



*Report of Independent Auditors and  
Consolidated Financial Statements with  
Supplementary Information*

## **OLE Health and Subsidiaries**

*June 30, 2017 and 2016*

## Table of Contents

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<b>REPORT OF INDEPENDENT AUDITORS</b> .....	1
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated statements of financial position.....	4
Consolidated statements of operations and changes in net assets .....	5
Consolidated statements of cash flows.....	7
Notes to consolidated financial statements.....	8
<b>SUPPLEMENTARY INFORMATION</b>	
Statements of functional expenses .....	21
Consolidating statements of financial position .....	23
Consolidating statements of operations and changes in net assets.....	25
Schedule of expenditures of federal awards.....	29
Notes to schedule of expenditures of federal awards.....	30
<b>REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> .....	31
<b>REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b> .....	33
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> .....	35
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b> .....	36

## Report of Independent Auditors

To the Board of Directors  
OLE Health and Subsidiaries

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of OLE Health and Subsidiaries (the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management’s Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization’s preparation and fair presentation of the consolidated 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 Organization’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2017 and 2016, and the related changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of functional expenses, consolidating statements of financial position, and consolidating statements of operations and changes in net assets, as of and for the years ended June 30, 2017 and 2016, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. 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* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 December 12, 2017, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Moss Adams LLP*

San Francisco, California

December 12, 2017

## **Consolidated Financial Statements**

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**OLE Health and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,608,944	\$ 1,066,483
Restricted cash and cash equivalents, board designated	-	5,000,000
Investments	8,378,512	10,263,446
Patient accounts receivable, net allowance for bad debts of \$310,305 and \$166,630 as of June 30, 2017 and 2016, respectively	1,576,634	1,451,068
Grants, contributions, and other receivables	5,648,763	1,924,706
Amounts due from third-party payors	577,659	1,090,620
Prepaid expenses and other assets	380,161	460,051
Total current assets	<u>21,170,673</u>	<u>21,256,374</u>
<b>OTHER LONG-TERM ASSETS</b>		
Grants, contributions, and other receivables, long-term portion	1,921,186	-
Note receivable	14,330,990	-
Assets limited as to use	26,531,354	-
<b>PROPERTY, LAND, AND EQUIPMENT, at cost</b>		
Land and land improvements	2,886,068	153,641
Buildings and leasehold improvements	4,260,072	4,101,256
Equipment	2,619,658	2,628,044
Furniture and fixtures	659,383	483,475
Website	37,013	37,013
Construction in progress	2,983,418	632,937
Total property, land, and equipment, at cost	<u>13,445,612</u>	<u>8,036,366</u>
Less accumulated depreciation and amortization	<u>4,459,132</u>	<u>3,693,816</u>
Property, land, and equipment, net of accumulated depreciation and amortization	<u>8,986,480</u>	<u>4,342,550</u>
Total assets	<u>\$ 72,940,683</u>	<u>\$ 25,598,924</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,104,796	\$ 437,867
Accrued expenses	5,753,152	3,745,918
Current portion of long-term debt, net of debt issuance costs	898,657	188,851
Deferred revenue	380,841	407,400
Total current liabilities	<u>8,137,446</u>	<u>4,780,036</u>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION and DEBT ISSUANCE COSTS</b>		
Total liabilities	<u>31,265,997</u>	<u>764,853</u>
	<u>39,403,443</u>	<u>5,544,889</u>
<b>NET ASSETS</b>		
Unrestricted	32,762,152	19,439,489
Temporarily restricted	775,088	614,546
Total net assets	<u>33,537,240</u>	<u>20,054,035</u>
Total liabilities and net assets	<u>\$ 72,940,683</u>	<u>\$ 25,598,924</u>

**OLE Health and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>		
Net patient service revenue	\$ 13,816,945	\$ 12,963,006
Provision for bad debts	(582,386)	(173,814)
Net patient service revenues less provision for bad debts	13,234,559	12,789,192
Capitation revenue	3,103,041	2,723,376
Grant revenue	4,258,910	3,793,622
Contribution revenue	3,447,229	2,747,140
Other revenue	2,713,654	2,386,890
Net assets released from restriction used for operations	1,698,456	963,954
Total unrestricted revenues, gains, and other support	28,455,849	25,404,174
<b>EXPENDITURES</b>		
Salaries and wages	16,572,077	14,503,926
Employee benefits	4,018,683	3,312,711
Purchased services and professional fees	1,488,557	1,095,723
Supplies and other	3,800,060	3,880,659
Rent	1,483,036	1,338,830
Depreciation and amortization	904,477	713,277
Interest	36,158	35,703
Total expenditures	28,303,048	24,880,829
<b>OPERATING INCOME</b>	152,801	523,345
<b>OTHER INCOME</b>		
Investment return	469,862	178,268
Total other income	469,862	178,268
<b>EXCESS OF UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES</b>	622,663	701,613
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	12,700,000	-
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	\$ 13,322,663	\$ 701,613

**OLE Health and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended June 30, 2017 and 2016**

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	<u>2017</u>	<u>2016</u>
<b>UNRESTRICTED NET ASSETS</b>		
Excess of unrestricted revenues, gains, and other support over expenditures	\$ 13,322,663	\$ 701,613
Increase in unrestricted net assets	<u>13,322,663</u>	<u>701,613</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	1,858,998	1,578,500
Net assets released from restriction	<u>(1,698,456)</u>	<u>(963,954)</u>
Increase in temporarily restricted net assets	<u>160,542</u>	<u>614,546</u>
<b>CHANGE IN NET ASSETS</b>	13,483,205	1,316,159
<b>NET ASSETS</b> , beginning of year	<u>20,054,035</u>	<u>18,737,876</u>
<b>NET ASSETS</b> , end of year	<u>\$ 33,537,240</u>	<u>\$ 20,054,035</u>



**OLE Health and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,483,205	\$ 1,316,159
Adjustments to reconcile the change in net assets to net cash provided by operating activities		
Depreciation and amortization	904,477	713,277
Loss on disposals	422,579	-
Net realized and unrealized (gains) losses on investments	(204,431)	84,019
Provision for bad debts	582,386	173,814
Amortization of debt issuance costs	8,214	-
Changes in		
Patient accounts receivable	(2,629,138)	(372,505)
Grants receivable	(3,724,057)	(1,098,288)
Amounts due from third-party payors	512,961	37,600
Prepaid assets	79,890	(91,369)
Accounts payable and accrued expenses	3,389,563	2,369,542
Deferred revenue	(26,559)	(237,940)
Net cash provided by operating activities	12,799,090	2,894,309
<b>INVESTING ACTIVITIES</b>		
Disbursement of restricted cash and cash equivalents, board designated	5,000,000	-
Receipt of assets limited as to use	(26,531,354)	-
Payment made for extending note receivable	(14,330,990)	-
Purchase of investments	(35,626,315)	(16,960,516)
Proceeds from disposition of investments	37,715,680	7,838,497
Purchase of property, land, and equipment	(6,669,066)	(2,107,816)
Net cash used in investing activities	(40,442,045)	(11,229,835)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	32,439,400	1,000,000
Payments of debt issuance costs	(707,258)	-
Principal payments on long-term debt	(546,726)	(71,749)
Net cash provided by financing activities	31,185,416	928,251
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	3,542,461	(7,407,275)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	1,066,483	8,473,758
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 4,608,944</b>	<b>\$ 1,066,483</b>
<b>SUPPLEMENTAL CASH FLOWS INFORMATION</b>		
Interest paid	\$ 36,158	\$ 35,703
Noncash investing activity during the year for		
Property, land, and equipment acquired through accounts payable	\$ 698,080	\$ 110,286
Debt issuance costs incurred through accounts payable	\$ 17,320	\$ -

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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#### NOTE 1 – NATURE OF OPERATIONS

**Nature of operations** – OLE Health (the “Clinic”), previously known as Community Health Clinic Ole, Inc., is a community health center that works to improve, promote, and maintain the physical and emotional health in the communities it serves. The Clinic primarily earns revenues by providing a broad range of services to patients in the Napa and neighboring communities.

OLE Health Foundation (the “Foundation”), previously known as Clinic Ole Foundation, is a not-for-profit organization created solely and exclusively to support and benefit the Clinic by engaging in fundraising activities. The Clinic is the sole member of the Foundation.

On February 15, 2017, OLE Health NMTC (the “NMTC”), is a California nonprofit public benefit corporation. The specific purpose of NMTC is to finance the construction of the South Napa Campus. The Clinic is the sole member of the NMTC.

The Clinic, the Foundation, and the NMTC are collectively referred to as OLE Health and Subsidiaries (the “Organization”). All transactions performed by the Foundation and the NMTC are consolidated with the Clinic. Certain inter-entity transactions have been eliminated.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of consolidation** – The consolidated financial statements include the accounts and transactions of the Organization. All significant intercompany transactions and balances have been eliminated in consolidation.

**Use of estimates** – The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** – The Organization considers all liquid investments, other than certificates of deposits, with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of bank demand deposits in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance thresholds, cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds, and various debt and equity investments in excess of the Securities Investor Protection Corporation (“SIPC”) insurance threshold. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past.

**Restricted cash and cash equivalents, board designated** – Restricted cash and cash equivalents are designated by the board for its projects. During the year ended June 30, 2017, the board released the \$5M in restricted cash and cash equivalents as part of the promissory note of \$14,330,990 provided to Chase NMTC OLE Health Investment Fund, LLC, as part of the Organization’s NMTC financing for the QLICI notes (See Note 13).

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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**Investments and investment return** – Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return is included in unrestricted net assets.

The Organization's investments are classified as trading securities. The trading securities are adjusted to fair value through recognition of unrealized gains and losses in investment return – change in unrealized gains and losses on trading securities, and included in the performance indicator of excess of unrestricted revenues, gains, and other support over expenditures.

**Patient accounts receivable** – Patient accounts receivable are recorded at gross value along with a corresponding contractual allowance and allowance for bad debts. Allowance accounts are estimated for each type of receivable based on the Organization's experience in collecting receivables. Receivables are not collateralized. The Organization does not refuse service to patients based on an individual's ability to pay. In evaluating the collectability of patient accounts receivable, the Organization analyzes its past history and identified trends for each of its major payor sources of revenue to estimate the appropriate allowance for bad debts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for bad debts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for bad debts and a provision for bad debts, if necessary (for example, for unexpected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records provision for bad debts in the period of services 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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for bad debts.

**Property, land, and equipment** – Property, land, and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property, land, and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items may be reclaimed by the federal government if not used to further the grant's objective.

Donations of property, land, and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property, land, and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Organization periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished service utility of the capital asset.

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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**Note receivable** – In June 2017, the Organization provided a promissory note to Chase NMTC OLE Health Investment Fund, LLC, of \$14,330,990 in conjunction with the creation of the NMTC, as part of the Organization's NMTC financing for the QLICI notes (See Note 13).

The note receivable bears a 1% interest rate and will mature on June 1, 2047. Interest is accrued at the end of each month and will be paid quarterly commencing on September 1, 2017, until June 1, 2024. Beginning on June 1, 2024, principal and interest installment of \$174,436 will be payable quarterly prior to maturity date. All accrued and unpaid interest and principal will be paid in full on the maturity date.

**Assets limited as to use** – Assets limited as to use include cash and cash equivalents that are restricted by the Organization's NMTC financing to be used for the development and construction of the South Napa Campus. Assets limited to use are reported at fair value.

**Basis of presentation** – The accompanying consolidated 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, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor imposed stipulations. Investment earnings are recorded as unrestricted net assets for certain temporarily restricted funds in accordance with the Organization's spending rule and for certain funds in accordance with donor stipulations.

*Temporarily restricted net assets* – Net assets subject to donor imposed stipulations that may, or will be met, either by actions of the Organization and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor imposed stipulations that will be followed permanently by the Organization. At June 30, 2017 and 2016, the Organization had no permanently restricted net assets.

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

**Capitation revenue** – The Organization has an agreement with Partnership Health Plan of California (the "Plan") to provide medical services to subscribing Medi-Cal participants. Under the Plan, the Organization receives monthly capitation payments based on the number of participants, regardless of the services actually performed by the Organization. Capitation payments are recognized as capitation revenue during the period in which the Organization is obligated to provide services to participants.

The Organization also receives interim payments from the Medi-Cal program. These payments are reconciled through a third-party settlement on an annual basis to insure the Organization ultimately receives the established Medi-Cal payment rate for all visits under the Plan.

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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The Plan distributes cost pool savings to its member organizations based on the annual experience of all the member organizations.

**Grant revenue** – Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Deferred revenue** – Revenue from grants to provide health care services is deferred and recognized over the periods to which the eligibility requirements are met.

**Sliding scale fee** – The Organization provides care to patients, who meet certain criteria under its sliding scale fee policy, without charge or at amounts less than its established rates. The Organization does not pursue collection of amounts determined to qualify as sliding fee care and they are not reported as revenue.

**Contributions** – Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions the restrictions of which are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

**In-kind contributions** – The Organization receives in-kind contributions of rent from various donors. It is the policy of the Organization to record the estimated fair value of these in-kind donations as contribution revenue and rent expense. \$646,026 and \$622,453 was recognized as in-kind revenue and expenses for the years ended June 30, 2017 and 2016, respectively.

**Excess of unrestricted revenues, gains, and other support over expenditures** – The consolidated statements of operations and changes in net assets include excess of unrestricted revenues, gains, and other support over expenditures. Changes in unrestricted net assets which are excluded from excess of unrestricted revenues, gains, and other support over expenditures, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and capital grants and contributions (including assets acquired using contributions which by donor restriction are to be used for the purpose of acquiring such assets).

**Debt issuance costs** – The Organization capitalizes certain expenses associated with obtaining new debt. Amortization is calculated using straight-line method over seven years, which is not materially different from using effective interest method over the term of the note payable. Deferred issuance costs are included as a component of long-term debt in the accompanying consolidated statements of financial position. Amortization of deferred issuance costs is included as component of interest expense debt in the accompanying consolidated statements of operations and changes in net assets (See Note 13).

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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**Income taxes** – The Organization is nonprofit corporations under Internal Revenue Code Section 501(c)(3) and have been granted tax-exempt status by the Internal Revenue Service and the California Revenue and Taxation Code. As of June 30, 2017 and 2016, the Organization had no unrecognized tax positions or uncertain tax positions requiring accrual. Therefore, no provision for income taxes has been provided in the consolidated financial statements.

**Fair value measurements** – The Financial Accounting Standards Board (FASB) ASC Topic 820, *Fair Value Measurements and Disclosures*, prescribes fair value measurements and disclosures for financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements. FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Unless otherwise indicated, the fair value of all reported assets and liabilities that represent financial instruments approximate their carrying values reported in the accompanying consolidated statement of financial positions. The fair values of investments and long-term debt are disclosed in Note 6.

**New accounting pronouncements** – In August 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* (“ASU 2014-15”). ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The adoption of ASU 2014-15 is effective for the Organization for fiscal year ended June 30, 2017. Management adopted the provision of this ASU during the year ended June 30, 2017, and there was no material impact to the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”), that affect limited partnerships and similar entities, evaluating fees paid to a decision maker or a service provider as a variable interest, effect of fee arrangements on the primary beneficiary determination, effect of related parties on the primary beneficiary determination, and certain investment funds. The adoption of ASU 2015-03 is effective for the Organization beginning July 1, 2016. Management adopted the provision of this ASU during the year ended June 30, 2017. The impact of the adoption of this update resulted in a decrease in prepaid expenses and other assets and long-term debt of \$681,724 and \$0 as of June 30, 2017 and 2016, respectively.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (“ASU 2014-09”), which amends the FASB Accounting Standards Codification by superseding the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and in most industry-specific topics. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, (“ASU 2015-14”), which deferred the effective date of ASU No. 2014-09 by one year. In 2016, the FASB issued ASU No. 2016-08, ASU No. 2016-10, and ASU No. 2016-12 which amended the provisions for the principal versus agent considerations (reporting revenue gross versus net), identifying performance obligation, licensing implementation guidance, narrow-scope improvements, and practical expedients. The abovementioned ASUs have the same effective date as ASU No. 2015-14, which will be effective in the annual periods beginning after December 15, 2018, with earlier adoption permitted no earlier than annual periods beginning after December 15, 2017. Management is currently evaluating the impact of the abovementioned ASUs on the consolidated financial statements.

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14")*, which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update replaces the requirement to present three classes of net assets with two classes, net assets with donor restrictions, and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows, as well as added several additional enhanced disclosures to the notes. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods beginning after December 15, 2018, with application to interim financial statements permitted but not required in the initial year of application. The adoption is effective for the Organization for the fiscal year ending June 30, 2019. Management is currently evaluating the impact of the provisions of ASU No. 2016-14 on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) ("ASU 2016-02")*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for the Organization beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU No. 2016-02 on the consolidated financial statements.

#### **NOTE 3 – GRANT REVENUE**

The Organization is the recipient of a Health Center Program Clusters ("HCP") grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for the medically underserved population in the Napa and Solano counties. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2017 and 2016, the Organization received \$3,302,761 and \$2,854,647 in HCP grant funds, respectively.

The Organization's present HCP grant award covers the grant year ending March 31, 2018, and is approved at \$2,836,686.

In addition to the above grant, the Organization received additional financial support from other federal, state, local and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

#### **NOTE 4 – NET PATIENT SERVICE REVENUE**

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

*Medicare* – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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*Medi-Cal* – Covered FQHC services rendered to Medi-Cal program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under this plan. Services not covered under the FQHC benefit are paid based on established fee schedules.

Approximately 82% and 85% of net patient service revenue is from participation in the Medicare and Medi-Cal programs for the years ended June 30, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

#### NOTE 5 – CONCENTRATION OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2017 and 2016, was:

	<u>2017</u>	<u>2016</u>
Medi-Cal	57%	68%
Medicare	20%	15%
Self pay	9%	10%
Other third-party payors	14%	7%
	<u>100%</u>	<u>100%</u>

#### NOTE 6 – INVESTMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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



## OLE Health and Subsidiaries Notes to Consolidated Financial Statements

Following is a description of the valuation methodology used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

**Investments** – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange-traded mutual funds and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows are classified within Level 2. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no securities classified within Level 3 of the hierarchy.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value 2017</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Investments	\$ 8,378,512	\$ 8,378,512	\$ -	\$ -
Total	<u>\$ 8,378,512</u>	<u>\$ 8,378,512</u>	<u>\$ -</u>	<u>\$ -</u>

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value 2016</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Investments	\$ 10,263,446	\$ 10,263,446	\$ -	\$ -
Total	<u>\$ 10,263,446</u>	<u>\$ 10,263,446</u>	<u>\$ -</u>	<u>\$ -</u>

Investments, stated at fair value, at June 30, 2017 and 2016, include:

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 1,148,255	\$ 85,210
Equity mutual funds	535,564	649,107
Fixed income mutual funds	4,765,301	8,431,400
International equity mutual funds	949,072	569,096
Diversified mutual funds	980,320	528,633
	<u>\$ 8,378,512</u>	<u>\$ 10,263,446</u>

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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Total investment return is comprised of the following:

	<u>2017</u>	<u>2016</u>
Investment return	\$ 265,431	\$ 262,287
Realized gains (losses) on sales of securities	124,050	(41,995)
Unrealized gains (losses) on trading securities	<u>80,381</u>	<u>(42,024)</u>
	<u>\$ 469,862</u>	<u>\$ 178,268</u>

#### NOTE 7 – MEDICAL MALPRACTICE CLAIMS

The U.S. Department of Health and Human Services has deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Management is not aware of any pending claims that exceed the limitations provided by this coverage.

#### NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Majority of the temporarily restricted net assets is restricted for general health care services. At June 30, 2017 and 2016, the Organization had \$642,857 and \$555,195 of net assets temporarily restricted for general health care services, respectively.

During the years ended June 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$1,698,456 and \$963,954, respectively.

#### NOTE 9 – FUNCTIONAL EXPENSES

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2017</u>	<u>2016</u>
Health care services	\$ 19,341,013	\$ 17,262,205
General and administrative	8,210,741	7,604,908
Fundraising	<u>751,294</u>	<u>13,716</u>
	<u>\$ 28,303,048</u>	<u>\$ 24,880,829</u>

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

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#### NOTE 10 – COMMITMENTS

Future minimum payments on noncancelable operating leases for primary care outpatient offices and other equipment are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 860,891
2019	410,775
2020	221,365
2021	133,006
2022	138,013
Thereafter	58,445
	<u>\$ 1,822,495</u>

#### NOTE 11 – RETIREMENT PLAN

Effective July 1, 2015, the Organization has a safe harbor plan covering substantially all employees. The Organization contributes an employer match of 100% for the first 4% of an employee's eligible compensation. Retirement expense was \$482,584 and \$347,582 for the years ended June 30, 2017 and 2016, respectively.

#### NOTE 12 – LINE OF CREDIT

On March 26, 2015, the Clinic obtained a \$750,000 revolving line of credit due April 7, 2016, from Mechanics Bank. Monthly payments of accrued interest began on May 7, 2015, with a final payment of unpaid principal and interest due on April 7, 2016. Accrued interest is calculated at an initial variable interest rate of 3.25%, with a minimum rate of 3.25%. The line of credit is secured with inventory, chattel paper, accounts, equipment, and general intangibles of the Organization. The Organization has no outstanding borrowings as of June 30, 2016, and the line of credit expired on April 7, 2016.

On July 22, 2016, the Clinic obtained a \$3,000,000 revolving line of credit due August 7, 2017, from Mechanics Bank. A final payment of unpaid principal and accrued interest is due on August 7, 2017. Accrued interest is calculated at an initial variable interest rate of 3.50%, with a minimum rate of 3.25%. The line of credit is secured with inventory, chattel paper, accounts, equipment, and general intangibles of the Organization. The Organization has no outstanding borrowings as of June 30, 2017. See Note 16 for subsequent event related to this line of credit.

#### NOTE 13 – LONG-TERM DEBT

**Note payable** – On September 15, 2015, the Clinic obtained a \$1,000,000 note payable from CPCA Ventures. Monthly payments of \$18,066 for principal and interest at a rate of 3.175% commencing May 1, 2016, are due through maturity date of March 1, 2021. Any unpaid principal and interest will be paid in full upon maturity date. The note is secured with accounts, equipment, and general intangibles of the Clinic. The Clinic has outstanding borrowings of \$764,852 and \$953,704 as of June 30, 2017 and 2016, respectively.

## OLE Health and Subsidiaries

### Notes to Consolidated Financial Statements

**Promissory note** – On May 4, 2017, the Clinic and the Foundation obtained a \$2,500,000 note payable from Mechanics Bank. Monthly payments of \$74,497 for principal and interest at a rate of 4.52% commencing June 7, 2017, are due through maturity date of May 7, 2020. Any unpaid principal and interest will be paid in full upon maturity date. The note is secured with accounts, equipment, and general intangibles of the Organization. The Organization has outstanding borrowings of \$2,430,526 as of June 30, 2017.

**QLICI notes** – On June 1, 2017, the NMTC obtained various notes totaled \$29,651,000 from four lenders through Chase Bank. Interest is at a rate of 1.9457% and the maturity date is June 1, 2024 or June 1, 2047. Any unpaid principal and interest will be paid in full upon maturity date. The notes are secured by all of the assets of the NMTC. The Clinic and the Foundation are the guarantors of the notes. The Organization has outstanding borrowings of \$29,651,000 as of June 30, 2017.

Minimum annual payments are as follows:

<u>Year Ending June 30,</u>	<u>Debt Principals</u>	<u>Less: Debt Issuance Costs</u>	<u>Total</u>
2018	\$ 997,220	\$ 98,563	\$ 898,657
2019	1,041,137	98,563	942,574
2020	996,530	98,563	897,967
2021	160,491	98,563	61,928
2022	-	98,563	(98,563)
Thereafter	29,651,000	188,909	29,462,091
	32,846,378	681,724	32,164,654
Less: current portion	997,220	98,563	898,657
	<u>\$ 31,849,158</u>	<u>\$ 583,161</u>	<u>\$ 31,265,997</u>

#### NOTE 14 – CONTINGENCIES

In the ordinary course of business, the Organization may be a party to claims and legal actions. While the outcome cannot be determined at this time, management's opinion is the liability, if any, from these actions will not have a material adverse effect on the Organization's consolidated financial position.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Organization is subject to similar regulatory reviews, there are no reviews currently underway, and management believes that the outcome of any potential regulatory review will not have a material adverse effect on the Organization's consolidated financial position.

**NOTE 15 – HEALTH CARE REFORM**

The Patient Protection and Affordable Care Act (“PPACA”) allowed for the expansion of Medicaid members in the State of California. Any further federal or state changes funding could have an impact on the Organization. With the changes in the executive branch, the future of PPACA and impact of future changes in Medicaid to the Organization are uncertain at this time.

**NOTE 16 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are issued.

On September 26, 2017, the Clinic obtained a \$3,000,000 revolving line of credit due September 7, 2018, from Mechanics Bank. A final payment of unpaid principal and accrued interest is due on September 7, 2018. Accrued interest is calculated at an initial variable interest rate of 4.25%, with a minimum rate of 3.25%. The line of credit is secured with inventory, chattel paper, accounts, equipment, and general intangibles of the Organization.

The Organization has evaluated subsequent events through December 12, 2017, which is the date the consolidated financial statements were available to be issued.

## **Supplementary Information**

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**OLE Health and Subsidiaries**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**

	<u>Medical</u>	<u>Mental Health</u>	<u>Dental</u>	<u>Outreach</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 11,700,458	\$ 917,136	\$ 1,577,197	\$ 381,457	\$ 470,450	\$ 5,649,501	\$ 20,696,199
Supplies	1,203,969	4,631	126,017	1,762	8,215	245,633	1,590,227
Depreciation and amortization	577,644	18,302	107,174	8,048	-	193,309	904,477
Space costs	1,460,537	18,817	92,720	12,543	8,385	207,843	1,800,845
Equipment costs	73,838	2,244	2,562	660	852	32,806	112,962
Insurance	60,489	4,580	7,887	1,851	2,476	26,027	103,310
Contractual services	489,315	147,298	43,118	-	12,265	960,254	1,652,250
Professional fees	-	-	-	-	10,151	167,828	177,979
Other	260,772	10,366	18,077	9,544	238,500	727,540	1,264,799
<b>Total expenses</b>	<b><u>\$ 15,827,022</u></b>	<b><u>\$ 1,123,374</u></b>	<b><u>\$ 1,974,752</u></b>	<b><u>\$ 415,865</u></b>	<b><u>\$ 751,294</u></b>	<b><u>\$ 8,210,741</u></b>	<b><u>\$ 28,303,048</u></b>

**OLE Health and Subsidiaries**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2016**

	<u>Medical</u>	<u>Mental Health</u>	<u>Dental</u>	<u>Outreach</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 10,278,797	\$ 663,043	\$ 1,254,310	\$ 372,354	\$ -	\$ 5,306,755	\$ 17,875,259
Supplies	1,223,645	305	197,235	14,346	-	71,468	1,506,999
Depreciation and amortization	457,032	37,064	103,026	8,529	-	107,626	713,277
Space costs	1,374,930	12,600	98,029	18,657	-	174,635	1,678,851
Equipment costs	85,030	-	35,611	712	-	79,812	201,165
Insurance	25,980	1,313	3,956	1,263	-	14,684	47,196
Contractual services	299,723	112,772	59,702	13,471	-	309,896	795,564
Professional fees	-	-	-	-	-	97,295	97,295
Other	406,474	15,729	55,947	30,620	13,716	1,442,737	1,965,223
<b>Total expenses</b>	<b><u>\$ 14,151,611</u></b>	<b><u>\$ 842,826</u></b>	<b><u>\$ 1,807,816</u></b>	<b><u>\$ 459,952</u></b>	<b><u>\$ 13,716</u></b>	<b><u>\$ 7,604,908</u></b>	<b><u>\$ 24,880,829</u></b>



**OLE Health and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**June 30, 2017**

<b>ASSETS</b>	<b>OLE Health</b>	<b>OLE Health Foundation</b>	<b>OLE Health NMTC</b>	<b>Eliminations</b>	<b>Total</b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 2,893,774	\$ 1,715,170	\$ -	\$ -	\$ 4,608,944
Investments	7,792,956	585,556	-	-	8,378,512
Patient accounts receivable, net allowance for bad debts of \$310,305	1,576,634	-	-	-	1,576,634
Grants, contributions, and other receivables	2,329,762	4,464,675	-	(1,145,674)	5,648,763
Amounts due from third-party payors	577,659	-	-	-	577,659
Prepaid expenses and other assets	1,868,548	340	-	(1,488,727)	380,161
Total current assets	<u>17,039,333</u>	<u>6,765,741</u>	<u>-</u>	<u>(2,634,401)</u>	<u>21,170,673</u>
<b>OTHER LONG-TERM ASSETS</b>					
Grants, contributions, and other receivables, long-term portion	-	1,921,186	-	-	1,921,186
Note receivable	14,330,990	-	-	-	14,330,990
Assets limited as to use	-	-	26,531,354	-	26,531,354
<b>PROPERTY AND EQUIPMENT, at cost</b>					
Land and land improvements	153,641	-	2,732,427	-	2,886,068
Buildings and leasehold improvements	4,260,072	-	-	-	4,260,072
Equipment	2,619,658	-	-	-	2,619,658
Furniture and fixtures	659,383	-	-	-	659,383
Website	37,013	-	-	-	37,013
Construction in progress	76,661	-	2,906,757	-	2,983,418
Total property, land, and equipment, at cost	<u>7,806,428</u>	<u>-</u>	<u>5,639,184</u>	<u>-</u>	<u>13,445,612</u>
Less accumulated depreciation	<u>4,459,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,459,132</u>
Property, land, and equipment, net of accumulated depreciation and amortization	<u>3,347,296</u>	<u>-</u>	<u>5,639,184</u>	<u>-</u>	<u>8,986,480</u>
Total assets	<u>\$ 34,717,619</u>	<u>\$ 8,686,927</u>	<u>\$ 32,170,538</u>	<u>\$ (2,634,401)</u>	<u>\$ 72,940,683</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 380,738	\$ 214,702	\$ 715,400	\$ (206,044)	\$ 1,104,796
Accrued expenses	5,676,564	-	1,016,218	(939,630)	5,753,152
Current portion of long-term debt, net of debt issuance costs	195,020	802,200	(98,563)	-	898,657
Deferred revenue	380,841	-	-	-	380,841
Total current liabilities	<u>6,633,163</u>	<u>1,016,902</u>	<u>1,633,055</u>	<u>(1,145,674)</u>	<u>8,137,446</u>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION and DEBT ISSUANCE COSTS</b>	<u>569,832</u>	<u>1,628,326</u>	<u>29,067,839</u>	<u>-</u>	<u>31,265,997</u>
Total liabilities	<u>7,202,995</u>	<u>2,645,228</u>	<u>30,700,894</u>	<u>(1,145,674)</u>	<u>39,403,443</u>
<b>NET ASSETS</b>					
Unrestricted	26,739,536	6,041,699	1,469,644	(1,488,727)	32,762,152
Temporarily restricted	775,088	-	-	-	775,088
Total net assets	<u>27,514,624</u>	<u>6,041,699</u>	<u>1,469,644</u>	<u>(1,488,727)</u>	<u>33,537,240</u>
Total liabilities and net assets	<u>\$ 34,717,619</u>	<u>\$ 8,686,927</u>	<u>\$ 32,170,538</u>	<u>\$ (2,634,401)</u>	<u>\$ 72,940,683</u>

**OLE Health and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**June 30, 2016**

<b>ASSETS</b>	<b>OLE Health</b>	<b>OLE Health Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 242,458	\$ 824,025	\$ -	\$ 1,066,483
Restricted cash and cash equivalents, board designated	5,000,000	-	-	5,000,000
Investments	6,948,475	3,314,971	-	10,263,446
Patient accounts receivable, net allowance for bad debts of \$166,630	1,451,068	-	-	1,451,068
Grants, contributions, and other receivables	1,620,734	303,972	-	1,924,706
Amounts due from third-party payors	1,090,620	-	-	1,090,620
Prepaid expenses and other assets	460,051	-	-	460,051
Total current assets	<u>16,813,406</u>	<u>4,442,968</u>	<u>-</u>	<u>21,256,374</u>
<b>PROPERTY, LAND, AND EQUIPMENT, at cost</b>				
Land and land improvements	153,641	-	-	153,641
Buildings and leasehold improvements	4,101,256	-	-	4,101,256
Equipment	2,628,044	-	-	2,628,044
Furniture and fixtures	483,475	-	-	483,475
Website	37,013	-	-	37,013
Construction in progress	632,937	-	-	632,937
Total property, land, and equipment, at cost	<u>8,036,366</u>	<u>-</u>	<u>-</u>	<u>8,036,366</u>
Less accumulated depreciation	<u>3,693,816</u>	<u>-</u>	<u>-</u>	<u>3,693,816</u>
Property, land and equipment, net of accumulated depreciation and amortization	<u>4,342,550</u>	<u>-</u>	<u>-</u>	<u>4,342,550</u>
Total assets	<u>\$ 21,155,956</u>	<u>\$ 4,442,968</u>	<u>\$ -</u>	<u>\$ 25,598,924</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 437,867	\$ -	\$ -	\$ 437,867
Accrued expenses	3,143,927	601,991	-	3,745,918
Current portion of long-term debt	188,851	-	-	188,851
Deferred revenue	407,400	-	-	407,400
Total current liabilities	<u>4,178,045</u>	<u>601,991</u>	<u>-</u>	<u>4,780,036</u>
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	<u>764,853</u>	<u>-</u>	<u>-</u>	<u>764,853</u>
Total liabilities	<u>4,942,898</u>	<u>601,991</u>	<u>-</u>	<u>5,544,889</u>
<b>NET ASSETS</b>				
Unrestricted	15,598,512	3,840,977	-	19,439,489
Temporarily restricted	614,546	-	-	614,546
Total net assets	<u>16,213,058</u>	<u>3,840,977</u>	<u>-</u>	<u>20,054,035</u>
Total liabilities and net assets	<u>\$ 21,155,956</u>	<u>\$ 4,442,968</u>	<u>\$ -</u>	<u>\$ 25,598,924</u>

**OLE Health and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2017**

	<u>OLE Health</u>	<u>OLE Health Foundation</u>	<u>OLE Health NMTC</u>	<u>Eliminations</u>	<u>Total</u>
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>					
Net patient service revenue	\$ 13,816,945	\$ -	\$ -	\$ -	\$ 13,816,945
Provision for bad debts	(582,386)	-	-	-	(582,386)
Net patient service revenues less provision for bad debts	13,234,559	-	-	-	13,234,559
Capitation revenue	3,103,041	-	-	-	3,103,041
Grant revenue	4,258,910	-	-	-	4,258,910
Contribution revenue	1,150,971	12,864,043	-	(10,567,785)	3,447,229
Other revenue	2,702,747	-	10,907	-	2,713,654
Net assets released from restriction used for operations	1,698,456	-	-	-	1,698,456
Total unrestricted revenues, gains, and other support	<u>26,148,684</u>	<u>12,864,043</u>	<u>10,907</u>	<u>(10,567,785)</u>	<u>28,455,849</u>
<b>EXPENDITURES</b>					
Salaries and wages	16,572,077	-	-	-	16,572,077
Employee benefits	4,018,683	-	-	-	4,018,683
Purchased services and professional fees	1,442,569	25,383	20,605	-	1,488,557
Supplies and other	3,591,889	207,000	1,171	-	3,800,060
Rent	1,483,036	-	-	-	1,483,036
Contributions to OLE Health	-	10,567,785	-	(10,567,785)	-
Depreciation and amortization	904,477	-	-	-	904,477
Interest	27,944	-	8,214	-	36,158
Total expenditures	<u>28,040,675</u>	<u>10,800,168</u>	<u>29,990</u>	<u>(10,567,785)</u>	<u>28,303,048</u>
<b>OPERATING INCOME</b>	<u>(1,891,991)</u>	<u>2,063,875</u>	<u>(19,083)</u>	<u>-</u>	<u>152,801</u>
<b>OTHER INCOME</b>					
Investment return	333,015	136,847	-	-	469,862
Total other income	<u>333,015</u>	<u>136,847</u>	<u>-</u>	<u>-</u>	<u>469,862</u>
<b>EXCESS OF UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES</b>	(1,558,976)	2,200,722	(19,083)	-	622,663
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	12,700,000	-	-	-	12,700,000
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ 11,141,024</u>	<u>\$ 2,200,722</u>	<u>\$ (19,083)</u>	<u>\$ -</u>	<u>\$ 13,322,663</u>

**OLE Health and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2017**

	<u>OLE Health</u>	<u>OLE Health Foundation</u>	<u>OLE Health NMTC</u>	<u>Eliminations</u>	<u>Total</u>
<b>UNRESTRICTED NET ASSETS</b>					
Excess of unrestricted revenues, gains and other support over expenditures	\$ 11,141,024	\$ 2,200,722	\$ (19,083)	\$ -	\$ 13,322,663
Increase in unrestricted net assets	<u>11,141,024</u>	<u>2,200,722</u>	<u>(19,083)</u>	<u>-</u>	<u>13,322,663</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>					
Contributions	1,858,998	-	1,488,727	(1,488,727)	1,858,998
Net assets released from restriction	(1,698,456)	-	-	-	(1,698,456)
Increase in temporarily restricted net assets	<u>160,542</u>	<u>-</u>	<u>1,488,727</u>	<u>(1,488,727)</u>	<u>160,542</u>
<b>CHANGE IN NET ASSETS</b>	<u>11,301,566</u>	<u>2,200,722</u>	<u>1,469,644</u>	<u>(1,488,727)</u>	<u>13,483,205</u>
<b>NET ASSETS</b> , beginning of year	<u>16,213,058</u>	<u>3,840,977</u>	<u>-</u>	<u>-</u>	<u>20,054,035</u>
<b>NET ASSETS</b> , end of year	<u>\$ 27,514,624</u>	<u>\$ 6,041,699</u>	<u>\$ 1,469,644</u>	<u>\$ (1,488,727)</u>	<u>\$ 33,537,240</u>

**OLE Health and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2016**

	<u>OLE Health</u>	<u>OLE Health Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>				
Net patient service revenue	\$ 12,963,006	\$ -	\$ -	\$ 12,963,006
Provision for bad debts	(173,814)	-	-	(173,814)
Net patient service revenues less provision for bad debts	12,789,192	-	-	12,789,192
Capitation revenue	2,723,376	-	-	2,723,376
Grant revenue	3,793,622	-	-	3,793,622
Contribution revenue	2,111,444	1,614,328	(978,632)	2,747,140
Other revenue	2,386,890	-	-	2,386,890
Net assets released from restriction used for operations	963,954	-	-	963,954
Total unrestricted revenues, gains, and other support	<u>24,768,478</u>	<u>1,614,328</u>	<u>(978,632)</u>	<u>25,404,174</u>
<b>EXPENDITURES</b>				
Salaries and wages	14,503,926	-	-	14,503,926
Employee benefits	3,312,711	-	-	3,312,711
Purchased services and professional fees	1,095,723	-	-	1,095,723
Supplies and other	3,864,803	15,856	-	3,880,659
Rent	1,338,830	-	-	1,338,830
Contributions to OLE Health	-	978,632	(978,632)	-
Depreciation and amortization	713,277	-	-	713,277
Interest	35,703	-	-	35,703
Total expenditures	<u>24,864,973</u>	<u>994,488</u>	<u>(978,632)</u>	<u>24,880,829</u>
<b>OPERATING INCOME</b>	<u>(96,495)</u>	<u>619,840</u>	<u>-</u>	<u>523,345</u>
<b>OTHER INCOME</b>				
Investment return	138,249	40,019	-	178,268
Total other income	<u>138,249</u>	<u>40,019</u>	<u>-</u>	<u>178,268</u>
<b>EXCESS OF UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES</b>	<u>41,754</u>	<u>659,859</u>	<u>-</u>	<u>701,613</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ 41,754</u>	<u>\$ 659,859</u>	<u>\$ -</u>	<u>\$ 701,613</u>

**OLE Health and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2016**

	<u>OLE Health</u>	<u>OLE Health Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<b>UNRESTRICTED NET ASSETS</b>				
Excess of unrestricted revenues, gains and other support over expenses	\$ 41,754	\$ 659,859	\$ -	\$ 701,613
Increase in unrestricted net assets	<u>41,754</u>	<u>659,859</u>	<u>-</u>	<u>701,613</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Contributions	1,578,500	-	-	1,578,500
Net assets released from restriction	<u>(963,954)</u>	<u>-</u>	<u>-</u>	<u>(963,954)</u>
Increase in temporarily restricted net assets	<u>614,546</u>	<u>-</u>	<u>-</u>	<u>614,546</u>
<b>CHANGE IN NET ASSETS</b>	656,300	659,859	-	1,316,159
<b>NET ASSETS</b> , beginning of year	<u>15,556,758</u>	<u>3,181,118</u>	<u>-</u>	<u>18,737,876</u>
<b>NET ASSETS</b> , end of year	<u>\$ 16,213,058</u>	<u>\$ 3,840,977</u>	<u>\$ -</u>	<u>\$ 20,054,035</u>

**OLE Health and Subsidiaries**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Health and Human Services - Health Resources and Services Administration</i>			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6H80CS042	\$ 2,771,217
Grants for New and Expanded Services under the Health Center Program	93.527	6H80CS042	531,544
<i>Total Health Center Program Cluster and U.S. Department of Health and Human Services</i>			<u>3,302,761</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 3,302,761</u>

**OLE Health and Subsidiaries**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of OLE Health and Subsidiaries (the "Organization") under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Title 2 U.S. *Code of Federal Regulations* ("CFR") 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule of expenditures of federal awards 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. The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 3 – SUBRECIPIENTS**

The Organization did not provide any federal awards to subrecipients during the year ended June 30, 2017.



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

The Board of Directors  
OLE Health and Subsidiaries

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 consolidated financial statements of OLE Health and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 12, 2017.

## **Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity's consolidated 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 Organization's consolidated 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.

*Moss Adams LLP*

San Francisco, California  
December 12, 2017

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

The Board of Directors  
OLE Health and Subsidiaries

## **Report on Compliance for the Major Federal Program**

We have audited OLE Health and Subsidiaries' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2017. The Organization's major federal program is 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 program.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 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 the major federal program. However, our audit does not provide a legal determination of Organization's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, OLE Health and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### **Report on Internal Control over Compliance**

Management of 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Moss Adams LLP*

San Francisco, California  
December 12, 2017

**OLE Health and Subsidiaries**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

**Identification of the Major Federal Program and Type of Auditor’s Report Issued on Compliance for the Major Federal Program**

CFDA Number	Name of Federal Program or Cluster	Type of Auditor’s Report Issued on Compliance for the Major Federal Program
93.224 & 93.527	Health Center Program Cluster	Unmodified

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

Auditee qualified as low-risk auditee?  Yes  No

**Section II – Financial Statement Findings**

None noted

**Section III – Federal Award Findings and Questioned Costs**

None noted

**OLE Health and Subsidiaries**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2017**

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There were no prior audit findings to report on.

