,195,451	958,175
Interest	858,693	505,690
Insurance	365,146	273,006
Other	42,059	46,727
Total expenses	70,710,023	65,023,663
Excess of revenues over expenses	1,673,801	6,151,862
Grants for capital expenditures	146,597	3,967,993
Change in net assets without donor restrictions	1,820,398	10,119,855
Change in net assets with donor restrictions		
Contributions	1,040,252	-
Released from restrictions	(575,194)	-
Change in net assets with donor restrictions	465,058	-
Change in net assets	2,285,456	10,119,855
Net assets, beginning of year	31,130,946	21,011,091
Net assets, end of year	$ 33,416,402	$ 31,130,946

See accompanying Notes to the Financial Statement.

Open Door Community Health Centers
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 2,285,456	$ 10,119,855
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,709,910	1,898,157
Unrealized gains/losses	(215,182)	135,054
Amortization of debt issuance costs	79,102	79,102
Right-of-use asset amortization	888,868	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(33,590)	(575,705)
Grant and other receivables	819,871	(2,689,876)
Inventories	491	(84,284)
Prepaid and other current assets	(91,983)	26,100
Accounts payable and accrued expenses	405,263	(225,971)
Accrued payroll and related liabilities	475,834	578,533
Estimated third-party payor settlements	(2,286,970)	(2,272,406)
Deferred revenue	(388,101)	60,997
Reduction of operating lease liability	(983,139)	-
Net cash provided by operating activities	3,665,830	7,049,556
Cash flows from investing activities:		
Acquisition of property and equipment	(1,734,415)	(9,469,290)
Sales/maturities of investments	186,000	-
Purchases of investments	(385,289)	(562,669)
Net cash used in investing activities	(1,933,704)	(10,031,959)
Cash flows from financing activities:		
Net change in line-of-credit	-	(1,000,000)
Proceeds from issuance of long-term debt	-	11,737,300
Principal payments on long-term debt	(797,792)	(12,364,865)
Net cash used in financing activities	(797,792)	(1,627,565)
Net change in cash, cash equivalents, and restricted cash	934,334	(4,609,968)
Cash, cash equivalents, and restricted cash at beginning of year:	12,365,984	16,975,952
Cash, cash equivalents, and restricted cash at end of year:	$ 13,300,318	$ 12,365,984
Supplemental disclosure of cash flow information:		
Interest paid	$ 858,693	$ 505,690
In-kind donations	$ -	$ 54,786

See accompanying Notes to the Financial Statement

Open Door Community Health Centers
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018

Note A: Summary of Significant Accounting Policies

Organization: Open Door Community Health Centers (the "Center"), a not-for-profit organization, is incorporated in the State of California. The Center provides free and low cost medical, dental, psychological and educational services to people in need throughout Humboldt and Del Norte Counties in California. The Center is committed to addressing the special needs of the community's medically under-served and migrant populations.

The Center was designated as a Federally Qualified Health Center for Medicare and Medi-Cal reimbursement effective in 2001. The Center derives support through grants and contracts with the U.S. Department of Health and Human Services and the State of California Department of Health and Human Services. The majority of the revenue is derived from patient services and the remainder from the aforementioned grants and contracts, as well as other state and local grants.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Patient Accounts Receivable: Accounts receivable are recorded at amounts that reflect the consideration to which the Center expects to be entitled in exchange for providing patient care. In evaluating the collectability of patient accounts receivable, the Center regularly analyzes its history and identifies and reviews trends for each of its major payor sources of revenue to estimate appropriate and sufficient implicit and explicit price concessions reflected in patient accounts receivable.

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides additional implicit and explicit price concessions, if necessary, based upon historical collection history for deductibles and copayments on accounts for which the third-party payer had not yet paid, or for remaining payer balances.

For receivables associated with self-pay patients, which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Center records a significant implicit price concession 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 policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is reflected as a reduction in patient accounts receivable.

Cash and Cash Equivalents: Cash and cash equivalents constitute cash held in checking, savings and money market accounts and short-term investments held with original maturities less than 90 days. As of December 31, 2019, and 2018, $1,000,000 and $1,000,000 respectively was covered by federal depository insurance and $12,121,382 and $11,582,596, respectively, was uninsured.

Assets Limited as to Use: Assets limited as to use consist of money market and certificates of deposit held in reserve in order to comply with loan agreements. Assets limited as to use were $178,936 and $158,933 as of December 31, 2019 and 2018, respectively.

Note A: Summary of Significant Accounting Policies (continued)

Property and Equipment: Property and equipment acquisitions are recorded at cost. The Center capitalizes assets with economic useful lives greater than one year and a value greater than $5,000. Donated assets are recorded at their fair market value at the time the contributed asset is received. Depreciation of property and equipment is computed on the straight-line method over the estimated lives of depreciable assets from 3 to 40 years.

Compensated Absences: The Center permits its employees to accumulate vacation hours over their working career and to redeem such unused vacation hours in cash upon termination of employment. Employees earn vacation hours based on length of service.

Charity Care: The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Center does not pursue collection of amounts determined to qualify as charity care.

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 Section 23701(d). Tax returns are generally open and subject to examination by the appropriate government agencies in the United States and California for three years after they are filed.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, and expenses are classified on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

> Net assets without donor restrictions: Net assets that are currently available for use and are not subject to donor-imposed stipulations.
>
> Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations as net assets released from donor restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restrictions.

Excess of revenues over expenses: The statements of operations contain excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions or grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets and unrealized gains and losses on investments other than trading securities.

Note A: Summary of Significant Accounting Policies (continued)

Revenue Recognition: Net patient service revenue is reported at the amount that reflects the consideration to which the Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Center bills the patients and third-party payers several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

The Center provides medical, dental, and behavior 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.

The Center has an agreement with Partnership Health Plan of California (the “Plan”) to provide medical services to subscribing MediCal participants. Under the Plan, the Center received monthly capitation payments based on the number of participants, regardless of the services actually performed by the Center. Capitation payments are recognized as capitation revenue during the period in which the Center is obligated to provide services to participants. The Center also receives interim payments from the Medi-Cal program. These payments are reconciled on an annual basis to insure the Center ultimately receives the established Medi-Cal payment rate for all visits under these contracts.

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. Capital grants and contributions consist of grants and contributions or resources that are restricted by the grantors or donors for capital asset purposes-to acquire, construct or renovate capital assets associated with the restricted purpose. Capital grants and contributions are recorded as increases to net assets with donor restrictions when cash is received in advance of acquisition of capital assets. In absence of donor stipulations to the contrary, capital grants and contributions are recorded as revenue during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions. Absent donor-imposed restrictions, the Center records donated services, materials, and facilities as support without donor restrictions. It is the policy of the Center to encourage contributions.

Reclassifications: Certain financial statement amounts have been reclassified in these financial statements to conform to the current year presentation. These reclassifications have no effect on previously reported net income.

Subsequent Event: The Center has evaluated all events and transactions that occurred after December 31, 2019, and through March 23, 2020, the date of the financial statements and notes to financial statement were available to be issued. During this period no events or transactions occurred that would require adjustments of the financial statements or disclosure in the accompanying notes.

Open Door Community Health Centers
Notes to the Financial Statements
For the years ended December 31, 2019 and 2018

Note A: Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement: In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfied a performance obligation. In August 2015, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance in ASU 2014-09, while retaining the related principles for those areas. In May 2016, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*, which provides narrow scope improvements and practical expedients to ASU 2014-09.

The Center adopted the provisions of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 using the modified retrospective method applied to all contracts existing as of January 1, 2019. Prior to the adoption of ASU 2014-09, a significant portion of the provision and allowance for uncollectible accounts was related to uninsured patients and expected uncollectible deductibles and copayments on accounts which the third- party payor had not yet paid. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that represent a direct reduction to net patient service revenue and a corresponding reduction to patient accounts receivable. The adoption of ASU 2014-09 also implemented additional disclosure requirements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit-Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Center adopted ASU 2018-08 during the year ended December 31, 2019, using the modified prospective basis. Upon adoption, many of the Center’s grant contracts that had previously been recorded as deferred revenue were recognized as contributions with donor restrictions.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Center has adopted ASU 2016-02 for the year beginning January 1, 2019 using the modified retrospective approach. The adoption of ASU 2014-09 also implemented additional disclosure requirements.

Note A: Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement (continued): In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments*, which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. The update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The adoption of ASU 2016-01 is effective for the Center beginning January 1, 2019. As a result of the implementation, unrealized gains and losses in equities and trading debt securities are included in other revenue. Excess of revenues over expense for the year ended December 31, 2018 decreased from $6,286,916 to $6,151,862. Net assets were not affected by the implementation.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash-flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of ASU 2016-15 is effective for the Center beginning January 1, 2019.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 is effective for the Center beginning January 1, 2019. As a result of the implementation, net cash flows from financing activities for the year ended December 31, 2018 decreased from $5,207,786 cash provided by financing activities to $1,627,565 cash used in financing activities.

Note B - Information Regarding Liquidity and Availability of Resources

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

The Center strives to maintain liquid financial assets sufficient to cover 30 days of general expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit, money market funds and other short-term investments. The following table reflects the Center's financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date.

	2019	2018
Cash and cash equivalents	$ 13,121,382	$ 12,582,596
Assets limited as to use	178,936	158,933
Investments	2,631,261	2,216,790
Patient accounts receivable, net	3,174,391	3,140,801
Grant and other receivables	5,945,365	6,765,236
Total financial assets	25,051,335	24,864,356
Investments with liquidity horizons greater than one year	(886,488)	(720,662)
Assets limited as to use	(78,664)	(158,933)
Deferred revenue	(26,342)	(414,443)
Net assets with donor restrictions	(465,058)	-
Financial assets available to meet cash needs for general expenditures within one year	$ 23,594,783	$ 23,570,318

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.

Note C: Fair Value of Financial Assets

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.

The following table presents financial instruments measured at fair value on a recurring basis in accordance with FASB ASC 820 as of December 31, 2019 and 2018:

		Fair Value Measurement Using		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2019:				
Beneficial interest in assets held at the Humboldt Area Foundation	$ 1,360,442	$ -	$ 1,360,442	$ -
December 31, 2018:				
Beneficial interest in assets held at the Humboldt Area Foundation	$ 1,120,583	$ -	$ 1,120,583	$ -

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 and other receivables, estimated third-party payor settlements, accounts payable and accrued expenses, accrued payroll and related liabilities, deferred revenue, and long term debt approximate fair value.

The beneficial interest in assets held at the Humboldt Area Foundation ("HAF") have been valued, as a practical expedient, at the fair value of the Center's share of the investment pool as of the measurement date. HAF values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments, which includes private placements and other securities for which prices are not readily available, are determined by their management and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. HAF investments are comprised of 69 percent global equities, 9 percent absolute return funds, 14 percent fixed income, 5 percent real estate securities, and 3 percent cash. The beneficial interest in assets held at HAF is redeemable by the Center on request.

Note D: Investments

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

	2019	2018
Certificate of Deposit	$ 384,331	$ 375,545
Beneficial interest in assets held at the Humboldt Area Foundation	1,360,442	1,120,583
Open Door Capital Support	886,488	720,662
Total	$ 2,631,261	$ 2,216,790

Income from investments is primarily comprised of interest and dividend income, which amounted to $32,133 and $44,389 for the years ended December 31, 2019 and 2018, respectively. Unrealized gains were $215,182 for the year ended December 31, 2019 and unrealized losses were $135,054 and December 31, 2018.

The Center has transferred assets to HAF which is holding them as an endowment for the benefit of the Center. The Center reports the fair value of the Fund as Beneficial Interest in Assets Held at the HAF in investments in the balance sheet and reports distributions received as other income. Changes in the value of the beneficial interest in assets held at HAF are reported as gains or losses in the statement of operations.

Note E: 340B Revenue

The Center participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Center earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Center has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Center. The Center changed its method for accounting for costs related to the 340B program in the year ended December 31, 2019. The Center determined costs should more appropriately be included as costs of goods sold and a reduction of revenue rather than expenses. This resulted in a decrease in both revenue and expenses for the year ended December 31, 2018 of $14,126,816. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

	2019	2018
Gross receipts	$ 28,032,454	$ 29,906,773
Drug replenishment costs	(5,917,981)	(7,449,381)
Administrative and filling fees	(6,102,254)	(6,677,435)
Net revenue	$ 16,012,219	$ 15,779,957

The net 340B revenue from this program is used in furtherance of the Center’s mission.

Note F: Net Patient Service Revenue

Performance obligations are determined based on the nature of the services provided by the Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Center has elected to apply the optional exemption provided in FASB ASC Topic 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Center's sliding fee policy, and implicit price concessions provided to uninsured patients. The Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Center determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Effective with the adoption of ASU 2014-09 on January 1, 2019, for changes in credit issues not assessed at the date of service, such as a payor files for bankruptcy or a patient defaults on a payment plan, the Center recognizes these write-offs as bad debt expense, which is presented on the accompanying statements of operations and changes in net assets as a component of other expenses.

The Center is approved as a Federally Qualified Health Center ("FQHC") for both Medicare and Medi-Cal reimbursement purposes. The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. These payment arrangements include:

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

Medi-Cal: Covered services rendered to Medi-Cal beneficiaries are paid under a Prospective Payment System, using rates established by the Center’s “Base Years” - fiscal years ended December 31, 2000 and 1999 cost reports filed under the previous cost-based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Center’s scope of service. The Center is required to file a payment reconciliation report with the state. In the opinion of management, any reconciliation settlement of the payment reconciliation will not materially affect the financial statements of the Center.

Note F: Net Patient Service Revenue (continued)

Other: Payments for services rendered to those payors other than Medicare or Medi-Cal are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

As of December 31, the following table reflects the net patient service revenue by major payor groups:

	2019	2018
Medi-Cal	$ 31,737,412	$ 32,897,063
Medicare	6,297,931	6,852,151
Public Insurance	419,796	544,648
Private Insurance	7,299,514	5,672,202
Self Pay	313,056	532,144
Net patient service revenue	$ 46,067,709	$ 46,498,208

Laws and regulations concerning government programs, including Medicare and Medi-Cal, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Center's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Center. In addition, the contracts the Center has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

The Center has recorded an estimated third-party payor receivable of $6,336,185 and $4,744,825 as of December 31, 2019 and 2018, respectively, and estimated third-party payor liabilities of $1,536,854 and $2,232,464 as of December 31, 2019 and 2018, respectively. These balances comprise estimated settlements due to PPS Reconciliation Requests as well as Rate Setting Cost Reports and Change in Scope of Service Requests. Management periodically evaluates estimated third-party payor settlements based on the current information available and believes the final settlements will not materially affect the financial statements of the Center.

Note G: Property and Equipment

Property and equipment consist of the following at December 31:

	2019	2018
Land	$ 2,715,972	$ 2,715,972
Building	30,806,586	30,286,582
Leasehold improvements	3,181,577	3,043,367
Equipment	10,756,273	9,660,182
Construction-in-progress	767,858	1,163,222
	48,228,266	46,869,325
Less: Accumulated depreciation	(19,985,522)	(17,651,086)
	$ 28,242,744	$ 29,218,239

Depreciation expense for fiscal year ending December 31, 2019 and 2018 was $2,672,744 and $1,858,157, respectfully. As of December 31, 2019, the remaining commitments related to ongoing construction contracts totaled $188,322.

Note H: Net Assets With Donor Restrictions

Net assets with donor restrictions consist of grant funds received from the following:

	2019	2018
St Joseph Residency Support	$ 28,645	$ -
Covered California	22,727	-
The California Wellness Foundation	117,402	-
HAF Arcata Construction	280,812	-
Other	15,472	-
Total	$ 465,058	$ -

Under the previous guidance these grants were recorded as deferred revenue. Under ASU No. 2018-08, these grants have been determined to be restricted contributions and have been recorded as net assets with donor restrictions. As net assets with donor restrictions are expended, the net assets released from restrictions are recognized as unrestricted revenue. As of December 31, 2019, net assets released from restrictions consist of the following:

	2019
St Joseph Residency Support	$ 198,265
Covered California	22,727
The California Wellness Foundation	101,999
HAF Arcata Construction	19,188
Other	233,015
Total	$ 575,194

Note I: Long-term Debt

Debt borrowings at December 31, 2019 and 2018 are as follows:

	2019	2018
USDA loan agreement of $11,737,300 consisting of two notes. Note A of $9,737,300 bears interest at 3.625% per annum until maturity on November 13, 2058. Note B of $2,000,000 bears interest at 3.625% per annum until maturity on November 13, 2058. Secured with property.	$ 11,597,648	$ 11,727,073
CSCDC 7 LLC loan agreement of $8,245,000 consisting of two notes. Note A of $5,649,100 bears interest at 3.946% per annum with interest only monthly payments until maturity on September 25. 2021. Note B of $2,595,900 bears interest at 3.946% per annum with interest only monthly payments until December 20, 2029. Monthly principal and interest payments of $15,689 then continue until maturity in December 2049. Unamortized debt issuance costs were $151,612 and $230,714 for the years ended December 31, 2019 and 2018 respectively.	8,245,000	8,245,000
Auto loans at 2.99% to 5.5% interest payable in monthly installments. Loans expire at various times through 2019. Secured by vehicle.	-	1,557
Loan agreement for $35,000 with the City of Arcata allocated from a Community Block Development Grant (CDBG) to be used for the planning of a new clinic. The loan has a term of 10 years at no interest and is forgivable upon occupancy of the new clinic.	35,000	35,000
Loan with Hodgson Revocable Trust for $500,000 at 6% per annum. Monthly payments of $4,879 matures November 2025.	288,547	328,723
Arcata Economic Development Corporation loan for up to $1,500,000. Interest only, rate of 4.85%. Due March 1, 2019. Secured by property.	-	626,634
Total long-term debt	20,166,195	20,963,987
Less: current portion	(180,637)	(803,696)
	$ 19,985,558	$ 20,160,291

The agreed upon repayment schedule indicates future maturities of debt borrowings of $180,637 in 2020; $5,837,443 in 2021; $196,398 in 2022; $204,819 in 2023 $213,623 in 2024; and $13,533,275 thereafter.

The Center was in compliance with all debt covenant requirements as of December 31, 2019.

Note J: Commitments and Contingencies

Medical malpractice - The Center, including officers, governing board members, employees, and contractors who are physicians or other licensed or certified healthcare practitioners, are covered by professional and general liability insurance. The Center is deemed by the Federal Government and is covered under the Federal Tort Claims Act ("FTCA") for malpractice insurance. The Center also has supplemental professional liability coverage. There are no known claims or incidents that may result in the assertion of additional claims as of the date of this report.

Pension plan - The Center has a profit sharing plan and trust for its employees. The Plan is a defined contribution plan covering all full-time employees who have completed one year of service, are over the age of eighteen and have been credited with 1,000 hours of service during the eligibility computation period. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan is administered by a third-party administrator. The annual contribution amount is at the discretion of management. The Center's annual contribution is 3% to 10% of total annual payroll costs. The assets of the Plan are held and invested by the trustee in pooled investments. For the years ended December 31, 2019 and 2018, the Center had accrued liabilities of $508,413 and $465,447, respectively. The Center made contributions to the plan of $1,623,788 and $1,509,570 for the years ended December 31, 2019 and 2018, respectively.

Grants and contracts - Continuing program funding from federal and state sources is contingent upon availability of funds and project performance. The funds are awarded on a yearly basis upon receipt and approval of program applications. In addition, expenses made under federal and state grants are subject to review and audit by the grantor agencies.

Litigation - The Center may from time-to-time be involved in litigation and regulatory investigations, which arise in the normal course of doing business. After consultation with legal counsel, management estimates that any matters existing as of December 31, 2019, will be resolved without material adverse effect on the Center's future financial position, results from operations or cash flows.

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.

Self-Insurance - The Center is self-insured for employee health insurance benefits. The accrual for self-insurance is evaluated periodically throughout the fiscal year for adequacy based on the Center's claim history. The Center has specific stop loss insurance, but not aggregate excess stop loss insurance. Specific deductible amount per covered participant for the covered period is $100,000. Calendar year limit of liability per covered participant is unlimited.

Note K: Leases

The Center has operating leases for clinics, corporate offices, and certain equipment. The leases have remaining lease terms of 1 year to 7 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year. The Center elected the short-term lease practical expedient related to leases that are 12 months or less.

Leases for clinics typically include multiple optional renewal periods. Upon opening a new clinic location, the Center typically installs leasehold improvements with various useful life. Due to the specialized nature of clinic space and leasehold improvements installed, Management concludes that it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term, and the related payments are reflected in the ROU asset and lease liability.

Each operating lease includes fixed rental payments, however, it is common for the lease payments to increase at pre-determined dates based on the change in the consumer price index. The Center's operating leases are comprised of both gross leases and net leases, in which separate payments are made to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. The Center has elected the practical expedient not to separate lease and non-lease components for all building leases.

During the years ended December 31, 2019 and 2018, total lease expense was $1,277,933 and $1,421,495, respectively. During the years ended December 31, 2019 and 2018, the following were the cash and non-cash activities associated with the Center's operating leases:

	2019	2018
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,007,021	$ -
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease obligations	$ 6,051,304	$ -

As of December 31, 2019, the weighted-average remaining lease term for all operating leases is 5.2 years. Because the Center generally does not have access to the rate implicit in the lease, the Center utilizes the incremental borrowing rate as the discount rate. The weighted average discount rate associated with operating leases as of December 31, 2019 is 4.0%

Note K: Leases (continued)

The future payments due under operating leases as of December 31, 2019 are as follows:

2020	$ 1,268,458
2021	1,211,370
2022	989,091
2023	715,699
2024 and thereafter	1,453,787
	5,638,405
Less effects of discounting	(570,240)
Operating lease liabilities recognized	$ 5,068,165

Note L: Concentrations of Credit Risk

Financial instruments potentially subjecting the Center to concentrations of credit risk consist primarily of bank deposits in excess of FDIC limits. Management believes, however, that the risk of loss is minimal due to the high financial quality of the banks. Credit risk related to patient receivables arises from the granting of credit without collateral to patients, most of whom are residents of Humboldt County in the State of California. The mix of receivables from patients and third-party payors is as follows:

	2019	2018
Medicare	13%	14%
Medi-Cal	43%	44%
Other third-party payors	34%	23%
Private pay	10%	19%
	100%	100%

For the year ended December 31, 2019 and 2018, the Center received $6,863,285 and $6,117,169, respectively, in Community Health Center grants from the Department of Health and Human Services, which represents 9% and 9% of the total revenue received.

Note M: Accrued Payroll and Related Liabilities

Accrued payroll and related liabilities consisted of the following at December 31, 2019 and 2018:

	2019	2018
Accrued payroll	$ 1,896,020	$ 1,572,731
Accrued vacation	1,376,405	1,293,810
Accrued retirement	508,413	465,447
Accrued medical expenses	869,410	842,427
Total	$ 4,650,248	$ 4,174,415

Note N: Functional Classification of Expenses

The Center provides healthcare services primarily to residents within its geographic area. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Expenses related to electronic medical records are allocated on the basis of visits. Expenses for the years ended December 31, 2019 and 2018 include:

2019	Medical Services	Dental Services	General Admin	Total
Salaries and benefits	$35,766,403	$4,932,110	$11,092,549	$51,791,062
General and administrative	544,180	59,468	231,064	834,712
Space costs	2,273,843	561,346	982,506	3,817,695
Medical supplies	3,121,375	743,280	155,986	4,020,641
Equipment costs	2,040,877	389,126	807,228	3,237,231
Depreciation	2,116,924	451,655	141,331	2,709,910
Contractual medical services	2,519,164	448,096	107,673	3,074,933
Interest	760,080	93,925	4,688	858,693
Insurance	280,343	44,562	40,241	365,146
	$49,423,189	$7,723,568	$13,563,266	$70,710,023

2018	Medical Services	Dental Services	General Admin	Total
Salaries and benefits	$34,514,893	$4,615,933	$10,144,178	$49,275,004
General and administrative	458,837	96,554	218,107	773,498
Space costs	2,280,071	505,993	975,084	3,761,148
Medical supplies	2,491,631	730,521	238,328	3,460,480
Equipment costs	1,821,750	403,181	607,055	2,831,986
Depreciation	1,587,339	164,788	146,030	1,898,157
Contractual medical services	2,133,338	94,391	16,965	2,244,694
Interest	465,347	7,992	32,351	505,690
Insurance	193,806	30,199	49,001	273,006
	$45,947,012	$6,649,552	$12,427,099	$65,023,663

SINGLE AUDIT REPORTS

Open Door Community Health Centers
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2019

Federal Grant / Program Title	Federal CFDA Number	Pass-Through Identification Number	Expenditures
U.S. Department of Health and Human Services, Public Health Service:			
Direct Programs:			
Community Health Cluster	*93.224	N/A	$ 6,863,693
Ryan White Part C Outpatient EIS Program	93.918	N/A	342,257
Passed Through:			
North Coast Clinics Network:			
AHEC Program	93.107	AHEC 17-18	76,885
Total Health and Human Services expenditures			7,282,835
U.S. Department of Education:			
Passed Through:			
NHUHSD			
Student Support and Academic Enrichment Program	84.424		85,980
Total federal award expenditures			$ 7,368,815

* Denotes major program

Open Door Community Health Centers
Notes to Schedule of Expenditures of Federal Awards
For the year ended December 31, 2019

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Open Door Community Health Centers (the "Center") 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 the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Center.

Note B: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Center uses the de minimis indirect cost rate.

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

Independent Auditor's Report

Board of Directors
Open Door Community Health Centers
Arcata, 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 Open Door Community Health Centers (the "Center"), which comprise the balance sheet as of December 31, 2019 and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2020.

Internal Control Over Financial Reporting

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

Purpose of this Report

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

CHW, LLP

Fresno, California
March 23, 2020

CHW LLP
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Healthcare Audit, Tax & Consulting Services

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
Open Door Community Health Centers
Arcata, California

Report on Compliance for Each Major Federal Program

We have audited Open Door Community Health Center's (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 December 31, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Center 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 Open Door 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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.

CHW, LLP

Fresno, California
March 23, 2020

Open Door Community Health Centers
Schedule of Findings and Questioned Costs
For the year ended December 31, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
Internal Control over financial reporting: Material weakness(es) identified?	_____ Yes	__X__ No
Significant deficiency(ies) identified?	_____ Yes	__X__ None Reported
Noncompliance material to financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	_____ Yes	__X__ No
Significant deficiency(ies) identified?	_____ 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	CFDA Number	
Community Health Cluster	93.224	
Dollar threshold used to distinguish Types A and B programs	$ 750,000	
Auditee qualified as low-risk auditee?	__X__ Yes	_____ No

Open Door Community Health Centers
Schedule of Findings and Questioned Costs
For the year ended December 31, 2019

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings:

None Reported

Federal Award Findings And Questioned Costs:

None Reported