Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

OLE Health and Subsidiaries

June 30, 2018 and 2017(as restated)

MOSSADAMS

Table of Contents

MOSSADAMS

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, 2018 and 2017 (as restated), 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, 2018 and 2017, 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.

Emphasis of Matter

As described in Note 16, the Organization has restated its 2017 consolidated financial statements to correct its accounting for certain capital grants and contributions. Our opinion is not modified with respect to this matter.

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, 2018 and 2017, 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 November 14, 2018, 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
November 14, 2018

Consolidated Financial Statements

OLE Health and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2018 and 2017 (As Restated)

	2018	2017 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,911,681	$ 4,608,944
Investments	9,639,591	8,378,512
Patient accounts receivable, net allowance for bad debts of $240,405 and $310,305 as of June 30, 2018 and 2017, respectively	1,450,469	1,576,634
Grants, contributions, and other receivables	4,373,432	5,648,763
Amounts due from third-party payors	531,980	577,659
Prepaid expenses and other assets	533,362	380,161
Total current assets	25,440,515	21,170,673
OTHER LONG-TERM ASSETS		
Grants, contributions, and other receivables, long-term portion	900,000	1,921,186
Note receivable	14,330,990	14,330,990
Assets limited as to use	16,931,033	26,531,354
PROPERTY, LAND, AND EQUIPMENT, at cost		
Land and land improvements	2,886,068	2,886,068
Buildings and leasehold improvements	4,269,517	4,260,072
Equipment	2,712,212	2,619,658
Furniture and fixtures	659,383	659,383
Website	37,013	37,013
Construction in progress	13,806,197	2,983,418
Total property, land, and equipment, at cost	24,370,390	13,445,612
Less accumulated depreciation and amortization	5,197,322	4,459,132
Property, land, and equipment, net of accumulated depreciation and amortization	19,173,068	8,986,480
Total assets	$ 76,775,606	$ 72,940,683
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 2,056,232	$ 1,104,796
Accrued expenses	6,173,806	5,753,152
Current portion of long-term debt, net of debt issuance costs	939,456	898,657
Deferred revenue	21,041	380,841
Total current liabilities	9,190,535	8,137,446
LONG-TERM DEBT, NET OF CURRENT PORTION AND DEBT ISSUANCE COSTS	30,327,810	31,265,997
Total liabilities	39,518,345	39,403,443
NET ASSETS		
Unrestricted	31,922,610	25,561,782
Temporarily restricted	5,334,651	7,975,458
Total net assets	37,257,261	33,537,240
Total liabilities and net assets	$ 76,775,606	$ 72,940,683

See accompanying notes.

	2018	2017 (Restated)
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net patient service revenue	$ 15,438,693	$ 13,816,945
Provision for bad debts	(100,000)	(582,386)
Net patient service revenues less provision for bad debts	15,338,693	13,234,559
Capitation revenue	3,169,246	3,103,041
Grant revenue	4,351,614	4,258,910
Contribution revenue	720,976	3,447,229
Other revenue	5,862,484	2,713,654
Net assets released from restriction used for operations	1,854,807	1,698,456
Total unrestricted revenues, gains, and other support	31,297,820	28,455,849
EXPENDITURES		
Salaries and wages	16,906,632	16,572,077
Employee benefits	4,004,186	4,018,683
Purchased services and professional fees	1,501,388	1,488,557
Supplies and other	3,728,946	3,800,060
Rent	1,431,775	1,483,036
Depreciation and amortization	738,459	904,477
Interest	120,846	36,158
Total expenditures	28,432,232	28,303,048
OPERATING INCOME	2,865,588	152,801
OTHER INCOME		
Investment return	424,740	469,862
Total other income	424,740	469,862
EXCESS OF UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES	3,290,328	622,663
CAPITAL GRANTS AND CONTRIBUTIONS	-	5,499,630
NET ASSETS RELEASED FROM RESTRICTION FOR CAPITAL PURPOSES	3,070,500	-
INCREASE IN UNRESTRICTED NET ASSETS	$ 6,360,828	$ 6,122,293

OLE Health and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended June 30, 2018 and 2017 (As Restated)

	2018	2017 (Restated)
UNRESTRICTED NET ASSETS		
Excess of unrestricted revenues, gains, and other support over expenditures	$ 3,290,328	$ 622,663
Capital grants and contributions	-	5,499,630
Net assets released from restriction for capital purposes	3,070,500	-
Increase in unrestricted net assets	6,360,828	6,122,293
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	2,284,500	9,059,368
Net assets released from restriction	(4,925,307)	(1,698,456)
(Decrease) increase in temporarily restricted net assets	(2,640,807)	7,360,912
CHANGE IN NET ASSETS	3,720,021	13,483,205
NET ASSETS, beginning of year	33,537,240	20,054,035
NET ASSETS, end of year	$ 37,257,261	$ 33,537,240

See accompanying notes.

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	$ 3,720,021	$ 13,483,205
Adjustments to reconcile the change in net assets to net Cash provided by operating activities		
Depreciation and amortization	738,459	904,477
Loss on disposals	-	422,579
Net realized and unrealized gains on investments	(18,515)	(204,431)
Provision for bad debts	100,000	582,386
Amortization of debt issuance costs	98,563	8,214
Changes in		
Patient accounts receivable	26,165	(2,629,138)
Grants receivable	2,296,517	(3,724,057)
Amounts due from third-party payors	45,679	512,961
Prepaid assets	(153,201)	79,890
Accounts payable and accrued expenses	(451,898)	3,389,563
Deferred revenue	(359,800)	(26,559)
Net cash provided by operating activities	6,041,990	12,799,090
INVESTING ACTIVITIES		
Disbursement of restricted cash and cash equivalents, board designated	-	5,000,000
Receipt of assets limited as to use	-	(26,531,354)
Disbursement of assets limited as to use	9,600,321	-
Payment made for extending note receivable	-	(14,330,990)
Purchase of investments	(8,599,875)	(35,626,315)
Proceeds from disposition of investments	7,357,311	37,715,680
Purchase of property, land, and equipment	(9,101,059)	(6,669,066)
Net cash used in investing activities	(743,302)	(40,442,045)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	32,439,400
Payments of debt issuance costs	-	(707,258)
Principal payments on long-term debt	(995,951)	(546,726)
Net cash (used in) provided by financing activities	(995,951)	31,185,416
CHANGE IN CASH AND CASH EQUIVALENTS	4,302,737	3,542,461
CASH AND CASH EQUIVALENTS, beginning of year	4,608,944	1,066,483
CASH AND CASH EQUIVALENTS, end of year	$ 8,911,681	$ 4,608,944
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid	$ 601,832	$ 36,158
Noncash investing activity during the year for		
Property, land, and equipment acquired through accounts payable	$ 1,823,988	$ 698,080
Debt issuance costs incurred through accounts payable	$ -	$ 17,320

See accompanying notes.

NOTE 1 – NATURE OF OPERATIONS AND RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

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, 2018 and 2017, 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.

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.

Grants, contributions, and other receivables – Grants, contributions, and other receivables, less allowance for uncollectible amounts, are recognize as revenues in the period received or in the period when the restrictions are met. The allowance is based on the Organization's experiences in the prior years and the Organization's management's analysis of specific promises made. At June 30, 2018 and 2017, the allowance for uncollectible amounts was $141,010 and $253,683, respectively.

Gross grants, contributions, and other receivables as of June 30, 2018, are expected to be received as follows: $4,756,624 within one year and $900,000 within two to four years. Net grants, contributions, and other receivables as of June 30, 2018 before the allowance for uncollectible amount was $5,414,442, which is net of $242,182 in discount for present value. Gross grants, contributions, and other receivables as of June 30, 2017, are expected to be received as follows: $6,463,272 within one year and $1,921,186 within two to five years. Net grants, contributions, and other receivables as of June 30, 2017 before the allowance for uncollectible amount was $7,823,632, which is net of $560,826 in discount for present value. Discount rate used for present value was 3.50%.

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.

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 new market tax credit 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 new market tax credit 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, and 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, 2018 and 2017, 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.

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. $504,035 and $646,026 was recognized as in-kind revenue and expenses for the years ended June 30, 2018 and 2017, 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).

Income taxes – The Organization is a nonprofit corporation under Internal Revenue Code Section 501(c)(3) and has been granted tax-exempt status by the Internal Revenue Service and the California Revenue and Taxation Code. As of June 30, 2018 and 2017, 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 May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which is a new standard on revenue recognition, and during 2015 and 2016, the FASB released several ASUs that help to clarify and aid in the implementation of Topic 606, all of which have the same effective date as Topic 606. The new standard contains principles that an entity will need to apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard has a five-step approach that includes identifying the contract or contracts, identifying the performance obligations, determining the transaction price, allocating the transaction price, and recognizing revenue. The standard also significantly expands the quantitative and qualitative disclosure requirements for revenue, which are intended to help users of financial statements understand the nature, amount, timing, and uncertainty of revenue and the related cash flows. The standard is effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating this new standard and the impact it will have on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This update will address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The adoption of ASU 2016-01 is effective for the Organization for the year ending June 30, 2019. The Organization is currently evaluating this new standard and the impact it will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* and during calendar years of 2017 and 2018, the FASB released several ASUs that help to clarify and aid in the implementation of Topic 842, all of which have the same effective date as Topic 842. The standards require lessees to recognize a liability associated with obligations to make payments under the terms of the arrangement in addition to a right-of-use asset representing the lessee's right to use, or control the use of the given asset assumed under the lease. The standard will be effective for the Organization for the year ending June 30, 2021. Early adoption is permitted. The Organization is currently evaluating this new standard and the impact it will have on its consolidated financial statements.

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*, 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, and also 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 year ending June 30, 2019. The Organization is currently evaluating this new standard and the impact it will have on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. ASU 2018-08 is effective for the Organization for the year ending June 30, 2020. The Organization is currently evaluating this new standard and the impact it will have on its 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, 2018 and 2017, the Organization received $3,129,926 and $3,302,761 in HCP grant funds, respectively.

The Organization's present HCP grant award covers the grant year ending March 31, 2018, and is approved at $2,965,374.

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.

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 86% and 82% of net patient service revenue is from participation in the Medicare and Medi-Cal programs for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, was:

	2018	2017
Medi-Cal	63%	57%
Medicare	6%	20%
Other third-party payors	9%	9%
Self pay	22%	14%
	100%	100%

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.

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 that 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, 2018 and 2017:

	Fair Value Measurements Using			
	Fair Value 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	$ 9,639,591	$ 9,639,591	$ -	$ -
Total	$ 9,639,591	$ 9,639,591	$ -	$ -

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

Investments, stated at fair value, at June 30, 2018 and 2017, include:

	2018	**2017**
Cash and cash equivalents	$ 1,199,787	$ 1,148,255
Equity mutual funds	671,403	535,564
Fixed income mutual funds	5,643,202	4,765,301
International equity mutual funds	1,077,121	949,072
Diversified mutual funds	1,048,078	980,320
	$ 9,639,591	$ 8,378,512

Total investment return is comprised of the following:

	2018	**2017**
Investment return	$ 406,225	$ 265,431
Realized gains (losses) on sales of securities	6,099	124,050
Unrealized gains (losses) on trading securities	12,416	80,381
	$ 424,740	$ 469,862

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 (i) general health care services, or (ii) purpose-restricted as they are pledged grants or contributions restricted for capital projects. At June 30, 2018 and 2017, the Organization had $1,164,781 and $775,088 of net assets temporarily restricted for general health care services, respectively. At June 30, 2018 and 2017, the Organization had $4,169,870 and $7,200,370 of net assets temporarily restricted for purpose-restrictions as they are pledged grants or contributions restricted for capital projects, respectively.

During the years ended June 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes or passage of time in the amounts of $4,925,307 and $1,698,456, 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:

	2018	2017
Health care services	$ 19,459,284	$ 19,341,013
General and administrative	8,214,811	8,210,741
Fundraising	758,137	751,294
	$ 28,432,232	$ 28,303,048

NOTE 10 – COMMITMENTS

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

Year Ending June 30,	
2019	$ 542,513
2020	276,002
2021	132,556
2022	137,562
2023	58,445
	$ 1,147,078

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 $538,679 and $482,584 for the years ended June 30, 2018 and 2017, respectively.

NOTE 12 – LINE OF CREDIT

The Organization has a $3,000,000 revolving line of credit from Mechanics Bank with a prime rate of 5.00% at June 30, 2018. 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, 2018.

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 $569,833 and $764,852 as of June 30, 2018 and 2017, respectively.

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 $1,629,595 and $2,430,526 as of June 30, 2018 and 2017, respectively.

QLICI notes – On June 1, 2017, the NMTC obtained various notes that 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, 2018 and 2017.

Minimum annual payments are as follows:

Year Ending June 30,	Debt Principals	Less: Debt Issuance Costs	Total
2019	$ 1,038,019	$ 98,563	$ 939,456
2020	1,000,918	98,563	902,355
2021	160,491	98,563	61,928
2022	-	98,563	(98,563)
2023	-	98,563	(98,563)
Thereafter	29,651,000	90,347	29,560,653
	31,850,428	583,162	31,267,266
Less: current portion	1,038,019	98,563	939,456
	$ 30,812,409	$ 484,599	$ 30,327,810

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 – PRIOR PERIOD ADJUSTMENT

As of June 30, 2017, certain capital grants and contributions had purpose restrictions and should have been classified as temporarily restricted net assets as of June 30, 2017 as the purpose restrictions had not yet been met at the end of year. Accordingly, management has restated the consolidated financial statements as of and for the year ended June 30, 2017, to correct the Organization's activity and balances as follows:

	2017 As Previously Reported	Adjustments	2017 As Restated
Unrestricted capital grants and contributions	$ 12,700,000	$ (7,200,370)	$ 5,499,630
Increase in unrestricted net assets	$ 13,322,663	$ (7,200,370)	$ 6,122,293
Temporarily restricted contributions	$ 1,858,998	$ 7,200,370	$ 9,059,368
Increase in temporarily restricted net assets	$ 160,542	$ 7,200,370	$ 7,360,912
Unrestricted net assets, end of the year	$ 32,762,152	$ (7,200,370)	$ 25,561,782
Temporarily restricted net assets, end of year	$ 775,088	$ 7,200,370	$ 7,975,458

NOTE 17 – 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 available to be issued.

The Organization has evaluated subsequent events through November 14, 2018, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

	Medical	Mental Health	Dental	Outreach	Fundraising	General and Administrative	Total Expenses
Salaries and benefits	$ 11,460,955	$ 838,315	$ 1,985,220	$ 375,731	$ 504,139	$ 5,831,819	$ 20,996,179
Supplies	1,333,364	28,670	193,135	1,682	2,810	106,441	1,666,102
Depreciation and amortization	498,307	3,320	70,599	1,156	-	165,077	738,459
Space costs	1,369,902	20,158	93,165	12,540	10,184	248,287	1,754,236
Equipment costs	46,984	590	31,689	9,615	1,593	48,421	138,892
Insurance	48,381	3,159	8,209	1,764	2,538	24,976	89,027
Contractual services	527,215	183,492	26,953	629	2,268	908,874	1,649,431
Professional fees	-	-	-	-	12,045	103,902	115,947
Other	233,708	12,376	23,929	14,372	222,560	777,014	1,283,959
Total expenses	$ 15,518,816	$ 1,090,080	$ 2,432,899	$ 417,489	$ 758,137	$ 8,214,811	$ 28,432,232

	Medical	Mental Health	Dental	Outreach	Fundraising	General and Administrative	Total Expenses
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
Total expenses	$ 15,827,022	$ 1,123,374	$ 1,974,752	$ 415,865	$ 751,294	$ 8,210,741	$ 28,303,048

OLE Health and Subsidiaries
Consolidating Statements of Financial Position
June 30, 2018

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 6,037,235	$ 2,874,446	$ -	$ -	$ 8,911,681
Investments	8,020,474	1,619,117	-	-	9,639,591
Patient accounts receivable, net allowance for bad debts of $240,405	1,450,469	-	-	-	1,450,469
Grants, contributions, and other receivables	1,722,487	2,888,878	-	(237,933)	4,373,432
Amounts due from third-party payors	531,980	-	-	-	531,980
Prepaid expenses and other assets	2,014,612	14,596	32,432	(1,528,278)	533,362
Total current assets	19,777,257	7,397,037	32,432	(1,766,211)	25,440,515
OTHER LONG-TERM ASSETS					
Grants, contributions, and other receivables, long-term portion	-	900,000	-	-	900,000
Note receivable	14,330,990	-	-	-	14,330,990
Assets limited as to use	-	-	16,931,033	-	16,931,033
PROPERTY AND EQUIPMENT, at cost					
Land and land improvements	153,641	-	2,732,427	-	2,886,068
Buildings and leasehold improvements	4,269,517	-	-	-	4,269,517
Equipment	2,712,212	-	-	-	2,712,212
Furniture and fixtures	659,383	-	-	-	659,383
Website	37,013	-	-	-	37,013
Construction in progress	135,204	-	13,670,993	-	13,806,197
Total property, land, and equipment, at cost	7,966,970	-	16,403,420	-	24,370,390
Less accumulated depreciation	5,197,322	-	-	-	5,197,322
Property, land, and equipment, net of accumulated depreciation and amortization	2,769,648	-	16,403,420	-	19,173,068
Total assets	$ 36,877,895	$ 8,297,037	$ 33,366,885	$ (1,766,211)	$ 76,775,606
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	$ 232,244	$ 237,933	$ 1,823,988	$ (237,933)	$ 2,056,232
Accrued expenses	5,198,517	-	975,289	-	6,173,806
Current portion of long-term debt, net of debt issuance costs	201,392	836,627	(98,563)	-	939,456
Deferred revenue	21,041	-	-	-	21,041
Total current liabilities	5,653,194	1,074,560	2,700,714	(237,933)	9,190,535
LONG-TERM DEBT, NET OF CURRENT PORTION and DEBT ISSUANCE COSTS	368,441	792,968	29,166,401	-	30,327,810
Total liabilities	6,021,635	1,867,528	31,867,115	(237,933)	39,518,345
NET ASSETS					
Unrestricted	26,021,609	5,929,509	1,499,770	(1,528,278)	31,922,610
Temporarily restricted	4,834,651	500,000	-	-	5,334,651
Total net assets	30,856,260	6,429,509	1,499,770	(1,528,278)	37,257,261
Total liabilities and net assets	$ 36,877,895	$ 8,297,037	$ 33,366,885	$ (1,766,211)	$ 76,775,606

OLE Health and Subsidiaries
Consolidating Statements of Financial Position
June 30, 2017 (As Restated)

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
ASSETS					
CURRENT ASSETS					
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	17,039,333	6,765,741	-	(2,634,401)	21,170,673
OTHER LONG-TERM ASSETS					
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
PROPERTY, LAND, AND EQUIPMENT, at cost					
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	7,806,428	-	5,639,184	-	13,445,612
Less accumulated depreciation	4,459,132	-	-	-	4,459,132
Property, land and equipment, net of accumulated depreciation and amortization	3,347,296	-	5,639,184	-	8,986,480
Total assets	$ 34,717,619	$ 8,686,927	$ 32,170,538	$ (2,634,401)	$ 72,940,683
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
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	195,020	802,200	(98,563)	-	898,657
Deferred revenue	380,841	-	-	-	380,841
Total current liabilities	6,633,163	1,016,902	1,633,055	(1,145,674)	8,137,446
LONG-TERM DEBT, NET OF CURRENT PORTION	569,832	1,628,326	29,067,839	-	31,265,997
Total liabilities	7,202,995	2,645,228	30,700,894	(1,145,674)	39,403,443
NET ASSETS					
Unrestricted (Restated)	19,539,166	6,041,699	1,469,644	(1,488,727)	25,561,782
Temporarily restricted (Restated)	7,975,458	-	-	-	7,975,458
Total net assets	27,514,624	6,041,699	1,469,644	(1,488,727)	33,537,240
Total liabilities and net assets	$ 34,717,619	$ 8,686,927	$ 32,170,538	$ (2,634,401)	$ 72,940,683

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT					
Net patient service revenue	$ 15,438,693	$ -	$ -	$ -	$ 15,438,693
Provision for bad debts	(100,000)	-	-	-	(100,000)
Net patient service revenues less provision for bad debts	15,338,693	-	-	-	15,338,693
Capitation revenue	3,169,246	-	-	-	3,169,246
Grant revenue	4,351,614	-	-	-	4,351,614
Contribution revenue	550,429	891,672	-	(721,125)	720,976
Other revenue	5,730,749	-	131,735	-	5,862,484
Net assets released from restriction used for operations	1,854,807	-	-	-	1,854,807
Total unrestricted revenues, gains, and other support	30,995,538	891,672	131,735	(721,125)	31,297,820
EXPENDITURES					
Salaries and wages	16,906,632	377,118	-	(377,118)	16,906,632
Employee benefits	4,004,186	125,911	-	(125,911)	4,004,186
Purchased services and professional fees	1,464,891	37,727	3,047	(4,277)	1,501,388
Supplies and other	3,422,846	322,219	-	(16,119)	3,728,946
Rent	1,431,775	10,054	-	(10,054)	1,431,775
Contributions to OLE Health	-	148,095	-	(148,095)	-
Depreciation and amortization	738,459	-	-	-	738,459
Interest	22,284	-	98,562	-	120,846
Total expenditures	27,991,073	1,021,124	101,609	(681,574)	28,432,232
OPERATING INCOME	3,004,465	(129,452)	30,126	(39,551)	2,865,588
OTHER INCOME					
Investment return	407,478	17,262	-	-	424,740
Total other income	407,478	17,262	-	-	424,740
EXCESS OF UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES	3,411,943	(112,190)	30,126	(39,551)	3,290,328
CAPITAL GRANTS AND CONTRIBUTIONS	-	-	-	-	-
NET ASSETS RELEASED FROM RESTRICTION FOR CAPITAL PURPOSES	3,070,500	-	-	-	3,070,500
INCREASE IN UNRESTRICTED NET ASSETS	$ 6,482,443	$ (112,190)	$ 30,126	$ (39,551)	$ 6,360,828

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
UNRESTRICTED NET ASSETS					
Excess of unrestricted revenues, gains, and other support over expenditures	$ 3,411,943	$ (112,190)	$ 30,126	$ (39,551)	3,290,328
Capital grants and contributions	-	-	-	-	-
Net assets released from restriction for capital purposes	3,070,500	-	-	-	3,070,500
Increase (decrease) in unrestricted net assets	6,482,443	(112,190)	30,126	(39,551)	6,360,828
TEMPORARILY RESTRICTED NET ASSETS					
Contributions	1,784,500	500,000	-	-	2,284,500
Net assets released from restriction	(4,925,307)	-	-	-	(4,925,307)
Increase (decrease) in temporarily restricted net assets	(3,140,807)	500,000	-	-	(2,640,807)
CHANGE IN NET ASSETS	3,341,636	387,810	30,126	(39,551)	3,720,021
NET ASSETS, beginning of year	27,514,624	6,041,699	1,469,644	(1,488,727)	33,537,240
NET ASSETS, end of year	$ 30,856,260	$ 6,429,509	$ 1,499,770	$ (1,528,278)	$ 37,257,261

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT					
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	26,148,684	12,864,043	10,907	(10,567,785)	28,455,849
EXPENDITURES					
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	28,040,675	10,800,168	29,990	(10,567,785)	28,303,048
OPERATING INCOME	(1,891,991)	2,063,875	(19,083)	-	152,801
OTHER INCOME					
Investment return	333,015	136,847	-	-	469,862
Total other income	333,015	136,847	-	-	469,862
EXCESS OF UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES	(1,558,976)	2,200,722	(19,083)	-	622,663
CAPITAL GRANTS AND CONTRIBUTIONS (Restated)	5,499,630	-	-	-	5,499,630
INCREASE IN UNRESTRICTED NET ASSETS (Restated)	$ 3,940,654	$ 2,200,722	$ (19,083)	$ -	$ 6,122,293

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
UNRESTRICTED NET ASSETS					
Excess of unrestricted revenues, gains, and other support over expenditures	$ (1,558,976)	2,200,722	(19,083)	-	$ 622,663
Capital grants and contributions (Restated)	5,499,630	-	-	-	5,499,630
Increase (decrease) in unrestricted net assets (Restated)	3,940,654	2,200,722	(19,083)	-	6,122,293
TEMPORARILY RESTRICTED NET ASSETS					
Contributions (Restated)	9,059,368	-	1,488,727	(1,488,727)	9,059,368
Net assets released from restriction (Restated)	(1,698,456)	-	-	-	(1,698,456)
Increase in temporarily restricted net assets (Restated)	7,360,912	-	1,488,727	(1,488,727)	7,360,912
CHANGE IN NET ASSETS	11,301,566	2,200,722	1,469,644	(1,488,727)	13,483,205
NET ASSETS, beginning of year	16,213,058	3,840,977	-	-	20,054,035
NET ASSETS, end of year	$ 27,514,624	$ 6,041,699	$ 1,469,644	$ (1,488,727)	$ 33,537,240

OLE Health and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Award Number	Federal Expenditures
U.S. Department of Health and Human Services - Health Resources and Services Administration			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6H80CS042	$ 3,069,031
Grants for New and Expanded Services under the Health Center Program	93.527	6H80CS042	60,895
Total Health Center Program Cluster and U.S. Department of Health and Human Services			3,129,926
Total Expenditures of Federal Awards			$ 3,129,926

See accompanying notes to schedule of expenditures of federal awards.

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, 2018. 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, 2018.

MOSSADAMS

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, 2018, 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 November 14, 2018.

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 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

OLE Health and Subsidiaries' Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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
November 14, 2018

MOSSADAMS

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, 2018. 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 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 the major federal program. However, our audit does not provide a legal determination of the 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, 2018.

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 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 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 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
November 14, 2018

Section I – Summary of Auditor's Results

<u>Financial Statements</u>

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

<u>Federal Awards</u>

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: $<u>750,000</u>

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II – Financial Statement Findings

FINDING 2018-001 – CLASSIFICATION OF CAPITAL GRANTS AND CONTRIBUTIONS PLEDGED AND OUTSTANDING AT YEAR-END (SIGNIFICANT DEFICIENCY)

Criteria – The Organization is required to classify capital grants and contributions that are pledged by donors or grantors and are have receivable portion outstanding as of year-end as temporarily restricted net assets in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – The Organization has a total of capital grants and contributions pledged and outstanding as of June 30, 2017 of $7,200,370, which should be classified as temporarily restricted net assets.

***Context* –** $7,200,370 capital grants and contributions recognized in the consolidated statements of operations and changes in net assets for the year ended June 30, 2017 should has been classified as temporarily restricted net assets as these were pledged and outstanding as of June 30, 2017.

Effect – Certain capital grants and contributions pledged and outstanding at year end were not appropriately classified as temporarily restricted net assets.

Cause – Reconciliation of pledged versus received capital grants and contributions was not performed timely which lead to this error.

Recommendation – We recommend that the Organization continue to enhance and monitor its processes and procedures to ensure proper classification of capital grants and contributions that are pledged and outstanding as of year-end.

Management's response – Management agrees with the recommendation and has implemented a reconciliation processes to ensure timely and accurate classification of capital grants and contributions at year-end.

Section III – Federal Award Findings and Questioned Costs

None noted

There were no prior audit findings to report on.

OLE
HEALTH
Live Life Well

a californiahealth+ center

November 8, 2018

Moss Adam LLP
101 Second Street, 9th Floor
San Francisco, CA 94105

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), we have provided below our responses and corrective action plans addressing the findings noted in OLE Health and Subsidiaries' Single Audit reporting package for the year ended June 30, 2018.

Response and Corrective Action Plan

Finding 2018-001:

Classification of Capital Grants and Contributions Pledged and Outstanding at Year-End
Response and Corrective Action Plan: Management agrees with the recommendation and has implemented a reconciliation process to ensure timely and accurate classification of capital grants and contributions at year-end.

Anticipated Completion Date: By December 31, 2018.
Responsible Person: William Deane, CFO

Sincerely,

William Deane
Chief Financial Officer