

Audited Financial Statements

Gardner Family Care Corporation

For The Years Ended June 30, 2017 and 2016

Gardner Family Care Corporation

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Independent Auditor's Report

Board of Directors
Gardner Family Care Corporation
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of Gardner Family Care Corporation (the "Organization"), which comprise the balance sheets as of June 30, 2017 and 2016 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. 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 Care Corporation as of June 30, 2017 and 2016 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.

CAW. LLP

Fresno, California

November 15, 2017

Gardner Family Care Corporation
Balance Sheets
June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 3,804,077	\$ 1,952,995
Grants and contracts receivables	2,627,934	3,866,564
Due from affiliate – GFHN	25,120	39,416
Prepaid expenses	208,235	172,513
Deposits and other assets	303,894	287,223
Total current assets	6,969,260	6,318,711
Estimated third-party payer settlements	575,519	909,870
Property and equipment, net	5,193,443	5,572,796
Total assets	\$ 12,738,222	\$ 12,801,377
 Liabilities And Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 629,849	\$ 427,824
Due to affiliate – GFHN	51,753	56,844
Accrued payroll and related liabilities	1,021,097	1,050,215
Accruals for self-insurance	444,557	496,163
Deferred revenue	12,250	4,578
Line-of-credit	-	300,000
Long-term debt, current portion	149,286	171,583
Total current liabilities	2,308,792	2,507,207
Noncurrent liabilities:		
Long-term debt	5,464,738	5,614,054
Total liabilities	7,773,530	8,121,261
Net assets:		
Unrestricted	4,964,692	4,680,116
Total net assets	4,964,692	4,680,116
Total liabilities and net assets	\$ 12,738,222	\$ 12,801,377

See accompanying Notes to the Financial Statements

Gardner Family Care Corporation
Statements of Operations and Changes in Net Assets
For the years ended June 30, 2017 and 2016

Revenue and Other Support	2017	2016
Contracts:		
Mental health	\$ 17,953,216	\$ 15,658,297
Women, infant, and children	2,066,798	1,944,498
Outpatient substance abuse	-	546,475
Total contract revenue	20,020,014	18,149,270
Court-ordered program revenues:		
Drinking driver program	727,744	775,041
Drug diversion	121,483	140,644
Outpatient substance abuse	30,871	43,314
Total patient revenue	880,098	958,999
Other revenue	988,022	857,410
Total unrestricted revenue and other support	21,888,134	19,965,679
Expenses:		
Salaries and benefits	17,591,140	15,951,799
Purchased services	864,970	815,093
Professional fees	164,124	186,987
Supplies	150,260	188,459
Travel, conference, and meetings	418,890	402,096
Facility costs	689,773	602,822
Insurance	108,046	110,338
Depreciation and amortization	488,677	482,500
Interest	235,389	243,270
Other	892,289	778,074
Total expenses	21,603,558	19,761,438
Change in unrestricted net assets	284,576	204,241
Net Assets:		
Beginning of year	4,680,116	4,475,875
End of year	\$ 4,964,692	\$ 4,680,116

See accompanying Notes to the Financial Statements

Gardner Family Care Corporation
Statements of Cash Flows
For the years ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 284,576	\$ 204,241
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	488,677	482,500
Changes in operating assets and liabilities:		
Grant and contract receivable	1,238,630	(606,048)
Due from affiliate – GFHN	14,296	(29,220)
Prepaid and other assets	(35,722)	(109,182)
Deposits	(16,671)	(42,758)
Estimated third-party payer settlements	334,351	184,892
Accounts payable and accrued expenses	202,025	(189,285)
Accruals for self-insurance	(51,606)	(30,287)
Accrued payroll and related liabilities	(29,118)	(402,019)
Deferred revenue	7,672	(2,693)
Due to affiliate	(5,091)	10,014
Net cash provided by (used in) operating activities	2,432,019	(529,845)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(109,324)	(47,377)
Net cash used in investing activities	(109,324)	(47,377)
Cash Flows From Financing Activities:		
Change in line-of-credit	(300,000)	300,000
Principal payments on long-term debt	(171,613)	(181,843)
Net cash provided by (used in) financing activities	(471,613)	118,157
Net increase (decrease) in cash and cash equivalents	1,851,082	(459,065)
Cash and cash equivalents at beginning of year:	1,952,995	2,412,060
Cash and cash equivalents at end of year:	\$ 3,804,077	\$ 1,952,995
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 235,389	\$ 243,270
Donated space and services	\$ 316,756	\$ 308,500

See accompanying Notes to the Financial Statements

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 1: Organization and Operations

Description of Organization:

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

- Mental Health Program (Gardner Centro De Bienestar)
- Women, Infants, and Children (WIC) Program
- Proyecto Primavera Programs
 - Drug Diversion
 - Drinking Driver Program

Note 2: Summary of Significant Accounting Policies

Basis of Accounting:

The accompanying 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 based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets 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 temporarily or permanently restricted net assets as of June 30, 2017.

Cash and Cash Equivalents:

Cash and cash equivalents include short-term highly liquid investments with original maturities of three months or less. As of June 30, 2017 and 2016, the carrying amount of all the accounts, net of outstanding checks, was \$3,804,077 and \$1,952,995, respectively. Per the various financial institutions as of June 30, 2017 and 2016, approximately \$250,000 and \$250,000, respectively, was covered by federal depository insurance.

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (Continued)

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 25 years. Repairs and maintenance are charged to operations and major improvements are capitalized. Donated assets are recognized at market value at the time of donation. Expenses for assets in excess of \$5,000 are capitalized and assets purchased with government grants are expended in accordance with government program guidelines.

Accrued Vacation:

Accumulated unpaid employee vacation leave benefits are recognized as liabilities on the books as required by the generally accepted accounting principles. As of June 30, 2017 and 2016, accrued vacation amounted to \$636,982 and \$613,789, respectively.

The Organization's policy on sick leave benefits is to record amounts as operating expenditures in the period sick leave is taken.

Revenues and Support:

Contract revenue is primarily funded by government grants which generally restrict the use of such funds to cover the operating expenses directly related to providing services under the contracts. These contracts are recognized as revenue when services are provided and over the periods specific in the related contract 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.

Program service fee is recorded during the period in which services were rendered.

Collective bargaining:

The Organization has approximately 234 employees. A concentration of labor supply in employees working under union collective bargaining agreements represents approximately 67 percent of its hourly and salaried workforce in one collective bargaining units. The Organization's management workforce is not represented by unions.

Concentration of credit risk:

Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of bank demand deposits in excess of 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 Securities Investor Protection Corporation ("SIPC") insurance. Demand deposits are placed with a local financial institution, and management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the consolidated financial statements. The risk associated with the investments is mitigated through diversification.

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (Continued)

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. Fiscal and administrative costs were allocated based on percentage of program operating costs to total operating costs.

Use of Estimates:

The preparation of 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 and disclosures. Accordingly, actual results could differ from those estimates.

Tax-exempt Status:

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board. Accordingly, no provision for federal and state income taxes has been made in the accompanying financial statements. There was no unrelated business income for fiscal year 2017.

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered 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.

Reclassification:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent Events:

The Organization has evaluated subsequent events through November 15, 2017, which is the date the financial statements were available to be issued.

Note 3: Cash and Cash Equivalents

The cash balance as of June 30, 2017 and 2016, consists of the following:

	2017	2016
Cash - operating accounts	\$ 2,783,028	\$ 1,032,018
Cash - self-insurance reserve	252,365	189,666
Cash - board reserved	755,484	718,111
Petty cash	13,200	13,200
Total cash and cash equivalents	\$ 3,804,077	\$ 1,952,995

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 4: Prepaid Expenses, Deposits, and Other Assets

Prepaid expenses, deposits, and other assets were comprised of the following at June 30, 2017 and 2016:

	2017	2016
Prepaid Expenses:		
Insurance	\$ 60,057	\$ 45,720
Other	149	149
HSA Contribution	148,029	126,644
	\$ 208,235	\$ 172,513
Deposits and Other Assets:		
Unemployment Insurance (Joint Agencies Trust)	\$ 301,558	\$ 285,294
Other	2,336	1,929
	\$ 303,894	\$ 287,223

Note 5: Grants and Contracts Receivable

Grants and contracts receivable were comprised of the following at June 30, 2017 and 2016:

	2017	2016
CalWorks	\$ 140,931	\$ 192,858
Family Services	477,861	1,149,191
Adult Outpatient	97,837	64,737
First 5 Medi-Cal	195,327	339,016
WIC	364,307	357,824
Prop 63	148,561	303,765
Differential Response	361,954	243,797
Adult/Older Adult	385,285	461,099
First 5 Superior Court	67,360	96,350
Other	388,511	657,927
Total	\$ 2,627,934	\$ 3,866,564

Note 6: Accrued Payroll and Related Expenses

Accrued expenses and other liabilities as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Accrued salaries	\$ 265,628	\$ 188,962
Accrued vacation	636,982	613,788
Accrued payroll taxes	45,853	38,051
Accrued employee benefits	72,645	209,423
Total	\$ 1,021,108	\$ 1,050,224

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 7: Property and Equipment

Land, building and equipment at June 30, 2017 and 2016 was comprised of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,315,654	\$ 1,315,654
Buildings and building improvements	8,723,413	8,672,705
Leasehold improvement	115,827	115,827
Furniture & equipment	731,519	650,271
Total	<u>10,886,413</u>	<u>10,754,457</u>
Less: Accumulated depreciation and amortization	<u>(5,692,970)</u>	<u>(5,181,661)</u>
Property and equipment, net	<u>\$ 5,193,443</u>	<u>\$ 5,572,796</u>

Depreciation expense for the year ended June 30, 2017 and 2016 amounted to \$488,677 and \$482,500, respectively.

Note 8: Bank Line of Credit

On May 18, 2017, the Organization was granted 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, 2018. 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, 2017.

Note 9: Functional Expenses

	<u>2017</u>	<u>2016</u>
Program services	\$ 18,964,964	\$ 17,283,634
General and administrative	2,638,594	2,477,804
Total	<u>\$ 21,603,558</u>	<u>\$ 19,761,438</u>

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 10: Estimated Third-party Payor Settlements

Estimated third-party payor settlements relate to the County of Santa Clara's Mental Health Services — Short-Doyle Program contracts for the reimbursement of patient charges. Cost settlement receivables and liabilities as of June 30, 2017 and 2016, consist of the following:

<u>Fiscal Year</u>	<u>2017</u>	<u>2016</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	345,213	347,284
2013 - 2014	(10,189)	(9,442)
2014 - 2015	(216,657)	(216,657)
2015 - 2016	(106,299)	31,102
2016 - 2017	(114,595)	-
	<u>1,802,809</u>	<u>2,057,624</u>
Provision for uncollectible	(1,227,290)	(1,147,754)
Net value	<u>\$ 575,519</u>	<u>\$ 909,870</u>

Cost settlement receivables are carried at their estimated collectible amounts. They are periodically evaluated for collectability based on information provided by County of Santa Clara. Provision for uncollectible on cost settlement receivable is determined on the basis of experience in dealing with County of Santa Clara and their mandate with the State.

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 11: Long-term Debt

Long-term debt at June 30, 2017 consisted of the following:

	2017	2016
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.	\$ 4,086,596	\$ 4,214,285
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 five 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.	1,527,428	1,571,352
Total long-term debt	5,614,024	5,785,637
Less: current portion	(149,286)	(171,583)
	\$ 5,464,738	\$ 5,614,054

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

Year	Principal
2018	\$ 149,286
2019	\$ 160,556
2020	\$ 1,546,866
2021	\$ 123,190
2022	\$ 128,813

The Organization is subject to various covenants and restrictions under its borrowing arrangements. In addition, the Organization has agreed to maintain certain financial ratios and adhere to other loan covenants described in the loan documents. At June 30, 2017, the Organization is in compliance with all covenants.

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 12: Related Party Transactions

On July 1, 1997, Gardner Family Care Corporation (formerly Gardner Health Center, Inc.) affiliated with Gardner Family Health Network, Inc. (“GFHN”) (formerly Family Health Foundation, Inc.), a nonprofit corporation, operating as a licensed community clinic providing primary care medical, dental, optometric and pharmacy services, as well as substance abuse, WIC and other programs, at multiple clinic locations in San Jose and Alviso, California.

With the affiliation: (a) GFHN became the sole corporate member of the Organization, (b) the Organization and GFHN retained its own separate corporate identity, (c) the Organization and GFHN agreed upon a group of individuals to serve as common directors of both organizations; and (d) GFHN's social, mental, and behavioral care programs were transferred to the Organization, while its primary care program was transferred to GFHN. The affiliation allowed both organizations to use its resources to the greatest effectiveness for the benefit of their respective communities.

The total amount due from GFHN at June 30, 2017 is \$25,120, which is comprised of employee expenses. The total amount due to GFHN at June 30, 2017 is \$51,753, which is comprised of rent and other shared services.

GFHN has guaranteed the line of credit and loans payable by the Organization to Heritage Bank. As such, the bank includes GFHN's financial performance in evaluation of the financial covenants.

Lease Expense:

The Organization leases clinic space at GFHN's CompreCare facility (3030 Alum Rock Avenue, San Jose, California) for the Organization's WIC program. The monthly rent is \$5,471. The lease expires on June 30, 2019. The minimum future rental payments excluding any operating expenses escalation that may be calculated in the future as of June 30, 2017, are:

<u>Year</u>	
2018	\$ 65,652
2019	65,652
Total	<u>\$ 131,304</u>

Lease Income:

The Organization leases clinic space on its 195 Virginia Street, San Jose, California facility to GFHN under an operating lease expiring on November 30, 2017. The monthly rent during the term of the lease is \$18,542. Rent received from GFHN during the year was \$222,504.

The Organization also leases clinic space on its 160 Virginia Street, San Jose, California facility to GFHN under an operating lease expiring on June 30, 2020. The monthly rent during the term of the lease is \$9,202. Rent received from GFHN during the year was \$110,424.

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

Note 13 – Accruals for Self-Insurance

Effective May 1, 2007, the Organization terminated its employee health insurance with Kaiser and started its own self-insurance health program. Plan oversight and administration is provided by an independent third party, Benefit and Risk Management Services (“BRMS”), 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 to monitor plan eligibility, plan experience reporting functionality, claims, and plan member communication.

ICMS provides oversight of plan components, including providing reports on experience/claims reporting, plan expenses, premiums, and overall review and oversight. As the plan consultants/brokers they maintain daily interaction with the Organization's executive staff for any issues not directly maintained by BRMS.

The self-insurance liability as of June 30, 2017, is comprised of an estimated accrual of \$314,569 for incurred but not reported (“IBNR”) claims, and \$129,988 related to accrued liabilities of the program. The IBNR liability pertains to claims that have been incurred but not yet submitted by the various doctors and/or hospitals to 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 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.

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 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, 2017, the balance in the SIMMF account was \$238,476

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 \$1,000,000 in aggregate are covered through the stop loss insurance policy.

Gardner Family Care Corporation
Notes to Financial Statements
For the years ended June 30, 2017 and 2016

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, and 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.