

Tarzana Treatment Centers, Inc.

Financial Statements

June 30, 2019



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tarzana Treatment Centers, Inc.
Tarzana, California

We have audited the accompanying financial statements of Tarzana Treatment Centers, Inc. (a nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

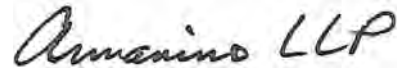
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tarzana Treatment Centers, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

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

Armanino^{LLP}
Los Angeles, California

December 10, 2019

Tarzana Treatment Centers, Inc.
Statement of Financial Position
June 30, 2019

ASSETS

Current assets	
Cash and cash equivalents	\$ 4,212,172
Accounts receivable, net	13,530,158
Investments in marketable securities	9,051,967
Investments in private mortgage pools	2,800,000
Prepaid expenses	529,887
Other current assets	<u>152,997</u>
Total current assets	<u>30,277,181</u>
Property and equipment, net	10,946,182
Other assets	
Restricted cash	6,068,918
Other assets	<u>1,465,321</u>
Total other assets	<u>7,534,239</u>
Total assets	<u><u>\$ 48,757,602</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Revolving note	\$ 137,500
Current portion of long-term debt	335,973
Current portion of capital lease obligation	251,405
Accounts payable	2,595,752
Accrued expenses	5,547,499
Deferred revenue	<u>17,181</u>
Total current liabilities	<u>8,885,310</u>
Long-term liabilities	
Long-term debt, net	12,858,709
Capital lease obligation	415,839
Deferred compensation liability	<u>392,208</u>
Total long-term liabilities	<u>13,666,756</u>
Total liabilities	<u>22,552,066</u>
Net assets	
Without donor restrictions	
General	23,357,680
Investment in property and equipment, net of related debt	<u>2,847,856</u>
Total net assets without donor restrictions	<u>26,205,536</u>
Total liabilities and net assets	<u><u>\$ 48,757,602</u></u>

The accompanying notes are an integral part of these financial statements.

Tarzana Treatment Centers, Inc.
Statement of Activities
For the Year Ended June 30, 2019

Revenues	
Grants and contracts	\$ 30,867,227
Federal funding	33,482,200
Private insurance and private pay	5,277,404
Los Angeles County two-plan model healthcare programs	1,586,434
Medicare	1,212,029
Medi-cal	2,638,902
Other program revenue	1,032,906
Realized losses on sales of investments	(597)
Unrealized losses on investments	(47,347)
Interest and dividends	<u>520,395</u>
Total revenues, gains, and other support	<u>76,569,553</u>
Functional expenses	
Program services	54,509,011
General and administrative	<u>19,420,651</u>
Total functional expenses	<u>73,929,662</u>
Change in net assets	2,639,891
Net assets without donor restrictions, beginning of year	<u>23,565,645</u>
Net assets without donor restrictions, end of year	<u>\$ 26,205,536</u>

The accompanying notes are an integral part of these financial statements.

Tarzana Treatment Centers, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Inpatient Services	Non-Inpatient Services	Total Program Services	General and Administrative	Total
Personnel costs					
Administrative	\$ -	\$ -	\$ -	\$ 5,552,396	\$ 5,552,396
Program directors	1,388,930	2,854,273	4,243,203	719,019	4,962,222
Counselors	3,166,832	12,045,851	15,212,683	-	15,212,683
Nurses	1,938,566	1,348,196	3,286,762	-	3,286,762
Clinical	1,419,065	5,321,511	6,740,576	-	6,740,576
Kitchen	753,392	-	753,392	-	753,392
Maintenance and janitorial	269,142	121,362	390,504	1,041,529	1,432,033
Total personnel costs	<u>8,935,927</u>	<u>21,691,193</u>	<u>30,627,120</u>	<u>7,312,944</u>	<u>37,940,064</u>
Payroll taxes and employee benefits					
Payroll taxes	629,882	1,528,985	2,158,867	589,956	2,748,823
Medical insurance	443,222	1,075,883	1,519,105	416,985	1,936,090
Retirement plan and vacation accrual	102,763	249,449	352,212	97,991	450,203
Workers' compensation insurance	198,378	481,544	679,922	185,825	865,747
Total payroll taxes and employee benefits	<u>1,374,245</u>	<u>3,335,861</u>	<u>4,710,106</u>	<u>1,290,757</u>	<u>6,000,863</u>
Other costs					
Auto mileage and travel	95,421	239,193	334,614	232,337	566,951
Billing and collection costs	-	-	-	44,082	44,082
Computer supplies and maintenance	219,865	74,423	294,288	1,087,344	1,381,632
Consultants and home care nursing	1,418,785	2,641,400	4,060,185	926,061	4,986,246
Depreciation and amortization	197,933	302,150	500,083	324,076	824,159
Facility maintenance	138,087	130,253	268,340	591,725	860,065
Food costs	1,636,031	27,214	1,663,245	-	1,663,245
Insurance	211,334	321,426	532,760	214,449	747,209
Interest	-	-	-	383,449	383,449
Laboratory, medication, medical supplies and radiology	424,434	2,618,647	3,043,081	14,522	3,057,603
Marketing	-	-	-	1,312,405	1,312,405
Office supplies	103,321	162,076	265,397	127,784	393,181
Printing and duplicating	17,280	22,618	39,898	75,748	115,646
Professional fees	-	3,500	3,500	1,073,461	1,076,961
Program supplies	4,749	648,568	653,317	-	653,317
Property and other taxes	75,906	174,560	250,466	68,518	318,984
Provision for contract allowances	-	-	-	351,711	351,711
Rent	1,544,724	3,763,488	5,308,212	1,452,112	6,760,324
Subcontract grants and allocations	-	592,203	592,203	-	592,203
Supplies	49,479	75,531	125,010	375,031	500,041
Telephone	19,195	15,328	34,523	655,937	690,460
Utilities and waste disposal	294,916	39,742	334,658	755,745	1,090,403
Other costs	293,802	574,203	868,005	750,453	1,618,458
Total other costs	<u>6,745,262</u>	<u>12,426,523</u>	<u>19,171,785</u>	<u>10,816,950</u>	<u>29,988,735</u>
	<u>\$ 17,055,434</u>	<u>\$ 37,453,577</u>	<u>\$ 54,509,011</u>	<u>\$ 19,420,651</u>	<u>\$ 73,929,662</u>

The accompanying notes are an integral part of these financial statements.

Tarzana Treatment Centers, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	\$ 2,639,891
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	819,808
Amortization of debt issuance costs	4,351
Unrealized losses on investments	47,347
Realized losses on sales of investments	597
Reinvested interest and dividends	(520,395)
Change in allowance for doubtful accounts	(351,078)
Interest rate swap	22,713
Changes in operating assets and liabilities	
Accounts receivable	(4,855,323)
Prepaid expenses	45,490
Other current assets	(126,017)
Other assets	(552,331)
Accounts payable	(491,437)
Accrued expenses	1,074,716
Deferred revenue	(1,927)
Deferred compensation liability	78,350
Net cash used in operating activities	<u>(2,165,245)</u>
Cash flows from investing activities	
Purchases of property and equipment	(3,837,927)
Purchases of investments in marketable securities	(1,294,363)
Proceeds from sales of investments in marketable securities	1,174,195
Purchases of investments in private mortgage pools	(100,000)
Net cash used in investing activities	<u>(4,058,095)</u>
Cash flows from financing activities	
Principal advances on revenue bond financing	13,500,000
Debt issuance costs on revenue bond financing	(326,319)
Payoff of notes payable	(1,436,108)
Principal advances on auto loan	18,574
Principal payments on auto loan	(1,924)
Principal payments on capital lease obligation	(237,782)
Net cash provided by financing activities	<u>11,516,441</u>
Net increase in cash	5,293,101
Cash, cash equivalents and restricted cash, beginning of year	<u>4,987,989</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 10,281,090</u>

The accompanying notes are an integral part of these financial statements.

Tarzana Treatment Centers, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash, cash equivalents and restricted cash consisted of the following:

Cash and cash equivalents	\$ 4,212,172
Restricted cash	<u>6,068,918</u>
	<u>\$ 10,281,090</u>

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 300,877
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Supplemental schedule of noncash investing and financing activities

Acquisition of automobile under financing arrangement	\$ 18,574
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The accompanying notes are an integral part of these financial statements.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

1. NATURE OF OPERATIONS

Nature of activities

Founded in 1972, Tarzana Treatment Centers, Inc.'s (the "Organization") mission is to provide high-quality, integrated health care that improves the quality of life and health of patients regardless of financial resources and contributes to a reduction in the total cost of care. This mission is aligned with the intent of the Affordable Care Act and specifically parallels the goals of the Triple Aim of (a) improving the quality and overall experience of care; (b) improving population health; and (c) reducing per capita cost.

Today, the Organization is a leader in providing integrated health care services for Substance Use Disorders, Mental Illness and Primary Medical Care, including specialty HIV/AIDS medical care. The Organization's integrated model of care is based on our decades of health service delivery experience and is not replicated in the same comprehensive nature by any other provider in California.

The Organization provides a full continuum of adult and youth substance use disorders treatment services, including inpatient medical detoxification, residential detoxification, psychiatric stabilization, residential and outpatient rehabilitation and an array of mental illness treatment services both inpatient and outpatient. The Organization is also well-versed in the care of those suffering from both mental illness and substance use disorders.

The Organization integrates behavioral health services into all of our primary and specialty care clinics and integrates primary care into all of our behavioral health services. The Organization provides services for mental illness to all age groups and provides supportive services that include housing, benefits assistance and transportation. Guided by population-health metrics and patient-centered care standards, the Organization provides integrated services that are coordinated, comprehensive and team-based. All patients are screened and assessed for medical and behavioral health conditions and receive whole-person care guided by an integrated treatment plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who are responsible for its integrity and objectivity. These accounting policies conform to U.S. GAAP and have been consistently applied in the preparation of the financial statements.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 makes certain improvements to current reporting requirements, including (1) reducing the classes of net assets from three (unrestricted, temporarily restricted and permanently restricted) to two (with donor restrictions and without donor restrictions); (2) enhancing disclosures about (a) amounts and purposes of governing board designations, appropriations and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions, (b) composition of net assets with donor restrictions and how the restrictions affect the use of resources, (c) qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date, (d) amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements, (e) methods used to allocate costs among program and support functions, (f) underwater endowment funds; (3) reporting investment return net of external and direct internal investment expenses; and (4) use, in the absence of explicit donor stipulations of the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

The amendments in this ASU have been applied by the Organization for the year ended June 30, 2019.

Basis of accounting and financial statement presentation

The accompanying financial statements were prepared on the accrual basis of accounting.

The Organization reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Typically, the Organization only has without donor restrictions sources of revenue.

- *Net assets without donor restrictions* - Net assets available for general use and not subject to donor (or certain grantor) restrictions.
- *Net assets with donor restrictions* - Net assets subject to donor- (or certain grantor-) imposed restrictions. The Organization has no net assets with donor restrictions as of June 30, 2019.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

The Organization is a nonprofit public benefit corporation organized under the laws of California and, as such, is exempt from federal and state income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and corresponding state provisions.

The Organization's federal income tax and informational returns for tax years ended June 30, 2016, and subsequent remain subject to examination by the Internal Revenue Service. The returns for California, the Organization's only state tax jurisdiction, remain subject to examination by the California Franchise Tax Board for tax years ended June 30, 2015, and subsequent.

Use of estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from these estimates.

Insurance coverage

The Organization is exposed to risk of loss related to professional and general liability. Management believes that the levels of coverage carried are adequate so that no potential claim could negatively impact the Organization operations in future periods.

Concentration of credit risk

Frequently, the Organization's bank balances exceed the FDIC-insured limits. The Organization has not experienced and does not anticipate any losses relating to cash held in these balances.

The Organization derived 73% of its total revenues during the year from the County of Los Angeles through a number of contracts and agreements, each of which is negotiated, performed and monitored on an individual basis. Management anticipates this funding will continue at the present levels.

Impairment of long lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Organization during the year.

Cash and cash equivalents

The Organization considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in marketable securities

Investments in marketable securities are stated at fair value.

Investments in private mortgage pools

The Organization has purchased an approximately one-percent interest in private mortgage pools which are recorded at cost.

Accounts receivable

Accounts receivable are unsecured and the Organization is at-risk to the extent that such amounts become uncollectible. Management has provided an allowance for doubtful accounts based on known events and historical activity.

Restricted cash

Restricted cash consists of funding received for facility construction made available from the revenue bond financing (see Note 8). These funds are administered by the trustee, U.S. Bank, and are disbursed to the Organization as facility construction costs are incurred.

Other assets

Other assets consist of the following:

Capitalized interest	\$ 280,797
Deposits	562,100
Investments in security options trust	220,361
Rental incentive payments	<u>402,063</u>
	<u>\$ 1,465,321</u>

Capitalized interest - represents prepaid interest received as part of the revenue bond financing which is scheduled to be amortized monthly from April 2019 through May 2020 (see Note 8).

Deposits - consist primarily of security deposits totaling \$527,720 pursuant to facility lease agreements (see Note 13).

Incentive gift cards - represents purchased retail gift cards for use in providing rewards to clients or tokens of appreciation to employees, consistent with approved county contracts and/or the use of now public funds.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other assets (continued)

Investments in security options trust - the Organization holds investments in a financial institution for the benefit of its participants in the Discounted Employee Security Option Program (see Note 11).

Rental incentive payments - represents payments totaling \$525,000 (gross of amortization) to incentivize the lessors to negotiate and enter into new leases with extended terms with the Organization (see Note 12).

Property and equipment

Purchases of property and equipment are recorded at cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight-line method over the shorter of the estimated useful life of the related asset or the term of the lease for leasehold improvements as follows:

Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings	39 years
Hospital and house equipment	7 years
Computer and office equipment	5 years
Computer software	3 years
Transportation equipment	5 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Deferred compensation

The Organization maintains a deferred compensation plan for the benefit of certain management employees. Assets of the deferred compensation plan are discussed in this note at "other assets" and the corresponding liability is discussed at Note 11.

Deferred revenue

Deferred revenue represents money received from contracts/grants prior to being earned. Grant and contract revenue is recognized in subsequent years as services are rendered.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

The Organization receives a portion of its public support based on reimbursable costs as defined by the respective grants. Reimbursements recorded under these grants are subject to audit by the granting agency. Management anticipates no material adverse outcomes as a result of these granting agency audits.

Cost allocation

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to functional expense classifications. Other expenses common to several functions are allocated using reasonable statistical bases.

Cost settlements

Given general uncertainties with their funding sources, it is the policy of the Organization to record cost settlements, resulting in either reimbursements or additional funding, only when notification has been received directly from the funding source. Future cost settlement notifications will be recognized in the period they are received. The Organization did not receive any cost settlement notifications during the year ended June 30, 2019.

Subsequent events

The Organization has evaluated events subsequent to June 30, 2019, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 10, 2019, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements, except as disclosed in Note 8.

3. INVESTMENTS IN MARKETABLE SECURITIES

The Organization reports its investments in marketable securities at fair value among three categories of price inputs available: quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

3. INVESTMENTS IN MARKETABLE SECURITIES (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity mutual funds	\$ 910,004	\$ -	\$ -	\$ 910,004
International equity funds	616,144	-	-	616,144
Certificates of deposits	-	2,833,372	-	2,833,372
Alternative assets	<u>4,270,692</u>	<u>-</u>	<u>421,755</u>	<u>4,692,447</u>
	<u>\$ 5,796,840</u>	<u>\$ 2,833,372</u>	<u>\$ 421,755</u>	<u>\$ 9,051,967</u>

Alternative assets consist of institutional funds, closed-end funds, long/short equity funds and other investments.

Investment activity was as follows:

Balance, beginning of year	\$ 8,459,348
Purchases of investments	1,294,363
Proceeds from sales of investments	(1,174,195)
Interest and dividends	520,395
Realized losses on sales of investments	(597)
Unrealized losses on investments	<u>(47,347)</u>
	<u>\$ 9,051,967</u>

The value of the Level 3 alternative assets (reported above) has been determined using statements provided by investment brokers. The changes in Level 3 measurements of these alternative assets during the year are as follows:

Balance, beginning of year	\$ 1,138,639
Purchase of investments	77,261
Proceeds from sales of investments	(522,047)
Interest paid on investments	(24,252)
Unrealized losses on investments (included above)	<u>(247,846)</u>
	<u>\$ 421,755</u>

4. INVESTMENTS IN PRIVATE MORTGAGE POOLS

The Organization has invested \$2,800,000 in private mortgage pools. The Organization's ownership percentage in each of these funds is less than 1%.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

4. INVESTMENTS IN PRIVATE MORTGAGE POOLS (continued)

Investments in private mortgage pools activity was as follows:

Balance, beginning of year	\$ 2,700,000
Purchases of investments	<u>100,000</u>
	<u>\$ 2,800,000</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

Los Angeles County	\$ 9,444,365
Private insurance	1,260,220
State of California	1,125,405
U.S. Government	670,122
City of Los Angeles	387,498
Other agencies and counties	<u>1,831,961</u>
	14,719,571
Allowance for doubtful accounts	<u>(1,189,413)</u>
	<u>\$ 13,530,158</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Land	\$ 1,213,968
Buildings	1,120,933
Hospital and house equipment	1,053,060
Leasehold improvements	18,072,924
Computer and office equipment	4,032,384
Computer software	1,230,707
Transportation equipment	<u>540,193</u>
	27,264,169
Accumulated depreciation and amortization	<u>(16,317,987)</u>
	<u>\$ 10,946,182</u>

7. REVOLVING NOTE

In September 2014, the Organization entered into a revolving note agreement with City National Bank ("CNB") for funds available to borrow up to \$1,000,000 with interest equal to the greater of (i) 2.5% or (ii) the "Prime Rate" of CNB (5.50% at June 30, 2019) less 0.75%. All outstanding interest and principal are due and payable on March 1, 2020. As of June 30, 2019, \$137,500 was outstanding.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

8. LONG-TERM DEBT

On March 1, 2019, the California Health Facilities Financing Authority issued revenue bonds (the "Bonds") in the amount of \$13,500,000 on behalf of the Organization to finance construction of three facilities located in Lancaster and Long Beach, California. Proceeds from the Bonds were also used to pay off existing note payables totaling \$1,436,108. The Bonds consist of Series A and Series B bonds, with interest ranging between 3.80% and 4.95%, and secured by deeds of trusts on the real properties in Lancaster and Long Beach, California. Series A and Series B bonds are scheduled to mature on June 1, 2044 and June 1, 2032, respectively. The Organization is scheduled to make payments ranging from approximately \$53,000 and \$76,000 each month over the life of the bond. As of June 30, 2019, the outstanding balance was \$13,500,000. Subsequent to year end, the Organization received a waiver related to a specific financial covenant.

On February 20, 2019, the Organization entered into an auto loan payable in the amount of \$18,574, with interest at 4.69%. The Organization is scheduled to make payments of \$554 each month and is scheduled to mature on March 6, 2022. As of June 30, 2019, the outstanding balance was \$16,650.

The future maturities of the long-term debt are as follows:

<u>Year ending June 30,</u>	
2020	\$ 335,973
2021	71,260
2022	199,417
2023	355,000
2024	370,000
Thereafter	<u>12,185,000</u>
	13,516,650
Less: debt issuance costs	<u>(321,968)</u>
Long-term debt, net of debt issuance costs	13,194,682
Current portion	<u>(335,973)</u>
	<u><u>\$ 12,858,709</u></u>

9. CAPITAL LEASE OBLIGATION

The Organization leases certain network infrastructure equipment under a capital lease that expires in January 2022. The assets under capital lease have been recorded at fair value and are being amortized over the assets' useful lives. Depreciation of property under capital leases is included in depreciation and amortization in the financial statements.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

9. CAPITAL LEASE OBLIGATION (continued)

Property and equipment held under capital lease obligations consisted of the following:

Computer equipment	\$ 529,092
Network infrastructure equipment	1,233,249
Accumulated depreciation	<u>(1,125,163)</u>
	<u>\$ 637,178</u>

Future maturities of the capital lease obligation is as follows:

<u>Year ending June 30,</u>	
2020	\$ 280,994
2021	280,994
2022	<u>153,737</u>
	715,725
Less: imputed interest	<u>(48,481)</u>
Present value of minimum lease payments	667,244
Current portion	<u>(251,405)</u>
	<u>\$ 415,839</u>

10. WORKERS' COMPENSATION LIABILITY

The Organization is partially self-insured for workers' compensation. The program is supplemented with commercial excess insurance from third-party insurance carriers for total claims above the Organization's self-insurance retention of \$500,000. The Organization has retained an outside administrator to monitor, process and administer its claims. The administrator also establishes an accrual for future payments on known claims. Historically, the Organization has had a very low frequency of incurred but not reported claims.

Changes in the balance of claim liabilities are as follows:

<u>Balance</u> <u>July 1, 2018</u>	<u>Current Year Claims</u> <u>and Changes in</u> <u>Estimates</u>	<u>Claims/Payments</u>	<u>Balance</u> <u>June 30, 2019</u>
<u>\$ 1,537,973</u>	<u>\$ 589,378</u>	<u>\$ (657,379)</u>	<u>\$ 1,469,972</u>

The liability has been included in accrued expenses in the accompanying financial statements.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

10. WORKERS' COMPENSATION LIABILITY (continued)

California's private insurance program requires that self-insured employers post collateral to cover estimated future claim liabilities. The Organization participates in California's "Alternative Security Program," part of the Self-Insurer's Security Fund. Membership in this program allows the Organization to fulfill the collateral requirement through its membership and investment in the program and without posting the Organization's assets as collateral.

11. DEFERRED COMPENSATION

The Organization has a non-qualified deferred compensation plan structured as a Discounted Employee Security Option Program (DESOP) for the benefit of certain management employees. The Organization's board makes annual grants of options in publicly-traded mutual funds which the Organization has purchased to fund the DESOP and the account balance fluctuates with the investment returns on those funds. The DESOP assets are held in a separate trust, subject to the claims of the Organization's creditors in the event that the Organization becomes insolvent. Consequently, the trust qualifies as a grantor trust for income tax purposes. Charges to deferred compensation expense are included within personnel costs in the statement of functional expenses.

401(k) Plan

The Organization has established a defined contribution plan under IRC Section 401(k) covering certain employees aged 18 years and older who have completed six months of service. The terms of the plan provide that employees, once eligible, may participate in the plan by making contributions up to the maximum allowed under the IRC. The Organization makes discretionary matching contributions of 50% of the elective deferral up to 2.5% of eligible earnings. Retirement plan expenses for the year totaled \$476,271.

12. RELATED PARTY TRANSACTIONS

The Organization leases properties from entities in which an officer/director has invested, but holds a noncontrolling interest.

The officer/director owns a noncontrolling interest in the following entities:

Property	Lease Termination	Rent Paid	Property Taxes Paid
18700 Oxnard St.	June 2028	\$ 513,455	\$ 67,937
44447 10th St. West	November 2027	986,057	110,502
7101 Baird St.	June 2028	504,153	44,789
8330 Reseda Blvd.	July 2028	608,661	103,019
907 West Lancaster Blvd.	March 2028	<u>184,285</u>	<u>32,842</u>
	-	<u>\$ 2,796,611</u>	<u>\$ 359,089</u>

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

12. RELATED PARTY TRANSACTIONS (continued)

The officer/director is the sole owner of another property which the Organization leases on a month-to-month basis. Total rent incurred in fiscal 2019 was \$36,000.

The Organization has had valuations performed on all of the significant properties by a third-party appraiser. These appraisals support the Organization's position that it is paying fair rental value (or less) for each property.

As described in the other assets section of Note 2, on January 1, 2016, the Organization entered into new lease agreements with all of the above related entities. To incentivize the owners of the entities to negotiate new leases and extend the lives of the leases, the Organization paid rental incentive payments which are being amortized over the respective lives of the new leases.

13. COMMITMENTS

The Organization leases 43 facilities (including the leases discussed in Note 12), all of which are accounted for as operating leases.

The Organization recognized rent expense of \$6,760,324 for the year ended June 30, 2019.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2020	\$ 6,196,655
2021	6,100,412
2022	6,261,302
2023	6,037,290
2024	6,179,844
Thereafter	<u>27,408,677</u>
	<u>\$ 58,184,180</u>

14. CONTINGENCIES

Litigation

The Organization operates its mission in an environment that is subject to professional and general liability risks. Management believes it is adequately insured so that no potential claim could create a significant adverse financial impact.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

14. CONTINGENCIES (continued)

Health care reform

As a result of the Patient Protection and Affordable Care Act ("ACA"), as well as the Health Care and Education Reconciliation Act of 2010 and related health care reform legislation and regulations (collectively "Health Care Reform"), significant changes to the current U.S. healthcare system are occurring and anticipated to continue, to include ongoing efforts to dismantle the ACA. Health Care Reform includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, payments to healthcare providers and the legal obligations of health insurers, providers and employers. Such provisions include measures designed to promote quality and cost efficiency in healthcare delivery and to generate budgetary savings, including with respect to Medi-Cal, the California Department of Health Care Services and other State and County programs pursuant to which the Organization is reimbursed for the services it provides. The Organization is unable to predict the full impact of continued Health Care Reform efforts and subsequent changes at this time. However, the Organization expects that Health Care Reform and subsequent changes may have a material effect on its business.

State funding

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. During the last few years, as a result of nationwide 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 regulatory action, which could include fines, penalties, exclusion from the Medicare and Medicaid programs and revocation of federal or state tax-exempt status. Moreover, the Organization expects that the level of review and audit to which it and other health care providers are subject to increase.

Various state and federal agencies routinely initiate audits of healthcare providers, including the Organization. These funding agency audits are continually in various stages of discovery and relate to reimbursement, billing practices and other matters of the Organization. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations and it is not possible to determine the impact, if any, such claims or penalties would have on the Organization. As a result, there is a possibility that recorded amounts will change by a material amount in the near-term, although management currently has no information that would suggest there will be a material change. To foster compliance with applicable laws and regulations, the Organization maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs. Management has received no letters of noncompliance as of June 30, 2019.

Tarzana Treatment Centers, Inc.
Notes to Financial Statements
June 30, 2019

15. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 4,212,172
Accounts receivable, net	13,530,158
Investments in marketable securities	9,051,967
Investments in private mortgage pools	<u>2,800,000</u>
	<u>\$ 29,594,297</u>

The Organization has a line of credit available for use with a limit of \$1,000,000, of which \$137,500 was outstanding as of June 30, 2019 (see Note 7).

Tarzana Treatment Centers

Fiscal Year Ended June 30, 2019

The GAAP audit and the Uniform Guidance audit reports were issued separately. The GAAP audit was issued in December 2019 and the Uniform Guidance audit was issued in March 2020.

Both reports must be uploaded to the Federal Audit Clearinghouse (“FAC”) with the Data Collection Form (“DCF”). However, the FAC website only allows one report attachment with the DCF. This requires us to create a single PDF that includes the GAAP audit and Uniform Guidance audit.

The presentation of the GAAP audit and the Uniform Guidance audit in a single PDF for submission with the DCF is not a reissuance of the GAAP audit report.

Tarzana Treatment Centers, Inc.

Single Audit Reports and Schedules

June 30, 2019



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INDEPENDENT AUDITOR'S 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*

Board of Directors
Tarzana Treatment Centers, Inc.
Tarzana, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tarzana Treatment Centers, Inc. (a nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2019. We have not performed any procedures with respect to the audited financial statements subsequent to December 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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.



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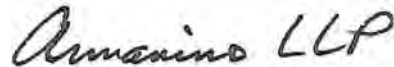
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
Los Angeles, California

March 30, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Tarzana Treatment Centers, Inc.
Tarzana, California

Report on Compliance for Each Major Federal Program

We have audited Tarzana Treatment Centers, Inc. (a nonprofit corporation) (the "Organization")'s 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 Organization's major federal programs for the year ended June 30, 2019. The Organization'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 Organization'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* (the "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 Organization'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 June 30, 2019.

Report on Internal Control Over Compliance

Management of the Organization 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 Organization'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 Organization'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.

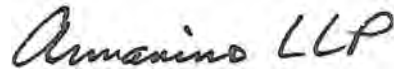
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

We have audited the Organization's financial statements as of and for the year ended June 30, 2019, and have issued our report thereon dated December 10, 2019, which contained an unmodified opinion on those financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 10, 2019. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U.S. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.



Armanino^{LLP}
Los Angeles, California

March 30, 2020

Tarzana Treatment Centers, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services				
Substance Abuse and Mental Health Services_Projcts of Regional and National Significance				
Direct awards:				
Partner for Homeless Health	93.243	1H79SM062318-04	\$ 377,990	\$ -
Project Homecoming	93.243	1H79SM063338-03	404,198	-
Growing Miracles	93.243	1H79T1080337-02	553,038	-
Youth and Family Tree	93.243	1H79T1081285-05	316,847	-
Whole Health Integration Project Against HIV	93.243	1H79SM080570-01	319,823	-
Healthy Educated Leader in Progress	93.243	1H79SP021694-01	144,485	-
Opiod Overdose Treatment Access Technical Assistance	93.243	3H79SP080959-01	95,806	-
MAT-Expansion Project	93.243	1H79T1081460-01	243,147	-
Project Fair	93.243	1H79SM062673-01	40,539	-
PBHCI Valley Integrated Treatment Alliance (VITA)	93.243	1H79SM061045-01	<u>103,058</u>	<u>-</u>
Total Substance Abuse and Mental Health Services_Projcts of Regional and National Significance			<u>2,598,931</u>	<u>-</u>
Medical Assistance Program				
Pass-through program from: County of Los Angeles Substance Abuse Prevention and Control	93.778	PH002793	14,250,326	-
Pass-through program from: County of San Bernadino Department of Behavioral Health Substance use disorder	93.778	15-427	<u>3,451</u>	<u>-</u>
Total Medical Assistance Program			<u>14,253,777</u>	<u>-</u>
Opiod STR				
Pass-through program from: State of California Department of Health Care Services California Hub and Spoke System	93.788	17-94465	<u>1,632,283</u>	<u>68,957</u>
HIV Emergency Relief Project Grants				
Pass-through program from: County of Los Angeles Division of HIV and STD Programs				
Medical Transportation	93.914	PH001534	141,564	-
Oral Health Care Service	93.914	PH001535	14,463	-
Case Management and Medical Care Coordination	93.914	PH001536	158,023	-
Benefits Specialty	93.914	PH001537	108,332	-
Medical Nutrition Therapy	93.914	PH001542	13,550	-
Medical OP	93.914	PH001542	3,395	-
Medical Care Coordination	93.914	PH002345	150,752	-
Ambulatory Outpatient Medical	93.914	PH002352	62,730	-
NOCHAA Benefits Specialty	93.914	PH002903	136,218	-
MH Services	93.914	PH003365	16,945	-
MTU-Based	93.914	PH000827	54,690	-
MTU-PFP	93.914	PH000827	7,864	-
Case Management Home-Based	93.914	H204608	427,756	-
Prerelease County (JAILS) TCM	93.914	H300127	<u>201,813</u>	<u>-</u>
			<u>1,498,095</u>	<u>-</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Tarzana Treatment Centers, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
Direct awards:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	1H76 HA00791-10-00	328,126	-
Total HIV Emergency Relief Project Grants			<u>1,826,221</u>	<u>-</u>
HIV Prevention Activities_Health Department Based				
Pass-through program from: County of Los Angeles				
Division of HIV and STD Programs				
MTU-Based	93.940	PH000827	58,252	-
MTU-PFP	93.940	PH000827	9,831	-
Storefront-Based	93.940	PH000817	99,202	-
Storefront-PFP	93.940	PH000817	38,071	-
Total HIV Prevention Activities_Health Department Based			<u>205,356</u>	<u>-</u>
Block Grants for Prevention and Treatment of Substance Abuse				
Pass-through program from: County of San Bernadino				
Department of Behavioral Health				
Pass-through program from: Riverside University Health System	93.959	15-427	173,417	-
Pass-through program from: Riverside University Health System	93.959	ID 4100514915/55800	115,257	-
Pass-through program from: County of Los Angeles				
Division of Substance Abuse Prevention and Control				
Drug Medi-cal	93.959	PH002793	4,782,655	-
ADPS-CPS	93.959	PH002778	317,029	-
ADPS-EPS	93.959	PH002779	531,830	-
APS	93.959	PH003031	262,374	-
CENS	93.959	PH003031	1,620,246	-
GPS	93.959	PH003031	3,047,310	-
			<u>10,561,444</u>	<u>-</u>
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>10,850,118</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>31,366,686</u>	<u>68,957</u>
U.S. Department of Homeland Security				
Direct awards:				
Emergency Food and Shelter National Board Program	97.024	EFSP PH 26	24,641	-
Total U.S. Department of Homeland Security			<u>24,641</u>	<u>-</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Tarzana Treatment Centers, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Housing and Urban Development				
Pass-through program from: City of Los Angeles Housing Opportunities for Persons with AIDS	14.241	C-127718	<u>1,222,395</u>	<u>190,182</u>
Total U.S. Department of Housing and Urban Development			<u>1,222,395</u>	<u>190,182</u>
Total Expenditures of Federal Awards			<u>\$ 32,613,722</u>	<u>\$ 259,139</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Tarzana Treatment Centers, Inc.
Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Tarzana Treatment Centers, Inc. (the "Organization") 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 Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COSTS

The Organization does not use the 10% de minimus cost rate.

Tarzana Treatment Centers, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Medical Assistance Program	93.778
Opiod STR	93.788
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Dollar threshold used to distinguish between Type A and Type B programs	\$978,412
Auditee qualified as low-risk auditee?	No

Tarzana Treatment Centers, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Tarzana Treatment Centers, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2019

There were no prior audit findings.