



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

OLE Health and Subsidiaries

June 30, 2022 and 2021

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Report of Independent Auditors

Board of Directors
OLE Health and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of OLE Health and Subsidiaries (the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of OLE Health and Subsidiaries, as of June 30, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (“*Government Auditing Standards*”), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OLE Health and Subsidiaries’ ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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 financial position and consolidating statements of operations and changes in net assets, as of and for the years ended June 30, 2022 and 2021, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The 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 supplementary 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 14, 2022, on our consideration of OLE Health and Subsidiaries’ 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 OLE Health and Subsidiaries’ 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 OLE Health and Subsidiaries’ internal control over financial reporting and compliance.



San Francisco, California
December 14, 2022

Consolidated Financial Statements

OLE Health and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,886,052	\$ 7,743,648
Current portion of investments	20,360,180	23,225,885
Patient accounts receivable, net	2,685,254	2,757,895
Current portion of grants, contributions, and other receivables, net	3,232,894	2,945,117
Amounts due from third-party payors	22,063	750,845
Prepaid expenses and other assets	1,008,361	971,087
Total current assets	<u>36,194,804</u>	<u>38,394,477</u>
LONG-TERM ASSETS		
Investments, long-term portion	1,540,000	1,540,000
Note receivable	14,330,990	14,330,990
Assets limited as to use	419,246	587,676
PROPERTY, LAND, AND EQUIPMENT, at cost		
Land and land improvements	2,989,983	2,989,983
Buildings and leasehold improvements	31,852,367	27,765,561
Equipment	5,384,839	4,999,865
Furniture and fixtures	1,785,203	1,794,468
Website	37,013	37,013
Construction in progress	446,613	266,934
Total property, land, and equipment, at cost	<u>42,496,018</u>	<u>37,853,824</u>
Less accumulated depreciation and amortization	<u>9,862,558</u>	<u>8,412,601</u>
Property, land, and equipment, net of accumulated depreciation and amortization	<u>32,633,460</u>	<u>29,441,223</u>
Total assets	<u>\$ 85,118,500</u>	<u>\$ 84,294,366</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 467,950	\$ 274,452
Accrued expenses	5,643,280	5,495,849
Current portion of long-term debt, net of debt issuance costs	56,651	-
Deferred revenue	2,522,149	2,416,576
Total current liabilities	<u>8,690,030</u>	<u>8,186,877</u>
LONG-TERM DEBT, NET OF CURRENT PORTION AND DEBT ISSUANCE COSTS		
	<u>32,218,809</u>	<u>29,363,526</u>
Total liabilities	<u>40,908,839</u>	<u>37,550,403</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	43,593,718	45,678,252
NET ASSETS WITH DONOR RESTRICTIONS	615,943	1,065,711
Total net assets	<u>44,209,661</u>	<u>46,743,963</u>
Total liabilities and net assets	<u>\$ 85,118,500</u>	<u>\$ 84,294,366</u>

OLE Health and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2022 and 2021

	2022	2021
REVENUES, GAINS, AND OTHER SUPPORT		
Net patient service revenue	\$ 19,756,874	\$ 16,744,139
Capitation revenue	4,460,720	3,800,338
Grant revenue	10,507,563	7,253,359
Contribution revenue	2,509,024	2,657,862
In-kind contribution revenue	758,305	758,305
Other revenue	7,490,213	8,918,940
Net assets released from restriction used for operations	654,297	426,614
Total revenues, gains, and other support	46,136,996	40,559,557
EXPENDITURES		
Program services		
Medical	21,222,978	20,192,767
Mental Health	1,803,845	1,409,667
Dental	3,808,509	3,780,347
Optometry	368,863	363,531
Fundraising	1,386,791	351,475
General and administrative	16,662,685	14,312,281
Total expenditures	45,253,671	40,410,068
OPERATING INCOME	883,325	149,489
OTHER INCOME (LOSS)		
Investment (loss) income, net	(2,939,652)	2,159,617
Loss on disposal of asset	(78,207)	-
Total other (loss) income	(3,017,859)	2,159,617
(DEFICIENCY) EXCESS OF REVENUE, GAINS, AND OTHER SUPPORT OVER EXPENDITURES	(2,134,534)	2,309,106
Net assets released from restriction for capital projects	50,000	230,000
Gain from loan forgiveness on long-term debt	-	3,586,472
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(2,084,534)	6,125,578
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	254,529	213,026
Net assets released from restrictions	(704,297)	(656,614)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	(449,768)	(443,588)
CHANGES IN NET ASSETS	(2,534,302)	5,681,990
NET ASSETS , beginning of year	46,743,963	41,061,973
NET ASSETS , end of year	\$ 44,209,661	\$ 46,743,963

See accompanying notes.

OLE Health and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,534,302)	\$ 5,681,990
Adjustments to reconcile the changes in net assets to net cash provided by operating activities		
Depreciation and amortization	1,519,898	1,424,206
Loss on disposals of property, land, and equipment	78,207	48,369
Net realized and unrealized losses (gains) on investments	3,557,545	(1,658,537)
Contributed beneficial interest in trust	-	(1,232,000)
Gain from loan forgiveness on long-term debt	-	(3,586,472)
Amortization of debt issuance costs	98,563	98,563
Changes in		
Patient accounts receivable	72,641	(1,512,585)
Grants receivable	(287,777)	(1,281,621)
Amounts due from third-party payors	728,782	(467,099)
Prepaid assets	(37,274)	(72,729)
Accounts payable and accrued expenses	340,929	2,694,917
Deferred revenue	105,573	2,416,576
Net cash provided by operating activities	<u>3,642,785</u>	<u>2,553,578</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(705,828)	(12,123,472)
Purchase of property, land, and equipment	(1,955,342)	(1,428,853)
Net cash used in investing activities	<u>(2,661,170)</u>	<u>(13,552,325)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt obligations	(21,629)	(160,491)
Net cash used in financing activities	<u>(21,629)</u>	<u>(160,491)</u>
CHANGES IN CASH AND CASH EQUIVALENTS	959,986	(11,159,238)
CASH AND CASH EQUIVALENTS, beginning of year	8,419,672	19,578,910
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,379,658</u>	<u>\$ 8,419,672</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Cash and cash equivalents	\$ 8,886,052	\$ 7,743,648
Cash and cash equivalents in investments	74,360	88,348
Restricted cash in assets limited as to use	419,246	587,676
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year	<u>\$ 9,379,658</u>	<u>\$ 8,419,672</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Interest paid	<u>\$ 630,535</u>	<u>\$ 580,961</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITY		
Acquisition of property, buildings, and equipment through note payable	<u>\$ 2,835,000</u>	<u>\$ -</u>

OLE Health and Subsidiaries
Consolidated Statements of Functional Expenses
Years Ended June 30, 2022 and 2021

2022	Program Services					General and Administrative	Total Expenses
	Medical	Mental Health	Dental	Optometry	Fundraising		
Salaries and benefits	\$ 14,113,947	\$ 1,703,873	\$ 3,111,016	\$ -	\$ 761,521	\$ 11,694,580	\$ 31,384,937
Supplies	2,313,744	270	256,915	12,601	934	229,685	2,814,149
Depreciation and amortization	968,684	73,080	251,759	64,895	11,087	150,393	1,519,898
Space costs	1,146,121	18,022	80,873	-	23,407	1,712,050	2,980,473
Equipment costs	52,695	88	13,113	-	2,434	298,150	366,480
Insurance	-	-	-	-	-	163,151	163,151
Contractual services	689,551	-	-	225,825	-	-	915,376
Professional fees	1,607,750	326	47,388	62,080	100,268	343,575	2,161,387
Interest and other	330,486	8,186	47,445	3,462	487,140	2,071,101	2,947,820
Total expenses	\$ 21,222,978	\$ 1,803,845	\$ 3,808,509	\$ 368,863	\$ 1,386,791	\$ 16,662,685	\$ 45,253,671

2021	Program Services					General and Administrative	Total Expenses
	Medical	Mental Health	Dental	Optometry	Fundraising		
Salaries and benefits	\$ 12,196,942	\$ 1,301,511	\$ 3,045,571	\$ -	\$ 278,495	\$ 9,225,028	\$ 26,047,547
Supplies	2,344,735	209	276,992	11,268	919	436,509	3,070,632
Depreciation and amortization	991,977	81,090	260,447	70,118	-	20,574	1,424,206
Space costs	1,214,766	20,607	90,492	608	2,161	1,608,633	2,937,267
Equipment costs	45,881	755	27,367	73	-	288,074	362,150
Insurance	-	-	-	-	-	132,704	132,704
Contractual services	1,340,053	1,597	90	216,300	-	40,030	1,598,070
Professional fees	1,785,992	326	58,579	61,798	-	354,546	2,261,241
Interest and other	272,421	3,572	20,809	3,366	69,900	2,206,183	2,576,251
Total expenses	\$ 20,192,767	\$ 1,409,667	\$ 3,780,347	\$ 363,531	\$ 351,475	\$ 14,312,281	\$ 40,410,068

See accompanying notes.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 – NATURE OF OPERATIONS

Nature of operations – OLE Health (the “Clinic”) 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 Napa, California, and neighboring communities.

OLE Health Foundation (the “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.

OLE Health NMTC (the “NMTC”) is a California nonprofit public benefit corporation created for the specific purpose 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, 2022 and 2021, 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, net – 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, net, is presented net of external and direct investment expenses and is included in net assets without donor restrictions.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

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

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

For receivables associated with self-pay patients, which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Organization records a significant implicit price concession in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is reflected as a reduction in patient accounts receivable.

Grants, contributions, and other receivables, net – Grants, contributions, and other receivables, less allowance for uncollectible amounts, are recognized 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, 2022 and 2021, the allowance for uncollectible amounts was \$0 and \$3,992, respectively.

Gross grants, contributions, and other receivables as of June 30, 2022, are expected to be received as follows: \$3,232,894 within one year. Net grants, contributions, and other receivables as of June 30, 2022, before the allowance for uncollectible amount was \$3,232,894, which is net of \$0 in discount for present value. Gross grants, contributions, and other receivables as of June 30, 2021, are expected to be received as follows: \$2,945,117 within one year. Net grants, contributions, and other receivables as of June 30, 2021, before the allowance for uncollectible amount was \$2,949,107, which is net of \$0 in discount for present value. Discount rate used for present value was 3.50% at June 30, 2022 and 2021.

Beneficial interest in trusts – The Organization received a bequest contribution and subsequently, holds a 10% interest in real estate held by a trust in which a third party is the trustee, and the trust is irrevocable. This real estate investment is recorded by the Organization as a beneficial interest in trust. The beneficial interest in trust is stated at fair value. The fair value is based on the appraised value of the real estate asset and the Organization's ownership interest in the trust asset. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transaction similar in substance, future expectation of the asset, and changes in market outlook. The beneficial interest in trust is included in investments, long-term portion, in the accompanying consolidated statements of financial position.

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.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

Donations of property, land, and equipment are reported at fair value as an increase in net assets without donor restrictions 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 net assets without donor restrictions 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. No asset impairment was recognized during the years ended June 30, 2022 and 2021.

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 12).

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, a 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 for the QLICI notes (Note 12). This includes the following Community Development Entity (“CDE”) reserves as of June 30:

	<u>2022</u>	<u>2021</u>
NFF fee reserve	\$ 88,783	\$ 127,123
LCD fee reserve	226,914	310,498
Impact fee reserve	<u>103,549</u>	<u>150,055</u>
Total CDE reserves	<u>\$ 419,246</u>	<u>\$ 587,676</u>

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:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations. This includes contributions without donor restrictions, income earned on net assets with or without donor restrictions, and amounts for which donor restrictions have expired. There were no board-designated net assets at June 30, 2022 and 2021.

With donor restrictions – Net assets subject to donor-imposed stipulations. This includes resources from donors with a specific purpose based on a time restriction, and also represent cash and cash equivalents that are subject to gift instrument restrictions that require the principal to be invested in perpetuity.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

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

Revenue from government grants and contracts restricted for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as capital grants and contributions revenue, in absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as deferred revenue.

Contributions are recognized as revenue when they are received or unconditionally pledged. Donor stipulations that limit the use of the donation are recognized as contributions with donor restrictions. When the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from donor restrictions.

The Organization reports gifts of cash and other assets as support with donor restrictions if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying consolidated financial statements. Absent donor-imposed restrictions, the Organization records donated services, materials, and facilities as support without donor restrictions. It is the policy of the Organization to encourage contributions.

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 ensure the Organization ultimately receives the established Medi-Cal payment rate for all visits under the Plan.

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.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

Contribution revenue – 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-flow 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 contributions with donor restrictions. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified and reported as an increase in net assets without donor restrictions. Donor-restricted contributions, the restrictions of which are met within the same year as received, are reported as contributions without donor restrictions. 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 recognized in-kind contributed goods and services that create or enhance nonfinancial assets, or that require specialized skills provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. Contributed goods and services during the years ended June 30, 2022 and 2021, consists primarily 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. \$758,305 and \$758,305 was recognized as in-kind revenue and expenses for the years ended June 30, 2022 and 2021, respectively, reported on the consolidated statements of operations and changes in net assets as in-kind contribution revenue.

340B revenue – The Organization participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (“HRSA”) Office of Pharmacy Affairs (“OPA”). The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangements with the Organization.

	<u>2022</u>	<u>2021</u>
Internal pharmacy receipts	\$ 1,271,898	\$ 902,823
Internal pharmacy cost of goods sold	(563,533)	(319,934)
Internal pharmacy other operating expenses	<u>(1,075,707)</u>	<u>(859,204)</u>
Internal pharmacy net revenue	<u>(367,342)</u>	<u>(276,315)</u>
Contract pharmacy receipts	4,194,327	5,164,343
Contract pharmacy drug replenishment costs	(985,317)	(1,302,792)
Contract pharmacy administrative and filing fees	<u>(981,170)</u>	<u>(1,246,562)</u>
Contract pharmacy net revenue	<u>2,227,840</u>	<u>2,614,989</u>
Net pharmacy revenue	<u>\$ 1,860,498</u>	<u>\$ 2,338,674</u>

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

Internal pharmacy receipts are included in net patient service revenue on the consolidated statements of operations and changes in net assets. Contract pharmacy receipts, net of contract pharmacy administrative and filling fees, are included in net patient service revenue on the consolidated statements of operations and changes in net assets. Internal pharmacy cost of goods sold and contract pharmacy drug replenishment costs and administrative and filling fees are included in supplies on the consolidated statements of operations and changes in net assets. The net 340B revenue from this program is used to furtherance of the Organization's mission.

Excess of revenues, gains, and other support over expenditures – The consolidated statements of operations and changes in net assets include excess of revenues, gains, and other support over expenditures. Changes in net assets without donor restrictions which are excluded from excess of revenues, gains, and other support over expenditures, consistent with industry practice, include capital grants and contributions (including assets acquired using contributions, which, by donor restriction, are to be used for the purpose of acquiring such assets) and net assets released from restriction for capital purposes. The excess of revenues, gains, and other support over expenditures on the consolidated statements of operations and changes in net assets excludes gain from loan forgiveness on long-term debt, as it is a one-time occurrence.

Debt issuance costs – The Organization capitalizes certain expenses associated with obtaining new debt. Amortization is calculated using the straight-line method over seven years, which is not materially different from using the 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 12).

Provider Relief Fund - Throughout 2022 and 2021, the United States Congress passed the Coronavirus Aid, Relief, and Economic Securities ("CARES") Act, as well as several other legislative acts that resulted in substantial funds being allocated to health care organizations under the Provider Relief Fund. During 2022 and 2021, the Organization received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services ("HHS") of approximately \$1,699,400 and \$2,251,400, respectively. The Organization was required to, and did timely sign, attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are used for health care related expenses or lost revenue attributable to the COVID-19 pandemic, limitations of out of pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Office of the Inspector General. For the years ended June 30, 2022 and 2021, the Organization has determined it met the terms and conditions of these funds and accordingly has recognized approximately \$1,998,700 and \$252,700, respectively, of the Provider Relief Fund in grant revenue in the consolidated statements of operations and changes in net assets. The Organization also recorded deferred revenue related to the Provider Relief Fund of \$1,699,400 and \$1,998,700 for the years ended June 30, 2022 and 2021, respectively. Refunding of amounts received may be required by the various legislative acts if a receiving entity is unable to quantify the financial losses intended to be covered by the funding. The Organization continues to reconcile and analyze its health care related expenses and lost revenues based on known reporting guidance.

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, 2022 and 2021, 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.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

Functional allocation of expenses – The Organization allocated its expenses on a functional basis among its various programs (medical, mental health, dental, and optometry) and supporting services (fundraising, and general and administrative). The expenses for providing program services and supporting services activities of the Organization that can be directly identified with a specific function are allocated directly to that function. Expenses that cannot be directly identified with a specific function are allocated among program services and supporting services activities benefited based upon employee time and effort recorded on functions related to the specific activity, or in the case of shared expenses, using an allocation based on personnel costs, space usage, or other relevant bases.

New accounting pronouncements – In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (“ASU 2020-07”), to improve financial reporting by providing new presentation and disclosure requirement about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The adoption of ASU 2020-07 is effective for the Organization beginning July 1, 2021. During the year ended June 30, 2022, the Organization adopted ASU 2020-07, and applied the required presentation and disclosures in the consolidated statements of operations and changes in net assets and Note 2 above. The adoption of ASU 2020-07 did not have a material impact to 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 statements of financial position and disclosing key information about leasing arrangements. The effective date of ASU 2016-02 was deferred for the Organization by ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*, to fiscal years beginning after December 15, 2021. The adoption of ASU 2016-02 is effective for the Organization beginning July 1, 2022. Management is currently evaluating the impact of the provision of ASU 2016-02 on the consolidated financial statements.

Reclassifications – Certain prior year amounts have been reclassified to conform to current year presentation. There was no change in the reported excess of revenues and other support over expenditures or net assets related to these reclassifications.

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 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, 2022 and 2021, the Organization recognized \$3,402,574 and \$3,486,252 in HCP grant funds, respectively.

The Organization’s present HCP grant award covers the grant year ended March 31, 2023, and is approved at \$3,337,574.

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Notes to Consolidated Financial Statements

In addition to the above grant, the Organization received additional financial support from other federal, state, local, and private sources, including additional federal grants related to COVID-19 (see Note 13). 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

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

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

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

Effective with the adoption of FASB ASC Topic 606, *Revenue from Contracts with Customers*, on July 1, 2020, for changes in credit issues not assessed at the date of service, such as a payor files for bankruptcy or a patient defaults on a payment plan, the Organization recognizes these write-offs as bad debt expense, which is presented on the accompanying consolidated statements of operations and changes in net assets as a component of 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 payors 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. Effective July 1, 2015, covered FQHC services rendered to Medicare program beneficiaries will be paid on a prospective payment system (“PPS”). Medicare payment under the FQHC PPS will be 80% of the lesser of the Organization’s actual charge or the applicable PPS rate (patient coinsurance will be 20% of the lesser of the Organization’s actual charge or the applicable PPS rate). Accordingly, to the extent the Organization’s charge is below the applicable PPS rate, Medicare FQHC reimbursement will be limited.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

Medi-Cal – Covered FQHC services rendered to Medi-Cal program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a prospectively determined encounter rate for covered services provided.

Approximately 85% and 76% of net patient service revenue is from participation in the Medicare and Medi-Cal programs for the years ended June 30, 2022 and 2021, 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.

Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and/or Medi-Cal programs.

The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such significant regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and/or Medi-Cal programs.

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 payor agreements. The mix of receivables from patients and third-party payors at June 30, 2022 and 2021, was:

	<u>2022</u>	<u>2021</u>
Medi-Cal	70%	69%
Medicare	5%	4%
Other third-party payors	11%	13%
Self-pay	14%	14%
	<u>100%</u>	<u>100%</u>

NOTE 6 – INVESTMENTS

FASB ASC Topic 820, *Fair Value Measurement*, 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:

Cash and cash equivalents – The carrying amount approximates fair value.

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.

Beneficial interest in trust – Beneficial interest in trust represents the fair value of the Organization's irrevocable interest in the income generated from a real estate investment held by a third-party trustee. The beneficial interest in trust is included in investments in the consolidated statements of financial position. The real estate investment is classified in Level 3 of the valuation hierarchy. While the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the consolidated financial statements.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

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, 2022 and 2021:

	Fair Value Measurements Using			
	Fair Value 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 21,900,180	\$ 20,360,180	\$ -	\$ 1,540,000
Total	<u>\$ 21,900,180</u>	<u>\$ 20,360,180</u>	<u>\$ -</u>	<u>\$ 1,540,000</u>

	Fair Value Measurements Using			
	Fair Value 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 24,765,885	\$ 23,225,885	\$ -	\$ 1,540,000
Total	<u>\$ 24,765,885</u>	<u>\$ 23,225,885</u>	<u>\$ -</u>	<u>\$ 1,540,000</u>

Investments, stated at fair value, at June 30, 2022 and 2021, include:

	2022	2021
Cash and cash equivalents	\$ 74,360	\$ 88,348
Equity mutual funds	8,773,561	10,483,199
Fixed income mutual funds	11,512,259	12,654,338
Beneficial interest in trust assets	1,540,000	1,540,000
	<u>\$ 21,900,180</u>	<u>\$ 24,765,885</u>

Total investment return, net, is comprised of the following:

	2022	2021
Investment return, net of investment expenses	\$ 617,893	\$ 501,080
Realized gains on sales of securities	458,610	1,321,942
Unrealized (losses) gains on sales of securities	(4,016,155)	28,595
Unrealized gain on beneficial interest in trust assets	-	308,000
	<u>\$ (2,939,652)</u>	<u>\$ 2,159,617</u>

OLE Health and Subsidiaries Notes to Consolidated Financial Statements

The table below presents information about significant unobservable inputs related to the categories of Level 3 financial assets at June 30, 2022 and 2021:

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>
		Fair value of the real estate investment and the Organization's ownership interest	Fair value of the underlying assets of the real estate
Beneficial interest in trust assets	\$ 1,540,000		

During June 30, 2022 and 2021, there were no transfers into and out of Level 3 of the fair value hierarchy.

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 – NET ASSETS WITH DONOR RESTRICTIONS

A majority of the net assets with donor restrictions 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, 2022 and 2021, the Organization had \$615,943 and \$1,015,711 of net assets with donor restrictions for general health care services, respectively. At June 30, 2022 and 2021, the Organization had \$0 and \$50,000 of net assets with donor restrictions for purpose-restrictions as they are pledged grants or contributions restricted for capital projects, respectively.

During the years ended June 30, 2022 and 2021, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or passage of time in the amounts of \$704,297 and \$656,614, respectively. All net assets with donor restrictions are expected to be released from restriction by June 30, 2022.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 9 – 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>	
2023	\$ 218,777
2024	215,279
2025	124,609
2026	129,408
2027	134,816
Thereafter	<u>45,540</u>
	<u>\$ 868,429</u>

Noncancelable rent expense for the years ended June 30, 2022 and 2021, was \$1,513,299 and \$1,534,129, respectively, and is included in space costs in the consolidated statements of functional expense.

NOTE 10 – 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 \$860,236 and \$699,413 for the years ended June 30, 2022 and 2021, respectively, and is included in salaries & benefits in the consolidated statements of functional expense.

NOTE 11 – LINE OF CREDIT

The Organization has a \$3,000,000 revolving line of credit from Mechanics Bank with a prime rate of 5.25% at June 30, 2022. The line of credit will mature during November 2022, and it is secured with inventory, chattel paper, accounts, equipment, and general intangibles of the Organization. The Organization has no outstanding borrowings as of June 30, 2022 and 2021.

NOTE 12 – LONG-TERM DEBT

QLICI notes – On June 1, 2017, the NMTC obtained various notes that totaled \$29,651,000 from four lenders – Impact CDE 55, LLC; NFF New Markets Fund XXX, LLC; LCD New Markets Fund XXIII, LLC; and CNMC Sub-CDE 131, LLC – 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, 2022 and 2021.

OLE Health and Subsidiaries Notes to Consolidated Financial Statements

Bank of Stockton note – On December 9, 2021, the Organization obtained a note payable that totaled \$2,835,000 from the Bank of Stockton. Interest is at a rate of 3.75% for the first ten years of the note and thereafter is subject to change based on the weekly average yield on United States Treasury Securities adjusted to a constant maturity of 10 years, with a maturity date of January 5, 2052. The note was obtained to finance the purchase of real property and is secured by said real property. The Organization has outstanding borrowings of \$2,813,372 as of June 30, 2022.

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>
2023	\$ 56,651	\$ -	\$ 56,651
2024	6,136,071	188,911	5,947,160
2025	56,666	-	56,666
2026	58,858	-	58,858
2027	61,136	-	61,136
Thereafter	26,094,989	-	26,094,989
	<u>32,464,371</u>	<u>188,911</u>	<u>32,275,460</u>
Less: current portion	56,651	-	56,651
	<u>\$ 32,407,720</u>	<u>\$ 188,911</u>	<u>\$ 32,218,809</u>

NOTE 13 – 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 Organization participates in the 340B Drug Pricing Program (“340B Program”) enabling the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (“HRSA”) Office of Pharmacy Affairs (“OPA”). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B program are complex and subject to interpretation and change.

OLE Health and Subsidiaries

Notes to Consolidated Financial Statements

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 or changes in net assets.

CalAIM – California's Department of Health Care Services is innovating and transforming the Medi-Cal delivery system, through California Advancing and Innovating Medi-Cal ("CalAIM"), which is a population health approach that prioritizes prevention and whole person care. The impact of future changes to the Organization is uncertain at this time.

NOTE 14 – 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 in 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 15 – LIQUIDITY AND FUNDS AVAILABLE

Financial assets available for general expenditure, within one year of June 30, 2022, and 2021, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 8,886,052	\$ 7,743,648
Investments	20,360,180	23,225,885
Patient accounts receivable, net	<u>2,685,254</u>	<u>2,757,895</u>
Total financial assets available for general expenditures within one year	<u>\$ 31,931,486</u>	<u>\$ 33,727,428</u>

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statement of financial position date. The Organization has established an operating reserve and reviews its funding level on an ongoing basis to ensure it is adequate. The Organization invests cash in excess of daily requirements in money market funds and mutual funds. The Organization also has available for general expenditures the \$3,000,000 revolving line of credit with a bank (see Note 11).

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 available to be issued.

In July 2022, Napa Valley Vintners Community Health Center ("NVVCHC"), a nonprofit public benefit corporation that owns the building that the Organization operated in, was dissolved and in turn, following the dissolution of NVVCHC, the assets of NVVCHC were distributed to the Organization.

In August 2022, the Organization and CommuniCare Health Centers ("CommuniCare") jointly announced their intention to merge into one regional nonprofit community health center network providing high-quality primary care services across Napa, Solano, and Yolo counties, with the Organization remaining as the surviving corporation. The merger is subject to the receipt of regulatory approvals and is expected to close in 2023.

The Organization has evaluated subsequent events through December 14, 2022, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

OLE Health and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2022

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 6,550,028	\$ 1,771,477	\$ 564,547	\$ -	\$ 8,886,052
Current portion of investments	17,168,863	3,191,317	-	-	20,360,180
Patient accounts receivable, net	2,685,254	-	-	-	2,685,254
Grants, contributions, and other receivables	4,330,829	569,882	350,288	(2,018,105)	3,232,894
Amounts due from third-party payors	22,063	-	-	-	22,063
Prepaid expenses and other assets	2,656,004	23,945	-	(1,671,588)	1,008,361
Total current assets	<u>33,413,041</u>	<u>5,556,621</u>	<u>914,835</u>	<u>(3,689,693)</u>	<u>36,194,804</u>
LONG-TERM ASSETS					
Investments, long-term portion	1,540,000	-	-	-	1,540,000
Note receivable	14,330,990	-	-	-	14,330,990
Assets limited as to use	-	-	419,246	-	419,246
PROPERTY AND EQUIPMENT, at cost					
Land and land improvements	153,641	-	2,836,342	-	2,989,983
Buildings and leasehold improvements	9,007,643	-	22,844,724	-	31,852,367
Equipment	3,465,303	-	1,919,536	-	5,384,839
Furniture and fixtures	735,484	-	1,049,719	-	1,785,203
Website	37,013	-	-	-	37,013
Construction in progress	446,613	-	-	-	446,613
Total property, land, and equipment, at cost	<u>13,845,697</u>	<u>-</u>	<u>28,650,321</u>	<u>-</u>	<u>42,496,018</u>
Less accumulated depreciation and amortization	<u>6,826,674</u>	<u>-</u>	<u>3,035,884</u>	<u>-</u>	<u>9,862,558</u>
Property, land, and equipment, net of accumulated depreciation and amortization	<u>7,019,023</u>	<u>-</u>	<u>25,614,437</u>	<u>-</u>	<u>32,633,460</u>
Total assets	<u>\$ 56,303,054</u>	<u>\$ 5,556,621</u>	<u>\$ 26,948,518</u>	<u>\$ (3,689,693)</u>	<u>\$ 85,118,500</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 466,819	\$ 1,199,998	\$ 479,659	\$ (1,678,526)	\$ 467,950
Accrued expenses	9,752,463	-	48,318	(4,157,501)	5,643,280
Current portion of long-term debt, net of debt issuance costs	56,651	-	-	-	56,651
Deferred revenue	2,522,149	-	-	-	2,522,149
Total current liabilities	<u>12,798,082</u>	<u>1,199,998</u>	<u>527,977</u>	<u>(5,836,027)</u>	<u>8,690,030</u>
LONG-TERM DEBT, NET OF CURRENT PORTION and DEBT ISSUANCE COSTS					
	<u>2,756,721</u>	<u>-</u>	<u>29,462,088</u>	<u>-</u>	<u>32,218,809</u>
Total liabilities	<u>15,554,803</u>	<u>1,199,998</u>	<u>29,990,065</u>	<u>(5,836,027)</u>	<u>40,908,839</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS					
	40,405,273	4,083,658	(3,041,547)	2,146,334	43,593,718
NET ASSETS WITH DONOR RESTRICTIONS					
	342,978	272,965	-	-	615,943
Total net assets	<u>40,748,251</u>	<u>4,356,623</u>	<u>(3,041,547)</u>	<u>2,146,334</u>	<u>44,209,661</u>
Total liabilities and net assets	<u>\$ 56,303,054</u>	<u>\$ 5,556,621</u>	<u>\$ 26,948,518</u>	<u>\$ (3,689,693)</u>	<u>\$ 85,118,500</u>

OLE Health and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2021

ASSETS	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 6,098,378	\$ 795,987	\$ 849,283	\$ -	\$ 7,743,648
Current portion of investments	19,492,835	3,733,050	-	-	23,225,885
Patient accounts receivable, net	2,757,895	-	-	-	2,757,895
Grants, contributions, and other receivables	3,340,450	114,258	52,580	(562,171)	2,945,117
Amounts due from third-party payors	750,845	-	-	-	750,845
Prepaid expenses and other assets	2,551,451	91,224	-	(1,671,588)	971,087
Total current assets	<u>34,991,854</u>	<u>4,734,519</u>	<u>901,863</u>	<u>(2,233,759)</u>	<u>38,394,477</u>
LONG-TERM ASSETS					
Investments, long-term portion	1,540,000	-	-	-	1,540,000
Note receivable	14,330,990	-	-	-	14,330,990
Assets limited as to use	-	-	587,676	-	587,676
PROPERTY, LAND, AND EQUIPMENT, at cost					
Land and land improvements	153,641	-	2,836,342	-	2,989,983
Buildings and leasehold improvements	4,920,837	-	22,844,724	-	27,765,561
Equipment	3,080,329	-	1,919,536	-	4,999,865
Furniture and fixtures	744,749	-	1,049,719	-	1,794,468
Website	37,013	-	-	-	37,013
Construction in progress	266,934	-	-	-	266,934
Total property, land, and equipment, at cost	<u>9,203,503</u>	<u>-</u>	<u>28,650,321</u>	<u>-</u>	<u>37,853,824</u>
Less accumulated depreciation	<u>6,354,042</u>	<u>-</u>	<u>2,058,559</u>	<u>-</u>	<u>8,412,601</u>
Property, land and equipment, net of accumulated depreciation and amortization	<u>2,849,461</u>	<u>-</u>	<u>26,591,762</u>	<u>-</u>	<u>29,441,223</u>
Total assets	<u>\$ 53,712,305</u>	<u>\$ 4,734,519</u>	<u>\$ 28,081,301</u>	<u>\$ (2,233,759)</u>	<u>\$ 84,294,366</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 273,297	\$ 41,292	\$ 479,659	\$ (519,796)	\$ 274,452
Accrued expenses	8,069,585	-	48,316	(2,622,052)	5,495,849
Deferred revenue	2,416,576	-	-	-	2,416,576
Total current liabilities	<u>10,759,458</u>	<u>41,292</u>	<u>527,975</u>	<u>(3,141,848)</u>	<u>8,186,877</u>
LONG-TERM DEBT, NET OF CURRENT PORTION					
Total liabilities	<u>10,759,458</u>	<u>41,292</u>	<u>29,891,501</u>	<u>(3,141,848)</u>	<u>37,550,403</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	42,441,834	4,138,529	(1,810,200)	908,089	45,678,252
NET ASSETS WITH DONOR RESTRICTIONS	511,013	554,698	-	-	1,065,711
Total net assets	<u>42,952,847</u>	<u>4,693,227</u>	<u>(1,810,200)</u>	<u>908,089</u>	<u>46,743,963</u>
Total liabilities and net assets	<u>\$ 53,712,305</u>	<u>\$ 4,734,519</u>	<u>\$ 28,081,301</u>	<u>\$ (2,233,759)</u>	<u>\$ 84,294,366</u>

OLE Health and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2022

	<u>OLE Health</u>	<u>OLE Health Foundation</u>	<u>OLE Health NMTC</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT					
Net patient service revenue	\$ 19,756,874	\$ -	\$ -	\$ -	\$ 19,756,874
Capitation revenue	4,460,720	-	-	-	4,460,720
Grant revenue	10,507,563	-	-	-	10,507,563
Contribution revenue	2,412,370	2,395,273	-	(2,298,619)	2,509,024
In-kind contribution revenue	758,305	-	-	-	758,305
Other revenue	7,490,141	-	534,480	(534,408)	7,490,213
Net assets released from restriction used for operations	276,964	377,333	-	-	654,297
Total revenues, gains, and other support	<u>45,662,937</u>	<u>2,772,606</u>	<u>534,480</u>	<u>(2,833,027)</u>	<u>46,136,996</u>
EXPENDITURES					
Program services					
Medical	21,693,179	-	-	(470,201)	21,222,978
Mental Health	1,855,398	-	-	(51,553)	1,803,845
Dental	3,962,277	-	-	(153,768)	3,808,509
Optometry	412,078	-	-	(43,215)	368,863
Fundraising	1,386,593	2,298,817	-	(2,298,619)	1,386,791
General and administrative	15,949,974	800	1,765,827	(1,053,916)	16,662,685
Total expenditures	<u>45,259,499</u>	<u>2,299,617</u>	<u>1,765,827</u>	<u>(4,071,272)</u>	<u>45,253,671</u>
OPERATING INCOME (LOSS)	<u>403,438</u>	<u>472,989</u>	<u>(1,231,347)</u>	<u>1,238,245</u>	<u>883,325</u>
OTHER INCOME					
Investment losses	(2,361,792)	(577,860)	-	-	(2,939,652)
Loss on disposal of asset	(78,207)	-	-	-	(78,207)
Total other income	<u>(2,439,999)</u>	<u>(577,860)</u>	<u>-</u>	<u>-</u>	<u>(3,017,859)</u>
(DEFICIENCY) EXCESS OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES	<u>(2,036,561)</u>	<u>(104,871)</u>	<u>(1,231,347)</u>	<u>1,238,245</u>	<u>(2,134,534)</u>
Net assets released from restriction for capital projects	-	50,000	-	-	50,000
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(2,036,561)</u>	<u>(54,871)</u>	<u>(1,231,347)</u>	<u>1,238,245</u>	<u>(2,134,534)</u>
NET ASSETS WITH DONOR RESTRICTIONS					
Contributions	108,929	145,600	-	-	254,529
Net assets released from restrictions	(276,964)	(427,333)	-	-	(704,297)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(168,035)</u>	<u>(281,733)</u>	<u>-</u>	<u>-</u>	<u>(449,768)</u>
CHANGE IN NET ASSETS	<u>(2,204,596)</u>	<u>(336,604)</u>	<u>(1,231,347)</u>	<u>1,238,245</u>	<u>(2,534,302)</u>
NET ASSETS, beginning of year	<u>42,952,847</u>	<u>4,693,227</u>	<u>(1,810,200)</u>	<u>908,089</u>	<u>46,743,963</u>
NET ASSETS, end of year	<u>\$ 40,748,251</u>	<u>\$ 4,356,623</u>	<u>\$ (3,041,547)</u>	<u>\$ 2,146,334</u>	<u>\$ 44,209,661</u>

OLE Health and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2021

	OLE Health	OLE Health Foundation	OLE Health NMTC	Eliminations	Total
REVENUES, GAINS, AND OTHER SUPPORT					
Net patient service revenue	\$ 16,744,139	\$ -	\$ -	\$ -	\$ 16,744,139
Capitation revenue	3,800,338	-	-	-	3,800,338
Grant revenue	7,253,359	-	-	-	7,253,359
Contribution revenue	5,585,772	1,261,061	-	(4,188,971)	2,657,862
In-kind contribution revenue	758,305	-	-	-	758,305
Other revenue	8,918,626	-	534,722	(534,408)	8,918,940
Net assets released from restriction used for operations	300,102	126,512	-	-	426,614
Total revenues, gains, and other support	<u>43,360,641</u>	<u>1,387,573</u>	<u>534,722</u>	<u>(4,723,379)</u>	<u>40,559,557</u>
EXPENDITURES					
Program services					
Medical	20,597,439	-	-	(404,672)	20,192,767
Mental Health	1,453,209	-	-	(43,542)	1,409,667
Dental	3,913,904	-	-	(133,557)	3,780,347
Optometry	399,772	-	-	(36,241)	363,531
Fundraising	294,946	3,687,255	-	(3,630,726)	351,475
General and administrative	13,637,605	55,210	2,332,353	(1,712,887)	14,312,281
Total expenditures	<u>40,296,875</u>	<u>3,742,465</u>	<u>2,332,353</u>	<u>(5,961,625)</u>	<u>40,410,068</u>
OPERATING INCOME (LOSS)	<u>3,063,766</u>	<u>(2,354,892)</u>	<u>(1,797,631)</u>	<u>1,238,246</u>	<u>149,489</u>
OTHER INCOME					
Investment return, net	2,022,045	137,572	-	-	2,159,617
Total other income	<u>2,022,045</u>	<u>137,572</u>	<u>-</u>	<u>-</u>	<u>2,159,617</u>
EXCESS (DEFICIENCY) OF REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENDITURES	5,085,811	(2,217,320)	(1,797,631)	1,238,246	2,309,106
Net assets released from restriction for capital projects	-	230,000	-	-	230,000
Gain from loan forgiveness on long-term debt	3,586,472	-	-	-	3,586,472
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>8,672,283</u>	<u>(1,987,320)</u>	<u>(1,797,631)</u>	<u>1,238,246</u>	<u>6,125,578</u>
NET ASSETS WITH DONOR RESTRICTIONS					
Contributions	159,353	53,673	-	-	213,026
Net assets released from restriction	(300,102)	(356,512)	-	-	(656,614)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(140,749)</u>	<u>(302,839)</u>	<u>-</u>	<u>-</u>	<u>(443,588)</u>
CHANGE IN NET ASSETS	<u>8,531,534</u>	<u>(2,290,159)</u>	<u>(1,797,631)</u>	<u>1,238,246</u>	<u>5,681,990</u>
NET ASSETS, beginning of year	<u>34,421,313</u>	<u>6,983,386</u>	<u>(12,569)</u>	<u>(330,157)</u>	<u>41,061,973</u>
NET ASSETS, end of year	<u>\$ 42,952,847</u>	<u>\$ 4,693,227</u>	<u>\$ (1,810,200)</u>	<u>\$ 908,089</u>	<u>\$ 46,743,963</u>

OLE Health and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Health and Human Services</i>			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6H80CS04219	\$ 2,052,750
Grants for New and Expanded Services under the Health Center Program	93.527	6H80CS04219	1,350,044
COVID-19 - Health Center Program - American Rescue Plan Act	93.224	H8FCS41680	2,730,062
COVID-19 - FY2020 Expanding Capacity for Coronavirus Testing	93.527	4H8ECS38894	<u>156,590</u>
Total Health Center Program Cluster			6,289,446
COVID-19 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	N/A	<u>2,251,382</u>
Total U.S. Department of Health and Human Services			<u>8,540,828</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 8,540,828</u>

OLE Health and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

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, 2022. 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.

In accordance with guidance from the U.S. Department of Health and Human Services (“HHS”), the Organization included the Reporting Period 3 expenditures for Provider Relief Fund and American Rescue Plan Rural Distribution Assistance Listing No. 93.498 of \$2,251,382 in the Schedule for the year ended June 30, 2022, to align with HHS reporting guidelines. In accordance with U.S. GAAP, \$252,692 of Provider Relief Fund assistance received by the Organization was recognized as revenue during the year ended June 30, 2021, and is included in beginning net assets as of and for the year ended June 30, 2022. The remaining \$1,998,690 of Provider Relief Fund assistance received by the Organization was recognized as revenue during the year ended June 30, 2022.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or 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, 2022.

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*

To 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, 2022, and the related consolidated statement of operations and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 14, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered OLE Health and Subsidiaries’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of OLE Health and Subsidiaries’ internal control. Accordingly, we do not express an opinion on the effectiveness of OLE Health and Subsidiaries’ internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization’s 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OLE Health and Subsidiaries' 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California

December 14, 2022

Report of Independent Auditors on Compliance for The Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
OLE Health and Subsidiaries

Report on Compliance for The Major Federal Program

Opinion on The Major Federal Program

We have audited OLE Health and Subsidiaries' (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on OLE Health and Subsidiaries' major federal program for the year ended June 30, 2022. OLE Health and Subsidiaries' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, OLE Health and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on The Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of OLE Health and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of OLE Health and Subsidiaries' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to OLE Health and Subsidiaries' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on OLE Health and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about OLE Health and Subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding OLE Health and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of OLE Health and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 OLE Health and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California
December 14, 2022

OLE Health and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

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

<i>Federal Assistance Listing Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for the Major Federal Program</i>
93.498	COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	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 reported

Section III – Federal Award Findings and Questioned Costs

None reported

OLE Health and Subsidiaries
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022

There were no findings noted in the prior audit.

