

Audited Consolidated Financial Statements

**Gardner Family Health Network, Inc.
and Subsidiary**

For The Years Ended June 30, 2018 and 2017

Gardner Family Health Network, Inc. and Subsidiary

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Independent Auditor's Report

Board of Directors
Gardner Family Health Network, Inc. and Subsidiary
Alviso, California

Report on the Financial Statements

We have audited the accompanying financial statements of Gardner Family Health Network, Inc. and Subsidiary (the "Organization"), which comprise the balance sheets as of June 30, 2018 and 2017 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gardner Family Health Network, Inc. and Subsidiary as of June 30, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

CAW. LLP

Fresno, California
October 24, 2018

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Balance Sheet
June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 7,905,797	\$ 7,851,677
Restricted cash	36,038	107,766
Investments	30,828	-
Patient accounts receivable, net	1,452,893	1,648,210
Grant, contract, and other receivables	6,188,918	4,559,502
Inventory	372,433	394,822
Prepaid expenses & other assets	874,409	760,278
Total current assets	16,861,316	15,322,255
Estimated third-party payor settlements	1,297,297	1,336,602
Property and equipment, net	11,973,968	12,586,734
Total assets	\$ 30,132,581	\$ 29,245,591
 Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 1,409,548	\$ 1,415,681
Accrued payroll and related liabilities	2,969,270	2,972,251
Accruals for self-insurance	1,403,496	1,257,965
Deferred revenue	59,301	182,367
Estimated third party payor settlements	851,006	675,381
Long-term debt, current portion	280,556	269,286
Total current liabilities	6,973,177	6,772,931
Deferred rent	1,285,394	1,296,996
Long-term debt, net of current portion	8,198,051	8,274,738
Total liabilities	16,456,622	16,344,665
Net assets:		
Unrestricted	13,654,431	12,879,671
Temporarily restricted	21,528	21,255
Total net assets	13,675,959	12,900,926
 Total liabilities and net assets	\$ 30,132,581	\$ 29,245,591

See accompanying Consolidated Notes to the Financial Statements

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Statement of Operations and Changes in Net Assets
For the years ended June 30, 2018 and 2017

Change in Unrestricted Net Assets:	2018	2017
Unrestricted revenue and other support:		
Patient and third party revenue, net	\$ 19,983,751	\$ 19,866,298
Capitation revenue	914,299	750,234
Grant and contract revenue	34,977,939	33,295,042
Other revenue	2,963,582	2,738,074
Net assets released from restrictions	84,056	89,032
Total unrestricted revenue and other support	58,923,627	56,738,680
Expenses:		
Salaries and wages	44,816,433	42,597,333
Purchased services	1,813,654	1,771,671
Professional fees	1,552,158	1,332,643
Supplies	2,495,536	2,434,764
Travel conference and meetings	616,317	639,885
Facility costs	2,695,747	2,653,957
Insurance	265,800	287,947
Depreciation and amortization	1,630,947	1,690,920
Interest	268,393	235,389
Other	1,993,882	1,925,205
Total expenses	58,148,867	55,569,714
Excess of revenues over expenses	774,760	1,168,966
Change in Temporarily Restricted Net Assets:		
Restricted contributions	84,329	86,551
Released from restrictions	(84,056)	(89,032)
Change in temporarily restricted net assets	273	(2,481)
Change in net assets	775,033	1,166,485
Net Assets:		
Beginning of year	12,900,926	11,734,441
End of year	\$ 13,675,959	\$ 12,900,926

See accompanying Consolidated Notes to the Financial Statements

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 775,033	\$ 1,166,485
Adjustments to reconcile operating income in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,630,947	1,690,920
Donated supplies	(84,329)	(86,551)
Forgiveness of debt	(630,844)	-
Changes in operating assets and liabilities:		
Patient accounts receivable	195,317	473,431
Grant, contract, and other receivable	(1,629,416)	475,493
Inventory	106,718	(12,038)
Prepaid expenses and other assets	(114,131)	6,724
Estimated third-party payer settlements	214,930	184,953
Accounts payable and other accrued expenses	(6,133)	345,650
Accrued payroll and related liabilities	(2,981)	(204,799)
Accruals for self-insurance	145,531	(57,007)
Deferred revenue	(123,066)	(22,211)
Net cash provided by operating activities	477,576	3,961,050
Cash flows from investing activities:		
Purchase of investments	(30,828)	-
Purchase of property and equipment	(1,018,181)	(510,806)
Net cash used in investing activities	(1,049,009)	(510,806)
Cash flows from financing activities:		
Change in long-term lease incentives	(11,602)	7,880
Proceeds from new debt	835,086	-
Line-of-credit	-	(300,000)
Principal payments on long-term debt	(269,659)	(291,613)
Net cash provided by (used in) financing activities	553,825	(583,733)
Net increase (decrease) in cash and cash equivalents	(17,608)	2,866,511
Cash and cash equivalents at beginning of year:	7,959,443	5,092,932
Cash and cash equivalents at end of year:	\$ 7,941,835	\$ 7,959,443
Supplemental disclosure of cash flow information:		
Interest paid	\$ 268,393	\$ 235,389
In-kind contributions	\$ 272,823	\$ 403,307
Forgiveness of debt	\$ 630,844	\$ -

See accompanying Consolidated Notes to the Financial Statements

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 1: Organization and Operations

Gardner Family Health Network, Inc. (“GFHN”) was founded in 1967 as a California nonprofit corporation, located in the Alviso District of San Jose. The Organization provides primary health and educational care services to medically under-served residents of Santa Clara and San Mateo Counties.

Gardner Family Care Corporation (“GFCC”) is a community based multi-services organization, which operates as a California nonprofit corporation, located in San Jose. The Organization provides a full range of behavioral - social services programs for the community of Santa Clara County,

On July 1, 1997, GFHN affiliated with GFCC and became the sole member of GFCC and are collectively referred to as Gardner Family Health Network and Subsidiary (the “Organization”). With the affiliation: (a) GFHN and GFCC retained separate corporate identities, (b) GFHN and GFCC agreed upon a group of individuals to serve as common directors of both organizations; and (c) GFHN's social, mental and behavioral care programs were transferred to GFCC, while GFCC's primary care program was transferred to GFHN. The affiliation allowed both organizations to use their resources to the greatest effectiveness for the benefit of their respective communities.

The Organization has a number of special healthcare programs that are designed to meet the unique needs of its population in Santa Clara and San Mateo counties. The following is a summary of these health care programs:

- Federally Qualified Health Center (FQHC) and Managed Care Program
- Job Corps Health Program
- Health Care for the Homeless Program
- First 5 Program
- Integrated Behavioral Health Program
- Mental Health Program (Gardner Centro De Bienestar)
- Women, Infants, and Children (WIC) Program
- Proyecto Primavera Programs
 - Drug Diversion
 - Drinking Driver Program

These programs are provided at the seven clinics currently operated by the Organization: Alviso Health Center, St. James Health Center, Comprecare Health Center, Gardner Health Center, Gardner South County Health Center, Gardner Downtown Health Center, Gardner Packard Children's Health Center, and other sites in Santa Clara and San Mateo counties.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 2: Significant Accounting Policies

Basis of Accounting:

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, and expenses are classified 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 are those currently available for use and are not subject to donor-imposed 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 expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restricts expire during the same fiscal year are recognized as unrestricted revenue.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. There were no permanently restricted net assets as of June 30, 2018.

Basis of Consolidation

The consolidated financial statements include the accounts of GFHN and GFCC. All significant transactions among the entities have been eliminated.

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 certain reported amounts of assets and disclosures. Accordingly, actual result could differ from those estimates.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consisted of demand deposit and money market accounts at June 30, 2018.

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.

As of June 30, 2018 and 2017 the carrying amount of all the accounts, net of outstanding checks, was \$7,905,797 and \$7,851,677 respectively. Per the various financial institutions as of June 30, 2018 and 2017, approximately \$779,838 and \$568,340 was covered by federal depository insurance respectively.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 2: Significant Accounting Policies (Continued)

Patient Accounts Receivable, Net:

The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge 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 a significant provision for bad debts 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) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Inventories:

Medical, pharmacy and other supplies are recorded at the lower of cost (first-in, first-out) or market. The Organization received as in-kind contributions various medical supplies amounting to \$84,329 and \$86,551 for the year ended June 30, 2018 and 2017 respectively.

Property and Equipment:

Property and equipment is stated at cost at the date of acquisition. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the individual assets. The lives of the assets range from 5 years to 30 years. Repairs and maintenance are charged to operations and major improvements are capitalized. Expenses for assets in excess of \$5,000 are capitalized. 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 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 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 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.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 2: Significant Accounting Policies (Continued)

Self-insurance and IBNR Payable:

Self-insurance and incurred-but-not-reported (IBNR) payable represent liabilities for services rendered during the year to employees and their dependents for health insurance sponsored by the Organization. The IBNR payable liability is based on experience statistics related to the nature and volume of work performed. Management periodically evaluates this estimated liability in order to maintain it at a level that is sufficient to absorb probable incurred but not reported claims. Management's evaluation of the adequacy of the estimate is based on an analysis of claims paid after the consolidated statement of financial position date and an actuarial review of historical claim experience.

Deferred Rent:

Deferred rent includes lease incentives received from a landlord to make tenant improvements and the accumulation of accrual of rent expense to straight-line rent expense over the fifteen-year term of the lease agreement of real property at 3351 El Camino Real, Atherton, California.

Workers' Compensation Insurance:

The Organization is insured for workers' compensation claims under an occurrence policy, with a \$1,000,000 deductible for each occurrence. The accrual for these costs includes the unpaid portion of claims that have been reported and estimates of amounts for claims that have been incurred but not reported and is included in accrued expenses in the statement of financial position. Any related insurance recovery receivables are recorded under prepaid expenses and other assets in the consolidated statement of financial position. Management recognizes an estimated liability based upon the Organization's historical claims experience within stop-loss coverage limits. The claim reserve is based on the best data available to the Organization; however, the estimate is subject to a significant degree of inherent variability. Such an estimate is continually monitored and reviewed and, as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of workers' compensation liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the Organization's consolidated financial statements are adequate to cover such claims. There are no accrued worker's compensation claims at June 30, 2018. There are no insurance recovery receivables recorded at June 30, 2018.

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 Santa Clara County to provide a comprehensive range of professional health care and social services. Under the agreement, 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.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 2: Significant Accounting Policies (Continued)

Grants and Contract Revenue:

Grant revenue is funded primarily by Federal, County, and foundation grants, which generally restrict the use of such funds to cover the operating expenses directly related to providing primary care services. These grants are recognized as revenue over the periods specified in the related grant award agreements. Other grants and contributions that have been awarded for a specified purpose but have not yet been spent are recognized as temporarily restricted net assets. When the services have been rendered, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization is a direct grantee of DHHS and is also a recipient of DHHS grants and various other program grants from the State of California, the County of Santa Clara and the City of San Jose. The Organization generates patient care revenue from patients and third-party payors (Medi-Cal, Medicare and private insurance companies).

Charity Care:

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at an amount less than the Organization's established rates. Because the Organization does not pursue collection of the amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Organization's Charity Care policy aggregated approximately \$3,879,998 and \$3,227,098 for the year ended June 30, 2018 and 2017 respectively.

The Organization is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Organization provides a variety of community health services at or below cost.

Contributions and Promise to Give:

Contributions, including unconditional promise to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Collective Bargaining:

The Organization has 564 employees. A concentration of labor supply in employees working under union collective bargaining agreements represents approximately 63 percent of its hourly workforce in three different collective bargaining units. The Organization's management workforce is not represented by unions.

Functional Allocation of Expenses:

The Organization allocates various functional expenses among the programs based on actual personnel time and space utilized for the related activities. The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the supplementary information as the consolidated statement of functional expenses. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 2: Significant Accounting Policies (Continued)

In-kind Contributions:

The Organization records in kind support including contributed assets and professional services. Contributed professional services are recognized if the services received (a) create or enhance a non-financial asset or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The Organization received the following in-kind contributions for the years ending June 30, 2018 and 2017:

	2018	2017
Donated occupancy	\$ 188,494	\$ 184,128
Donated services	-	132,628
Donated supplies	84,329	86,551
Total	\$ 272,823	\$ 403,307

During the fiscal year, the Organization received a significant amount of contributed services from non-professional volunteers to assist in the program services and fund raising activities. No amounts have been recognized in the statement of activities because they did not meet the two criteria described above.

Income Taxes:

The Organization is exempt from Federal Taxes under Section 501(c)(3) of the Internal Revenue Code as amended and Section 23701 (d) of the Revenue and Taxation Code of the State of California. Accordingly, no provision for Federal and Franchise taxes has been recognized in the consolidated financial statements. The Organization has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities generally for three years after they are filed.

Concentration of Risk:

The Organization grants credit without collateral to its patients and third-party payors at several locations throughout Santa Clara County. Patient accounts receivable from the government agencies administering the Medicare and the Medi-Cal programs and private insurance companies administering the Medi-Cal Managed Care programs represent the only concentrated group of Credit risk for the Organization and management does not believe that there are significant credit risks associated with these agencies and private insurance companies. Other contracted and private pay patient receivables consist of payors and individuals involved in diverse activities, subject to differing economic conditions and does not represent any concentrated risks to the Organization. Patient accounts receivable, net of contractual allowances from Medi-Cal and Medicare programs are 43% and 6%, respectively.

For the year ended June 30, 2018 and 2017, the Organization received \$7,559,414 and \$7,347,957, respectively, in Community Health Center grants from the Department of Health and Human Services, which represents 13% and 13% of the total revenue received.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 2: Significant Accounting Policies (Continued)

Excess of Revenues over Expenses:

The statement of operations includes excess (deficit) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Subsequent Events:

The Organization has evaluated subsequent events through October 24, 2018, which is the date the consolidated financial statements were available to be issued.

Note 3: Net Patient Revenue

The Organization recognizes patient fees revenue associated with services provided to the patient who have third-party payer coverage on the basis of its standard fee rates adjusted and reduced to the contractual rates agreed with the third-party payers. For uninsured or uncovered patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard fee rates for the service provided. Based on the historical experience, management estimates that all amounts, past due for more than a year, are considered doubtful debts and against which an allowance is being booked and deducted from the net patient fee revenue after the contractual adjustments in the consolidated statement of operations and changes in net assets.

The Organization has agreements with third party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payers is as follows:

Medicare:

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

Medi-Cal:

Effective April 1, 1990, the organization entered into the Medi-Cal program as a Federally Qualified Health Center (FQHC) administered by the California Department of Health Services (CDHS). Under this cost reimbursement based program, the Organization is reimbursed for covered services based on tentative payment rates and final settlements are based upon audit and approval of the Organization's annual cost reports by CDHS. The Organization has estimated its reimbursement using current cost information.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 4: Fair Value of Financial Assets

Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*, requires the fair value of financial assets and liabilities to be determined using a specific fair-value hierarchy. The objective of the fair value measurement of financial instruments is to reflect the hypothetical amounts at which the Organization could sell assets or transfer liabilities in an orderly transaction between market participants at the measurement date. FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets;

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

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

The following table presents financial instruments measured at fair value on a recurring basis in accordance with FASB ASC 820 as of June 30, 2018:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Equities	\$ 19,872	\$ 19,872	\$ -	\$ -
Fixed income	9,778	-	9,778	-
Total	\$ 29,650	\$ 19,872	\$ 9,778	\$ -

The carrying amounts reported in the balance sheets for other financial assets and liabilities that are not measured at fair value on a recurring basis including patient accounts receivable, grant and contract receivables, estimated third party payor settlements, accounts payable and accrued expenses, accrued payroll and related liabilities, deferred revenue, and long term debt approximate fair value.

Note 5: Investments

Investments include the following at June 30, 2018 and 2017.

	2018	2017
Money markets	\$ 1,178	\$ -
Equities	19,872	-
Fixed income	9,778	-
Total	\$ 30,828	\$ -

Income for investments are primarily comprised of interest and dividend income, which amounted to \$660 for the year ended June 30, 2018. The Organization had unrealized gains in the amount of \$822 for the year ended June 30, 2018.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 6: Patient Accounts Receivable

Patient accounts receivable was comprised of the following payors at June 30, 2018 and 2017:

	2018	2017
Medi-Cal	\$ 852,270	\$ 1,272,373
Medicare	123,688	166,088
Other third-party payors	378,803	333,939
Self-pay	630,621	686,626
Gross patient accounts receivable	<u>1,985,382</u>	<u>2,459,026</u>
Less contractual allowances	<u>(532,490)</u>	<u>(810,816)</u>
Total patient accounts receivable, net	<u>\$ 1,452,893</u>	<u>\$ 1,648,210</u>

Note 7: Grant, Contract, and Other Receivable

Grants and contracts receivable were comprised of the following at June 30, 2018 and 2017:

	2018	2017
County of Santa Clara	\$ 5,243,243	\$ 2,774,845
First Five	138,891	154,961
Risk Pool	233,817	308,875
WIC	296,505	364,307
Other	103,544	408,597
Packard	172,917	547,917
Total	<u>\$ 6,188,918</u>	<u>\$ 4,559,502</u>

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 8: Estimated Third-Party Payor Settlements

Estimated third-party payor settlements are carried at their estimated collectible amounts. Management periodically evaluates settlements based on the current information available and experience with the third-party payors and believes the final settlements will not materially affect the financial statements of the Organization.

GFHN:

As of June 30, 2018 and 2017, the Organization has recorded an estimated receivable of \$900,125 and \$761,083 and an estimated liability of \$851,006 and \$675,381, respectively. These balances comprise estimated settlements of annual PPS reconciliations through June 30, 2018 as well as for a rate setting cost report for the Downtown clinic.

GFCC:

Third-party payor settlements represent estimated retroactive adjustments under agreements with the County of Santa Clara's Mental Health Services for the reimbursements of patient charges, for which there is no final settlement yet. Cost settlement receivable as of June 30, 2018 and 2017, consists of the following:

<u>Fiscal Year</u>	<u>2018</u>	<u>2017</u>
2006 - 2007	\$ 580,484	\$ 580,484
2007 - 2008	122,474	122,474
2008 - 2009	755,432	755,432
2009 - 2010	403,150	403,150
2010 - 2011	(89,850)	(89,850)
2011 - 2012	133,647	133,647
2012 - 2013	345,212	345,212
2013 - 2014	(10,189)	(10,189)
2014 - 2015	(216,657)	(216,657)
2015 - 2017	(106,299)	(106,299)
2017 - 2018	(114,595)	(114,595)
2018 - 2019	(112,466)	-
	<u>1,690,343</u>	<u>1,802,809</u>
Provision for uncollectible	<u>(1,293,171)</u>	<u>(1,227,290)</u>
Net value	<u>\$ 397,172</u>	<u>\$ 575,519</u>

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 9: Property and Equipment

Land, building and equipment at June 30, 2018 and 2017 was comprised of the following:

	2018	2017
Land	\$ 1,506,605	\$ 1,506,605
Buildings and building improvements	23,966,473	22,845,943
Leasehold improvements	5,942,607	6,637,513
Furniture and equipment	6,069,295	7,489,601
Total	37,484,980	38,479,662
Less: Accumulated depreciation and amortization	(25,511,012)	(25,892,928)
Property and equipment, net	\$ 11,973,968	\$ 12,586,734

Depreciation and amortization expense for the year ended June 30, 2018, was \$1,630,947.

Note 10: Lucile Packard Children's Hospital

The Organization entered into the "Clinic Operations Transfer Agreement" (COTA) on December 16, 2011, with subsequent amendments with Lucile Packard Children's Hospital at Stanford, California, nonprofit public benefit corporation, (LPCH) that has various sub-agreements as follows:

- Professional Service Agreement ("PSA")
- Staffing Agreement
- Grant Agreement

In summary, the aforesaid agreement constitute that the Organization operate and provide healthcare service in a clinic site in Atherton, California. This arrangement involves the Organization running and managing the clinic using the Organization's employed support staff and contracting the LPCH physicians for clinical care of patients seen at this facility.

The PSA governs the established rate per billable visit that the Organization is to pay LPCH as full compensation for the services of the attending physicians assigned to the site. During most of year one, the Organization contracted with LPCH for support staff as provided in the Staffing Agreement.

The current Grant Agreement contains provisions for two components: 1) Supporting Grant from \$300,000 up to \$1,000,000 for years ending June 30, 2019 and 2020 to reimburse the Organization for operational losses of the clinic recorded as grants and contracts revenue; and 2) Repayment and Forgiveness of Capital Funding Grant to forgive loans related to leasehold improvements at the clinic location as the Organization make monthly payments. The Organization continues to reimburse LPCH \$10,000 per month and the remaining balances of the loan are forgiven by June 30, 2020.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 11: Accruals for Self-Insurance

The Organization is self-insured for employee health insurance benefits. Plan oversight and administration is provided by an independent third party BRMS (Benefit and Risk Management Services), and by the plan consultant, Innovative Cost Management Services, Inc. (ICMS).

BRMS processes and adjudicates all medical, dental and vision claims. BRMS maintains an interactive database (VBAS) to monitor plan eligibility, plan experience reporting functionality, claims, and plan member communication.

ICMS monitors and provides oversight of plan components, including experience/claims reporting review and utilization oversight. As the plan consultant they maintain daily interaction with the Organization's executive staff for any issues not directly maintained by BRMS.

In order to maintain adequate funds in the program, the Organization opened a Self Insurance Money Market Fund (SIMMF) where it deposits premiums for the program. These premiums are derived from actuarial tables set up with the assistance of BRMS & ICMS, which take into consideration past, and future utilization for medical, dental and vision claims. Based on the number of employees enrolled in the program and the type of health insurance plan selected, BRMS provides a Fully Insured Equivalent (FIE) which the Organization deposits into the SIMMF. BRMS processes the employee insurance claims, ascertaining that they meet the plan's provision and the Organization pays these claims from funds in the SIMMF. As of June 30, 2018 and 2017, the balance in the SIMMF account is \$467,954 and \$346,242 respectively.

The medical and prescription drug plan is partially insured through a specific and aggregate stop loss (excess risk) insurance policy with HCC Life Insurance Company. Medical and prescription drug claims paid during the policy year per individual member in excess of \$150,000 or \$6,372,998 in aggregate are covered through the stop loss insurance policy. As of June 30, 2018 and 2017, the accrued liability under self-insurance program is \$427,415 and \$354,497, respectively.

The IBNR liability pertains to claims that have been incurred but not yet submitted by the various doctors and/or hospitals to the third party administrator BRMS for processing as of the end of the fiscal year. Under the Self Insured Health Plan, doctors have up to one year to submit claims. The IBNR amount was calculated independently by the Self Insured Health Plan consultants, ICMS, using information provided by BRMS. The calculation has been reviewed by management, and it is determined to properly reflect the liability that would still be incurred should the Organization change plans. As of June 30, 2018 and 2017, the accrued IBNR under the self-insurance program is \$976,082 and \$903,468, respectively.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 12: Long-term Debt

Long-term debt at June 30, 2018 consisted of the following:

	2018	2017
On August 30, 2012, the Organization secured a loan from Lucile Packard Children's Hospital (LPCH) for \$3,200,000 with no annual interest rate. Starting April 1, 2016, the Organization makes principal payments of \$10,000 per month. The Organization used the loan to make leasehold improvements to the Gardner Packard Children's Health Center in Atherton, CA. The loan is unsecured.	\$ 2,179,156	\$ 2,930,000
On September 27, 2012, the Organization secured a loan from Heritage Bank for \$4,650,000 with an annual interest rate of 4.00%, amortized over 25 years with fixed monthly payments of \$24,686 and a maturity date of September 26, 2017. On September 25 2017, the Organization refinanced the loan for \$4,900,000 with an annual interest rate of 4.41% amortized over 25 years. Monthly payments of \$27,154 consist of principal and interest and the loan matures September 25, 2027. The loan is secured by the 1st Deed of Trust on the 160 E. Virginia Street, San Jose property.	4,817,856	4,086,596
On April 24, 2013, the Organization secured a loan from Heritage Bank for \$1,693,000, with an annual interest rate of 4.25%, amortized over 5 years with fixed monthly payment of \$9,231 and a maturity date of April 15, 2020. The Organization used the loan to pay off two loans from GFHN (\$924,213 and \$378,620) and the remainder was used to reduce the \$250,000 loan from GFHN. The loan is secured by the Deed of Trust on the 195 E. Virginia Street, San Jose property.	1,481,595	1,527,428
Total long-term debt	8,478,607	8,544,024
Less: current portion	(280,556)	(269,286)
	\$ 8,198,051	\$ 8,274,738

Future principal payments are as follows for the years ended June 30:

Year	Principal
2019	\$ 280,556
2020	1,670,999
2021	243,190
2022	248,813
2023	254,692
Thereafter	5,780,357
Total	\$ 8,478,607

There are certain financial covenants related to its long-term debt that the Organization was required to comply with. Management believes that the Organization was in compliance with these financial covenants as of and for the year ended June 30, 2018.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 13: Line of Credit

GFCC has a revolving line of credit for a maximum of \$500,000 through Heritage Bank of Commerce. The line of credit is unsecured and the line of credit agreement ends on May 18, 2019. The interest is payable monthly at a variable rate that is .750 percentage points above the Prime Rate as published by the Wall Street Journal. The initial interest rate is 4.00%. The line of credit had no outstanding balance as of June 30, 2018.

GFHN has a revolving line of credit for a maximum of \$1,500,000 through Pacific Premier Bank. The line of credit is unsecured and the line of credit agreement ends on January 2, 2019. The line of credit had no outstanding balance as of June 30, 2018.

Note 14: Commitments and Contingencies

Federal and state contracts and other requirements:

The Organization receives grants and contracts which require fulfillment of certain conditions as set forth in the terms of the grant agreement and contract, and are subject to audit and adjustment upon review by the granting agencies. Failure to comply with the conditions of the grants could result in the return of funds to the granting agencies. The amounts, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although management believes that it has complied with conditions of its grants and contracts it expects they will not have a significant effect on the Organization's financial position.

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 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 financial position.

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.

Gardner Family Health Network, Inc. and Subsidiary
Consolidated Notes to Financial Statements
For the years ended June 30, 2018 and 2017

Note 15: Operating Leases

The Organization leases the Gardner Packard Children's Health Center expiring on December 31, 2027 with options to extend the lease term by seven years. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2018, for each of the next five years are:

2019	\$874,696
2020	\$886,588
2021	\$907,008
2022	\$928,608
2023	\$950,868

Rental expense for the years ended June 30, 2018 and 2017 was \$862,325 and \$892,396, respectively.

Note 16: Functional Expenses

	2018	2017
Primary care	\$ 29,725,621	\$ 28,353,219
Outpatient drug and alcohol services	758,901	790,114
Maternal and childcare	1,812,075	1,883,362
Outpatient mental health	17,337,945	16,291,488
General and administrative	8,198,662	8,129,238
Fundraising	315,663	122,293
Total	\$ 58,148,867	\$ 55,569,714

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Gardner Family Health Network, Inc. and Subsidiary
Alviso, California

We have audited and reported separately herein on the consolidated financial statements of Gardner Family Health Network, Inc. and Subsidiary (the "Organization") as of and for the years ended June 30, 2018 and 2017.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Gardner Family Health Network, Inc. and Subsidiary taken as a whole. The consolidating information include in page 23 through 26 is presented for purposes of additional analysis and is not a required part of the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

CHW. LLP

Fresno, California
October 24, 2018

Gardner Family Health Network, Inc. and Subsidiary
Consolidating Balance Sheet
For the year ended June 30, 2018

	<u>GFHN</u>	<u>GFCC</u>	<u>Elimination</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,603,625	\$ 3,302,172	\$ -	\$ 7,905,797
Restricted cash	36,038	-	-	36,038
Investments	30,828	-	-	30,828
Patient accounts receivable, net	1,452,893	-	-	1,452,893
Grant, contract and other receivables	1,961,271	4,227,647	-	6,188,918
Due from affiliate	59,781	63,995	(123,776)	-
Inventory	372,433	-	-	372,433
Prepaid expenses and other assets	332,098	542,311	-	874,409
Total current assets	<u>8,848,967</u>	<u>8,136,125</u>	<u>(123,776)</u>	<u>16,861,316</u>
Estimated third-party payor settlements	900,125	397,172	-	1,297,297
PP&E, net of accumulated depreciation	6,843,638	5,130,330	-	11,973,968
Total assets	<u>16,592,730</u>	<u>13,663,627</u>	<u>(123,776)</u>	<u>30,132,581</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and other accrued expenses	928,881	480,667	-	1,409,548
Accrued payroll and related liabilities	1,900,230	1,069,040	-	2,969,270
Self-insurance payable	925,460	478,036	-	1,403,496
Deferred revenue	36,548	22,753	-	59,301
Due to affiliate	63,995	59,781	(123,776)	-
Estimated third-party payor settlements	851,006	-	-	851,006
Long-term debt, current portion	120,000	160,556	-	280,556
Total current liabilities	<u>4,826,120</u>	<u>2,270,833</u>	<u>(123,776)</u>	<u>6,973,177</u>
Deferred rent	1,285,394	-	-	1,285,394
Long-term debt, net of current portion	2,059,156	6,138,895	-	8,198,051
Total liabilities	<u>8,170,670</u>	<u>8,409,728</u>	<u>(123,776)</u>	<u>16,456,622</u>
Net assets:				
Unrestricted	8,400,532	5,253,899	-	13,654,431
Temporarily restricted	21,528	-	-	21,528
Total net assets	<u>8,422,060</u>	<u>5,253,899</u>	<u>-</u>	<u>13,675,959</u>
Total liabilities and net assets	<u>\$16,592,730</u>	<u>\$13,663,627</u>	<u>\$ (123,776)</u>	<u>\$30,132,581</u>

Gardner Family Health Network, Inc. and Subsidiary
Consolidating Balance Sheet
For the year ended June 30, 2017

	<u>GFHN</u>	<u>GFCC</u>	<u>Elimination</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,047,600	\$ 3,804,077	\$ -	\$ 7,851,677
Restricted cash	107,766	-	-	107,766
Patient accounts receivable, net	1,648,210	-	-	1,648,210
Grant, contract and other receivables	1,931,568	2,627,934	-	4,559,502
Due from affiliate	51,753	25,120	(76,873)	-
Inventory	394,822	-	-	394,822
Prepaid expenses and other assets	248,149	512,129	-	760,278
Total current assets	<u>8,429,868</u>	<u>6,969,260</u>	<u>(76,873)</u>	<u>15,322,255</u>
Estimated third-party payor settlements	761,083	575,519	-	1,336,602
PP&E, net of accumulated depreciation	7,393,291	5,193,443	-	12,586,734
Total assets	<u>16,584,242</u>	<u>12,738,222</u>	<u>(76,873)</u>	<u>29,245,591</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and other accrued expenses	785,832	629,849	-	1,415,681
Accrued payroll and related liabilities	1,951,154	1,021,098	-	2,972,252
Self-insurance payable	813,408	444,557	-	1,257,965
Deferred revenue	170,117	12,250	-	182,367
Due to affiliate	25,120	51,753	(76,873)	-
Estimated third-party payor settlements	675,381	-	-	675,381
Line-of-credit	-	-	-	-
Long-term debt, current portion	120,000	149,286	-	269,286
Total current liabilities	<u>4,541,012</u>	<u>2,308,792</u>	<u>(76,873)</u>	<u>6,772,931</u>
Deferred rent	1,296,996	-	-	1,296,996
Long-term debt, net of current portion	2,810,000	5,464,738	-	8,274,738
Total liabilities	<u>8,648,008</u>	<u>7,773,530</u>	<u>(76,873)</u>	<u>16,344,665</u>
Net assets:				
Unrestricted	7,914,979	4,964,692	-	12,879,671
Temporarily restricted	21,255	-	-	21,255
Total net assets	<u>7,936,234</u>	<u>4,964,692</u>	<u>-</u>	<u>12,900,926</u>
Total liabilities and net assets	<u>\$16,584,242</u>	<u>\$12,738,222</u>	<u>\$ (76,873)</u>	<u>\$29,245,591</u>

Gardner Family Health Network, Inc. and Subsidiary
Consolidating Statement of Operations and Changes in Net Assets
For the year ended June 30, 2018

	<u>GFHN</u>	<u>GFCC</u>	<u>Elimination</u>	<u>Total</u>
Unrestricted revenue and other support:				
Patient and third party revenue, net	\$19,983,751	\$ -	\$ -	\$19,983,751
Capitation revenue	914,299	-	-	914,299
Grant, contract, and other revenue	12,960,632	22,017,307	-	34,977,939
Other revenue	2,623,151	879,267	(538,836)	2,963,582
Net assets released from restrictions	84,056	-	-	84,056
Total unrestricted revenues & other support	<u>36,565,889</u>	<u>22,896,574</u>	<u>(538,836)</u>	<u>58,923,627</u>
Expenses:				
Salaries and benefits	26,370,587	18,445,846	-	44,816,433
Purchased services	951,633	862,021	-	1,813,654
Professional fees	1,413,206	138,952	-	1,552,158
Supplies	2,325,389	170,147	-	2,495,536
Travel, conference, and meetings	182,589	433,728	-	616,317
Facility costs	2,455,411	694,172	(453,836)	2,695,747
Insurance	168,800	97,000	-	265,800
Depreciation and amortization	1,152,035	478,912	-	1,630,947
Interest	-	268,393	-	268,393
Other	1,060,686	1,018,196	(85,000)	1,993,882
Total expenses	<u>36,080,336</u>	<u>22,607,367</u>	<u>(538,836)</u>	<u>58,148,867</u>
Excess of revenues over expenses	<u>485,553</u>	<u>289,207</u>	<u>-</u>	<u>774,760</u>
Restricted contributions	84,329	-	-	84,329
Released from restrictions	<u>(84,056)</u>	<u>-</u>	<u>-</u>	<u>(84,056)</u>
Change in temporarily restricted assets	273	-	-	273
Increase in net assets	<u>485,826</u>	<u>289,207</u>	<u>-</u>	<u>775,033</u>
Net assets, beginning of year	<u>7,936,234</u>	<u>4,964,692</u>	<u>-</u>	<u>12,900,926</u>
Net assets, end of year	<u><u>\$8,422,060</u></u>	<u><u>\$5,253,899</u></u>	<u><u>\$ -</u></u>	<u><u>\$13,675,959</u></u>

Gardner Family Health Network, Inc. and Subsidiary
Consolidating Statement of Operations and Changes in Net Assets
For the year ended June 30, 2017

	<u>GFHN</u>	<u>GFCC</u>	<u>Elimination</u>	<u>Total</u>
Unrestricted revenue and other support:				
Patient and third party revenue, net	\$19,866,298	\$ -	\$ -	\$19,866,298
Capitation revenue	750,234	-	-	750,234
Grant, contract, and other revenue	12,245,130	21,049,912	-	33,295,042
Other revenue	2,298,432	838,222	(398,580)	2,738,074
Net assets released from restrictions	89,032	-	-	89,032
Total unrestricted revenues & other support	<u>35,249,126</u>	<u>21,888,134</u>	<u>(398,580)</u>	<u>56,738,680</u>
Expenses:				
Salaries and benefits	25,006,193	17,591,140	-	42,597,333
Purchased services	906,701	864,970	-	1,771,671
Professional fees	1,168,519	164,124	-	1,332,643
Supplies	2,284,504	150,260	-	2,434,764
Travel, conference, and meetings	220,995	418,890	-	639,885
Facility costs	2,362,764	689,773	(398,580)	2,653,957
Insurance	179,901	108,046	-	287,947
Depreciation and amortization	1,202,243	488,677	-	1,690,920
Interest	-	235,389	-	235,389
Other	1,032,916	892,289	-	1,925,205
Total expenses	<u>34,364,736</u>	<u>21,603,558</u>	<u>(398,580)</u>	<u>55,569,714</u>
Excess of revenues over expenses	<u>884,390</u>	<u>284,576</u>	<u>-</u>	<u>1,168,966</u>
Restricted contributions	86,551	-	-	86,551
Released from restrictions	<u>(89,032)</u>	<u>-</u>	<u>-</u>	<u>(89,032)</u>
Change in temporarily restricted assets	<u>(2,481)</u>	<u>-</u>	<u>-</u>	<u>(2,481)</u>
Increase in net assets	<u>881,909</u>	<u>284,576</u>	<u>-</u>	<u>1,166,485</u>
Net assets, beginning of year	<u>7,054,325</u>	<u>4,680,116</u>	<u>-</u>	<u>11,734,441</u>
Net assets, end of year	<u><u>\$7,936,234</u></u>	<u><u>\$4,964,692</u></u>	<u><u>\$ -</u></u>	<u><u>\$12,900,926</u></u>

SINGLE AUDIT REPORTS

Gardner Family Health Network, Inc. and Subsidiary
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Federal Grant / Program Title	Federal CFDA Number	Pass- Through Identificati on Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, PUBLIC HEALTH SERVICES:			
Direct Programs:			
Consolidated Health Center - Section 330	*93.224	N/A	\$ 7,559,414
Subtotal			<u>\$ 7,559,414</u>
Passed Through:			
County of Santa Clara:			
Expanded Differential Response	93.556	MCDFCS- GFCC-	658,194
Total U.S. Department of Health and Human Services			<u>\$ 8,217,608</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through:			
California Department of Public Health:			
Supplemental Food Program - WIC	*10.557	15-10083	\$ 2,022,664
Total U.S. Department of Agriculture			<u>\$ 2,022,644</u>
Total federal financial assistance			<u><u>\$ 10,240,252</u></u>

* Denotes major program

Gardner Family Health Network, Inc. and Subsidiary
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) summarizes the expenditures of Gardner Family Health Network, Inc. and Subsidiary (the “Organization”) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Organization.

Note B: Summary of Significant Accounting Policies

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

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

Board of Directors
Gardner Family Health Network, Inc. and Subsidiary
Alviso, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gardner Family Health Network, Inc. and Subsidiary (the "Organization"), which comprise the balance sheets as of June 30, 2018 and 2017 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gardner Family Health Network, Inc. and Subsidiary internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 certain deficiencies 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 Gardner Family Health Network, Inc. and Subsidiary 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*.

The Organization's Response to Findings

The Organization's response to the findings 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 compliance and, accordingly, we express no opinion on the response.

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.

CAW. LLP

Fresno, California
October 24, 2018

**Report on Compliance For Each Major Federal Program
And Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Gardner Family Health Network, Inc. and Subsidiary
Alviso, California

Report on Compliance for Each Major Federal Program

We have audited Gardner Family Health Network, Inc. and Subsidiary (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Gardner Family Health Network, Inc. and Subsidiary complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Gardner Family Health Network, Inc. and Subsidiary is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

CAW. LLP

Fresno California
October 24, 2018

Gardner Family Health Network, Inc. and Subsidiary
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
Internal Control over financial reporting: Material weakness identified?	_____ Yes	___ <u>X</u> ___ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ <u>X</u> ___ Yes	_____ None Reported
Noncompliance material to financial statements noted?	_____ Yes	___ <u>X</u> ___ No

Federal Awards

Internal control over major programs: Material weakness identified?	_____ Yes	___ <u>X</u> ___ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	___ <u>X</u> ___ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	___ <u>X</u> ___ No

Major Programs

	<u>CFDA Number</u>
Community Health Center Cluster, Section 330	93.224
Supplemental Food Program - WIC	10.557
Dollar threshold used to distinguish Types A and B programs	\$ 750,000
Auditee qualified as low-risk auditee?	___ <u>X</u> ___ Yes _____ No

Gardner Family Health Network, Inc. and Subsidiary
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings:

2018-001 Account Reconciliation

Criteria: Asset and liability account balances reported on the general ledger should be reconciled to supporting source documents on a monthly basis to identify potential errors and ensure the accuracy and completeness of all information reported on interim and annual financial reports.

Finding/Condition: Not all asset and liability account balances reported on the general ledger are consistently reconciled to supporting source documentation on a monthly basis.

Effect: Errors that may affect information reported on interim and annual financial reports are less likely to be discovered in a timely manner.

Cause: The Organization did not have the staff to perform monthly reconciliations for all asset and liability balances reported on the general ledger and did not use a consistent process for the financial close each month.

Recommendation: The Organization should develop procedures for performing monthly reconciliations of all asset and liability balances reported on the general ledger to the supporting source documents. The Organization should develop a month end and year end checklist that clearly establishes roles and responsibilities to ensure the process is occurring timely and consistently.

Views of Responsible Officials and Corrective Action Plan: The Organization agrees with the finding and will implement additional controls to ensure that this does not recur. Please refer to the corrective action plan on page 36.

Federal Award Findings And Questioned Costs: None Reported

III. Prior Year Audit Findings and Questioned Costs: None Reported

Gardner Family Health Network, Inc. and Subsidiary
Corrective Action Plan
For the year ended June 30, 2018

II. Financial Statement Findings:

2018-001 Account Reconciliation

Name of Contact Person: Efrain Coria, CFO

Corrective Action: The Organization will hire additional staff to assist with the accounting functions and financial close process. Management is reviewing, updating and revising necessary policies and procedures to ensure the financial close process is completed timely and consistently, including account reconciliations.

Proposed Completion Date: December 31, 2018