

***GRACEMED HEALTH CLINIC, INC.***

CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2018 AND 2017

WITH

INDEPENDENT AUDITOR'S REPORT



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WITH SUPPLEMENTARY INFORMATION  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
**GraceMed Health Clinic, Inc.**

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

We have audited the accompanying consolidated financial statements of GraceMed Health Clinic, Inc. (Clinic), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017 and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GraceMed Health Clinic, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in 2018 the Clinic adopted FASB ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2019 on our consideration of the GraceMed Health Clinic, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Clinic's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GraceMed Health Clinic, Inc.'s internal control over financial reporting and compliance.

*Allen, Gibbs & Houlak, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

July 19, 2019  
Wichita, KS

**GRACEMED HEALTH CLINIC, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

December 31, 2018 and 2017

**ASSETS**

	<u>2018</u>	<u>2017</u>
<b>Current assets:</b>		
Cash	\$ 3,332,002	\$ 5,599,465
Certificates of deposit	3,394,066	4,067,100
Investments	4,026,750	2,054,806
Accounts receivable:		
Patients, net of allowance	76,092	56,566
Due from third-party payers	783,991	514,571
Unconditional promises to give	376,955	437,097
Inventory	15,559	24,487
Prepaid expenses	61,759	34,692
Total current assets	<u>12,067,174</u>	<u>12,788,784</u>
<b>Non-current assets:</b>		
Property and equipment:		
Land	622,330	408,280
Buildings	8,025,142	5,100,739
Furniture and fixtures	176,626	176,626
Medical equipment	2,190,700	1,699,452
Office equipment	1,626,143	1,526,109
Vehicles	141,092	141,092
Leasehold improvements	5,321,678	5,263,751
Construction in progress	258,234	280,898
	<u>18,361,945</u>	<u>14,596,947</u>
Less accumulated depreciation	4,184,225	3,302,283
Net property and equipment	<u>14,177,720</u>	<u>11,294,664</u>
Other non-current assets:		
Unconditional promises to give, long-term, net of discount	534,074	651,339
Other asset	1,911	1,911
Total other non-current assets	<u>535,985</u>	<u>653,250</u>
 Total assets	 <u>\$ 26,780,879</u>	 <u>\$ 24,736,698</u>

## LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
<b>Current liabilities:</b>		
Accounts payable	\$ 335,665	\$ 187,919
Accrued payroll	717,359	576,578
Retirement plan payable	220,346	155,204
Deferred grant revenue	1,031,902	1,639,320
Deferred patient revenue	302,923	244,643
Compensated absences	404,566	352,497
	<u>3,012,761</u>	<u>3,156,161</u>
Total current liabilities		
<b>Net assets:</b>		
Without donor restrictions	23,661,732	20,667,105
With donor restrictions	106,386	913,432
	<u>23,768,118</u>	<u>21,580,537</u>
Total net assets		
	<u>\$ 26,780,879</u>	<u>\$ 24,736,698</u>
Total liabilities and net assets		

The accompanying notes are an integral part of these consolidated financial statements.

**GRACEMED HEALTH CLINIC, INC.**

CONSOLIDATED STATEMENTS OF ACTIVITIES

December 31, 2018 and 2017

	<b>2018</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
<b>Support, revenues, and reclassifications:</b>			
Contributions	\$ 538,212	\$ 2,273,882	\$ 2,812,094
Grants	7,374,618	--	7,374,618
Net patient service revenue - third party	13,377,685	--	13,377,685
Net patient service revenue - patients	2,460,785	--	2,460,785
Other program revenue	21,250	--	21,250
Donated services, equipment and facilities	961,283	--	961,283
Miscellaneous income	50,398	--	50,398
Investment return, net	(81,062)	--	(81,062)
Gain (loss) on sale of assets	473	--	473
Net asset released from restrictions	3,080,928	(3,080,928)	--
Total support, revenue, and reclassifications	<u>27,784,570</u>	<u>(807,046)</u>	<u>26,977,524</u>
<b>Expenses:</b>			
Program services	20,236,094	--	20,236,094
Management and general expenses	4,246,241	--	4,246,241
Fundraising	307,608	--	307,608
Total expenses	<u>24,789,943</u>	<u>--</u>	<u>24,789,943</u>
Change in net assets	<u>2,994,627</u>	<u>(807,046)</u>	<u>2,187,581</u>
Net assets, beginning of year	<u>20,667,105</u>	<u>913,432</u>	<u>21,580,537</u>
Net assets, end of year	<u>\$ 23,661,732</u>	<u>\$ 106,386</u>	<u>\$ 23,768,118</u>

	2017		
	Without donor restrictions	With donor restrictions	Total
<b>Support, revenues, and reclassifications:</b>			
Contributions	\$ 2,636,323	\$ 1,519,658	\$ 4,155,981
Grants	6,998,717	--	6,998,717
Net patient service revenue - third party	10,784,166	--	10,784,166
Net patient service revenue - patients	2,263,471	--	2,263,471
Other program revenue	165,750	--	165,750
Donated services, equipment and facilities	904,502	--	904,502
Miscellaneous income	40,705	--	40,705
Investment return, net	150,750	--	150,750
Gain (loss) on sale of assets	(47,024)	--	(47,024)
Net asset released from restrictions	1,004,371	(1,004,371)	--
Total support, revenue, and reclassifications	<u>24,901,731</u>	<u>515,287</u>	<u>25,417,018</u>
<b>Expenses:</b>			
Program services	17,057,105	--	17,057,105
Management and general expenses	3,866,472	--	3,866,472
Fundraising	187,392	--	187,392
Total expenses	<u>21,110,969</u>	<u>--</u>	<u>21,110,969</u>
Change in net assets	<u>3,790,762</u>	<u>515,287</u>	<u>4,306,049</u>
Net assets, beginning of year	<u>16,876,343</u>	<u>398,145</u>	<u>17,274,488</u>
Net assets, end of year	<u>\$ 20,667,105</u>	<u>\$ 913,432</u>	<u>\$ 21,580,537</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GRACEMED HEALTH CLINIC, INC.**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 2,187,581	\$ 4,306,049
Adjustments to reconcile change in net assets to cash flow from operating activities:		
Depreciation	882,165	745,436
Restricted contributions	(2,069,914)	(1,565,372)
(Gain) Loss on sale of assets	(473)	47,024
Unrealized holding (gain) loss on investments	215,882	(104,387)
Change in operating assets and liabilities:		
Accounts receivable	(288,946)	(150,798)
Contributions receivable	177,407	(137,671)
Inventory	8,928	(3,953)
Prepaid expenses	(27,067)	(3,164)
Other asset	--	(137)
Accounts payable and accrued liabilities	405,738	(34,717)
Long-term note payable	--	(750,000)
Deferred revenue	(549,138)	(603,579)
<b>Net cash flow from operating activities</b>	<b>942,163</b>	<b>1,744,731</b>
Cash flows from investing activities:		
Purchase of property and equipment	(3,767,664)	(1,229,577)
Proceeds from sale of property and equipment	2,916	1,750
Purchase of investments/earnings reinvested	(3,722,136)	(2,028,532)
Proceeds from sale of certificate of deposit	673,034	(3,317,100)
Proceeds from sale of investments	1,534,310	89,949
<b>Net cash flow from investing activities</b>	<b>(5,279,540)</b>	<b>(6,483,510)</b>
Cash flows from financing activities:		
Contributions restricted for capital purchases	2,069,914	1,565,372
<b>Net cash flow from financing activities</b>	<b>2,069,914</b>	<b>1,565,372</b>
<b>Net change in cash and cash equivalents</b>	<b>(2,267,463)</b>	<b>(3,173,407)</b>
Cash and cash equivalents, beginning of year	<b>5,599,465</b>	<b>8,772,872</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,332,002</b>	<b>\$ 5,599,465</b>

The accompanying notes are an integral part of these consolidated financial statements.

**GRACEMED HEALTH CLINIC, INC.**

**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**

Years Ended December 31, 2018 and 2017

	<b>2018</b>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<b>Salaries and related expenses</b>				
Salaries and payroll taxes	\$ 12,651,125	\$ 2,874,772	\$ 257,372	\$ 15,783,269
Retirement expense	170,540	27,466	2,817	200,823
Health insurance	<u>1,025,375</u>	<u>203,401</u>	<u>13,941</u>	<u>1,242,717</u>
 Total salaries and related expenses	 <u>13,847,040</u>	 <u>3,105,639</u>	 <u>274,130</u>	 <u>17,226,809</u>
 <b>Other expenses</b>				
Professional and contract services	719,925	22,005	--	741,930
Supplies	2,361,141	6,072	--	2,367,213
Building and equipment rent	569,351	68,545	--	637,896
Repairs	702,803	42,472	--	745,275
Insurance	2,024	51,413	--	53,437
Utilities	308,578	43,650	--	352,228
Consulting and computer expense	622,477	153,694	--	776,171
Continuing education	99,427	13,440	--	112,867
Office supplies and postage	123,171	74,624	152	197,947
Dues and subscriptions	11,241	9,015	--	20,256
Professional services and accounting	--	93,416	--	93,416
Staff recruiting	44,182	13,089	--	57,271
Advertising	3,335	182,201	393	185,929
Travel and meals	47,775	91,449	--	139,224
Miscellaneous	25,059	141,917	32,933	199,909
Depreciation	<u>748,565</u>	<u>133,600</u>	<u>--</u>	<u>882,165</u>
 Total other expenses	 <u>6,389,054</u>	 <u>1,140,602</u>	 <u>33,478</u>	 <u>7,563,134</u>
 Total expenses	 <u>\$ 20,236,094</u>	 <u>\$ 4,246,241</u>	 <u>\$ 307,608</u>	 <u>\$ 24,789,943</u>

	2017			
	Program Services	Management and General	Fundraising	Total
<b>Salaries and related expenses</b>				
Salaries and payroll taxes	\$ 10,686,379	\$ 2,671,561	\$ 147,486	\$ 13,505,426
Retirement expense	114,757	20,341	305	135,403
Health insurance	764,355	169,556	7,440	941,351
 Total salaries and related expenses	 <u>11,565,491</u>	 <u>2,861,458</u>	 <u>155,231</u>	 <u>14,582,180</u>
<b>Other expenses</b>				
Professional and contract services	562,099	17,245	--	579,344
Supplies	2,042,418	4,534	--	2,046,952
Building and equipment rent	582,200	84,248	--	666,448
Repairs	423,591	48,359	--	471,950
Insurance	1,794	47,547	--	49,341
Utilities	376,738	52,342	--	429,080
Consulting and computer expense	558,327	119,886	--	678,213
Continuing education	93,510	10,685	--	104,195
Office supplies and postage	127,774	86,081	45	213,900
Dues and subscriptions	6,224	7,975	--	14,199
Professional services and accounting	--	147,479	--	147,479
Staff recruiting	45,823	9,278	--	55,101
Advertising	3,467	91,594	720	95,781
Travel and meals	16,110	63,209	--	79,319
Interest	--	5,311	--	5,311
Miscellaneous	17,436	97,908	31,396	146,740
Depreciation	634,103	111,333	--	745,436
 Total other expenses	 <u>5,491,614</u>	 <u>1,005,014</u>	 <u>32,161</u>	 <u>6,528,789</u>
 Total expenses	 <u>\$ 17,057,105</u>	 <u>\$ 3,866,472</u>	 <u>\$ 187,392</u>	 <u>\$ 21,110,969</u>

The accompanying notes are an integral  
part of these consolidated financial statements.

## GRACEMED HEALTH CLINIC, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - GraceMed Health Clinic, Inc. (Clinic) was incorporated in 1994 as a not-for-profit corporation under the laws of the State of Kansas. The Clinic provides medical, dental, integrated behavioral health and 340B pharmacy services to low income individuals through 12 clinics in Wichita, Kansas, 2 clinics in Topeka, Kansas, 1 clinic in McPherson, Kansas and 1 clinic in Clearwater, Kansas.

Principles of Consolidation - The consolidated financial statements include the accounts of GraceMed Health Clinic, Inc. and GraceMed Foundation, Inc.

The GraceMed Foundation, Inc. was formed for the following purpose: a) to promote health and well-being of people through development, promotion, improvement, and support of all forms of healthcare services and the means for delivery of such services, b) to support health-related education and research, c) to promote such other charitable and educational endeavors as may be permitted under section 501(c)(3) of the Internal Revenue Code, d) solicit and receive gifts, contributions, grants, and other financial support, including both funds and property, and e) to hold, invest, reinvest, exchange, and otherwise manage and administer such funds and property. The sole member of the Foundation is GraceMed Health Clinic, Inc.

Financial Statement Presentation - The Clinic prepares its financial statements using the accrual basis of accounting and reports net assets and changes in net assets in two classes based upon the existence or absence of restrictions on use placed by its donors: net assets with donor restrictions and net assets without donor restrictions. Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash equivalents include all highly liquid investment instruments with original maturities of three months or less.

The Clinic maintains cash balances that are covered by FDIC insurance; cash balances may occasionally be in excess of the \$250,000 FDIC insurance limits.

Investments - Investments are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income or loss is included in the increase in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Accounts Receivable - Accounts receivable consist primarily of fees owed by patients and third-party payers. Fees for services provided are charged at full rates, though are settled for amounts less than the full rates as a result of sliding scale fee adjustments for charity care patients, and contractual adjustments made upon subsequent payment by third-party payers. Estimated allowances for these adjustments are recorded in the net accounts receivable amounts on the statements of financial position. The allowance method is used to recognize potentially uncollectible accounts receivable, and is determined by management based on the Clinic's past collection experience, and collections received subsequent to year-end.

## GRACEMED HEALTH CLINIC, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A receivable is considered to be past due if any portion of the receivable balance is more than 30 days old. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Promises to Give - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of expected future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. No allowance for uncollectible accounts has been established for promises to give, since management deems them fully collectible.

Inventory - Inventory consists of medical supplies on hand. Inventory is valued at original cost, based on a first-in, first-out method.

Property and Equipment - The Clinic capitalizes property and equipment over \$3,000 which is carried at cost. Donated property assets are measured at fair value at the date of donation with a corresponding recognition of in-kind contribution revenue. If donors stipulate how long the assets must be used, the contributions are recorded as contributions with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as contributions without donor restrictions. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. The cost of maintenance and repairs is charged to operations as incurred; significant renewals or betterments are capitalized. Deductions are made for retirements resulting from renewals or betterments. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of any asset may not be recoverable.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years. Depreciation expense for the years ended December 31, 2018 and 2017 was \$882,165 and \$745,436, respectively.

#### Revenue Recognition -

*Patient Service Revenue* - A substantial portion of the Clinic's revenue is from service recipients and third-party payers, including Medicare and Medicaid. The Clinic provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Additionally, the Clinic has agreements with third-party payers that provide for payments to the Clinic 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, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Such agreements are extremely complex and subject to interpretation.

## GRACEMED HEALTH CLINIC, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. See more discussion of Medicare and Medicaid agreements in Note 12.

*Grants* - Revenue from grants is recognized during the period the support is intended to cover. Prepayments are recorded as deferred revenue, while payments not yet received, but for which a commitment and fund availability have been established, are accrued as a receivable.

*Contributions, including Contributed Services* - Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, net assets are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the statement of activities.

Contributions of donated services are recorded at their fair value in the period received if they either a) create or enhance nonfinancial assets, 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 materials, facilities and supplies are recorded at fair value at the date of donation.

Income Taxes - The Clinic is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described in IRC Section 501(c)(3). Further, the Clinic has been classified as an organization that is not a private foundation under IRC Section 509(a) and, as such, contributions to the Clinic qualify for deduction as charitable contributions. However, income generated from activities unrelated to the Clinic's tax exempt purpose is subject to tax under IRC Section 511. The Clinic did not have any material unrelated business income tax liability for the years ended December 31, 2018 and 2017.

The Clinic follows accounting requirements related to uncertain tax positions. Tax positions taken may include positions that the Clinic is exempt from income taxes or be related to how the Clinic determines its unrelated business income. The Clinic recognizes the financial statement effects of a tax position only when it believes it can more likely than not sustain the position upon an examination by the relevant tax authority.

Functional Allocation of Expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied. Salaries and benefits are allocated based on the roles and responsibilities of certain employees.

# GRACEMED HEALTH CLINIC, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rent, utilities, depreciation, and other expenses associated with occupancy are allocated based on a pro-rata basis, based on the percentage of square footage occupied.

Advertising - The Clinic expenses advertising costs as they are incurred. Advertising expenses for the years ended December 31, 2018 and 2017 were \$185,929, and \$95,781, respectively.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates.

Implementation of New Accounting Standards - Effective January 1, 2018, the Clinic implemented FASB ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The purpose of the standard was to improve consistency of presentation and the nature of qualitative information presented in the financial statements and notes about the liquidity and financial performance of not-for-profit entities.

Subsequent Events - Subsequent events have been evaluated through July 19, 2019, which is the date the financial statements were available to be issued.

### 2. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2018 and 2017, consisted of the following:

	2018	2017
Patient accounts receivable, net	\$ 76,092	\$ 56,566
Due from third-party payers	783,991	514,571
	<u>\$ 860,083</u>	<u>\$ 571,137</u>

The allowance for doubtful accounts is based on subsequent collections after year end. The allowance for doubtful accounts was \$144,937 and \$133,520 at December 31, 2018 and 2017, respectively.

## GRACEMED HEALTH CLINIC, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 3. PROMISES TO GIVE

Unconditional promises to give at December 31 are as follows:

	2018	2017
Receivable in less than one year	\$ 376,955	\$ 437,097
Receivable in one to five years	594,400	729,400
Total unconditional promises to give	<u>971,355</u>	<u>1,166,497</u>
Less discount	<u>(60,326)</u>	<u>(78,061)</u>
Total unconditional promises to give, net	<u>\$ 911,029</u>	<u>\$ 1,088,436</u>

Long-term promises to give have been discounted using a 4% rate.

#### 4. INVESTMENTS

Investments include the following at December 31:

	2018	2017
Fixed income	\$ 199,826	\$ 176,834
Mutual funds	2,289,089	435,804
Exchange traded funds	322,566	108,709
Domestic stocks	1,060,154	1,313,073
Money market	19,522	20,386
Other	135,593	--
	<u>\$ 4,026,750</u>	<u>\$ 2,054,806</u>

Investment income (loss) consists of the following for the year ended December 31:

	2018	2017
Unrealized gain (loss)	\$ (226,601)	\$ 101,016
Realized gain (loss)	(57,983)	3,371
Dividend and Interest income	<u>203,522</u>	<u>46,363</u>
	<u>\$ (81,062)</u>	<u>\$ 150,750</u>

#### 5. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles provide guidance which defines fair value, establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement, and enhances disclosures about fair value measurements.

**GRACEMED HEALTH CLINIC, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**5. FAIR VALUE MEASUREMENTS (CONTINUED)**

This guidance enables the reader of the consolidated financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

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

*Level 2 Inputs* - Observable market based inputs or unobservable inputs that are corroborated by market data.

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value with Level 2 inputs, including the general classification of such instruments pursuant to the valuation hierarchy. The following table sets forth the Clinic's financial assets that were measured at fair value on a recurring basis as of December 31, 2018 and 2017.

	2018 Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Fixed income	\$ 199,826	\$ --	\$ --	\$ 199,826
Mutual funds	2,289,089	--	--	2,289,089
Exchange traded funds	322,566	--	--	322,566
Domestic stocks	1,060,154	--	--	1,060,154
Money market	--	19,522	--	19,522
Other	135,593	--	--	135,593
	<u>\$ 4,007,228</u>	<u>\$ 19,522</u>	<u>\$ --</u>	<u>\$ 4,026,750</u>

	2017 Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total Fair Value
Fixed income	\$ 176,834	\$ --	\$ --	\$ 176,834
Mutual funds	435,804	--	--	435,804
Exchange traded funds	108,709	--	--	108,709
Domestic stocks	1,313,073	--	--	1,313,073
Money market	--	20,386	--	20,386
	<u>\$ 2,034,420</u>	<u>\$ 20,386</u>	<u>\$ --</u>	<u>\$ 2,054,806</u>

**GRACEMED HEALTH CLINIC, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**6. REVOLVING LINE-OF-CREDIT**

The Clinic has a \$750,000 revolving line-of-credit with a local bank. During 2018 the Clinics borrowing authority increased from \$600,00 to \$750,00. The line bears interest at 5.25% and expires on December 23, 2019. At December 31, 2018 and 2017, \$750,000 and \$600,000, was available for borrowing, respectively. The line of credit is collateralized by inventory, accounts receivables and equipment.

**7. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES**

The following reflects GraceMed Health Clinic's financial assets as of December 31, 2018 and 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	2018	2017
Cash	\$ 3,332,002	\$ 5,599,465
Certificates of deposit	3,394,066	4,067,100
Investments	4,026,750	2,054,806
Accounts receivable:		
Patients, net of allowance	76,092	56,566
Due from third-party payers	783,991	514,571
Unconditional promises to give, net of discount	911,029	1,088,436
Total financial assets	<u>12,523,930</u>	<u>13,380,944</u>
Less amounts unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Deferred grant revenue	1,031,902	1,639,320
Deferred patient revenue	302,923	244,673
Other donor restrictions	106,386	913,432
Long-term promises to give, net of discount	<u>534,074</u>	<u>651,339</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,548,645</u>	<u>\$ 9,932,180</u>

The clinic manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance of long-term stability. The clinic has a policy to maintain at least 20 work days of operating expenses available for immediate use and to have current financial assets less current liabilities at a minimum of 45 work days. To achieve these targets the entity forecasts its future cash flows and monitors this quarterly. The clinic also maintains a revolving line of credit, as disclosed in Note 6, to meet short-term cash needs if needed.

**GRACEMED HEALTH CLINIC, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**8. CLINIC LEASES, INCLUDING CAPITAL LEASES**

The Clinic has entered into capital lease obligations for certain clinic locations. The capital leases are with unified school districts in which the clinics are located as of December 31, 2018. Lease terms include a one-time up-front payment on the lease, in an amount sufficient to reimburse the school district for its costs to construct the leased premises. The original term of the leases is ten years, with renewal options for four successive terms of ten years each. A summary of the leases is as follows:

<u>Clinic Location</u>	<u>Lease Payment</u>	<u>Capitalized Value</u>	<u>Lease Initiated</u>
Gordon Parks Elementary	\$ 532,800	\$ 532,800	January 31, 2008
Dodge Elementary	768,160	900,258	January 31, 2013
Cloud Elementary	280,235	357,037	October 1, 2013
Gardiner Elementary	310,785	364,327	October 1, 2013
Jardine Technology Magnet	295,000	366,636	May 19, 2014
Oaklawn Elementary	218,642	221,317	July 14, 2014
West High School	429,600	487,394	November 19, 2014

The entire cost of each lease has been capitalized with leasehold improvements, and is being depreciated over fifty years. Depreciation expense was \$67,424 and \$67,424 for 2018 and 2017, respectively. Accumulated depreciation for the capital leases was \$324,266 and \$256,842 at December 31, 2018 and 2017, respectively.

**9. OPERATING LEASES**

The Clinic leases office equipment from various lessors that expire through 2024. Total lease expense for the years ended December 31, 2018 and 2017 was \$637,896 and \$666,448, respectively.

In addition, the Clinic has operating leases for clinic locations from various lessors that are classified as operating leases.

Scheduled minimum lease payments for the above operating leases, in effect as of December 31, 2018, are as follows:

<u>Year Ending December 31,</u>	<u>Equipment Leases</u>	<u>Clinic Facility Leases</u>
2019	\$ 68,232	\$ 392,305
2020	68,232	373,660
2021	68,232	241,390
2022	68,232	73,329
2023	35,373	41,130
Thereafter	314	--
Total	<u>\$ 308,615</u>	<u>\$ 1,121,814</u>

**GRACEMED HEALTH CLINIC, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**10. DEFERRED REVENUE**

At year-end, the following grant revenue was unearned as follows:

	<u>2018</u>	<u>2017</u>
Riverside Foundation	\$ --	\$ 18,238
Topeka Community Foundation	2,471	2,471
Topeka Community Fnd. Vouchers	--	28,128
Spirit Good Neighbor Oral Outreach	1,204	--
Blanche Bryden Fnd.	3,947	--
Shawnee County - Building	750,000	1,125,000
Shawnee County - Reserves	272,000	408,000
KDHE Primary Care Sedgwick	--	(2,665)
KDHE Primary Care Shawnee	--	(828)
Pathway Church	11	76
United Way McPherson	622	--
McPherson Community Foundation	1,647	3,000
Kansas Health Foundation	--	47,900
Lattner Family Foundation	--	10,000
	<u>\$ 1,031,902</u>	<u>\$ 1,639,320</u>

**11. NET ASSETS AND CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS**

The Clinic has net assets with donor restrictions for specific purposes or periods as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purposes:		
Race	\$ 77,814	\$ 47,220
Employee assistance	6,906	--
Indigent restrictions	--	789
Guild virtual chili feed	4,865	8,185
Guild MP	435	435
Guild SH	320	220
Guild IT van	6,000	--
Toothbrushes	--	5,000
BCBS uninsured	--	1,555
IT van	1,044	--
Heartcakes	9,002	--
Subject to the passage of time:		
Contributions receivable	--	850,028
	<u>                    </u>	<u>                    </u>
Total net assets with donor restrictions	<u>\$ 106,386</u>	<u>\$ 913,432</u>

**GRACEMED HEALTH CLINIC, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**11. NET ASSETS AND CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS  
(CONTINUED)**

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

	<u>2018</u>	<u>2017</u>
Program restrictions accomplished:		
Capital campaign	\$ --	\$ 346,150
'Say Grace' race	56,956	72,531
Guild virtual chili feed	12,265	6,526
Guild toothbrush	5,000	--
Indigent	789	--
Wellspring	2,919,942	577,238
BCBS uninsured	1,555	1,445
Hotcakes	18,635	--
Employee assistance	12,786	--
IT van	1	--
Safeway	52,000	--
Heartcakes	999	--
Auto	--	481
	<u>\$ 3,080,928</u>	<u>\$ 1,004,371</u>

**12. MEDICARE AND MEDICAID**

The Clinic has agreements with third-party payers that provide for payments to the Clinic at amounts different from its established rates. These payment arrangements include the following:

Medicare - Covered services rendered to Medicare program beneficiaries are paid based on a prospective payment reimbursement methodology. The Clinic is paid the lower of the amount of the allowable charge submitted or the prospective payment rate. The Clinic is reimbursed or has to pay back funds for vaccines through the submission of an annual cost report and audit thereof by the Medicare fiscal intermediary. They are also reimbursed for qualifying bad debts through this process.

Medicaid - Services rendered to Medicaid program beneficiaries are paid based on a combination of prospective payment and cost reimbursement methodologies. Effective January 1, 2014 with the implementation of the KanCare program to manage Medicaid, the reimbursement rate for a three year period was established based on prior cost reports submitted by the clinic and approved by the Medicaid fiscal intermediary with annual increases. If costs are higher than that rate an adjustment can be requested, however the rate will not be reduced if costs are lower than this rate. At the end of that period, based on annual cost reports, rates will be prospectively adjusted.

**GRACEMED HEALTH CLINIC, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**13. CONTINGENCIES**

The Clinic receives a significant portion of its revenues from grants. All grants are subject to audit by the federal and state governments. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

**14. CONCENTRATION OF SUPPORT**

Approximately 63% and 63% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. These percentages are adjusted for the effects of the additional items listed in Note 12.

**15. DONATED SERVICES, EQUIPMENT AND FACILITIES**

For December 31, 2018 and 2017, the volunteer staff included one doctor whose services were valued at \$3,306 and \$3,222, respectively. For 2018 and 2017, contributed supplies and materials were \$888,921 and \$827,868, respectively, and the value of donated facilities was \$69,056 and \$73,412, respectively.

**16. RETIREMENT PLAN**

The Clinic has a 403(b) retirement plan covering all employees meeting the eligibility standards of the plan. The plan has provided for employer matching contributions based on employee deferrals. Retirement plan matching expense for the years ended December 31, 2018 and 2017 was \$200,823 and \$135,403, respectively.

**17. COMMITMENTS**

The Clinic's board of directors has approved a capital campaign designed to raise \$1.7 million of funds for the remodel of a new administration center.

## GRACEMED HEALTH CLINIC, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 18. ACCOUNTING STANDARDS NOT YET ADOPTED

*Revenue from Contracts with Customers* supersedes nearly all existing revenue recognition guidance under U.S. accounting principles. The core principle of the new standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. The new accounting standard defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. accounting principles. The standard is first effective for the Clinic with its 2019 year. The Clinic does not expect the standard will have a material impact on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides clarification on how entities will determine whether to account for a transaction as an exchange transaction as a contribution and whether a contribution is conditional. Distinguishing between contributions and exchange transactions determines which guidance is applied. For contributions, an entity should follow the guidance in Subtopic 958-605, whereas for exchange transactions, an entity should follow other guidance (for example, Topic 606, *Revenue from Contracts with Customers*). Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. The standard is first effective for the Clinic with its 2019 year. The Clinic does not expect the standard will have a material impact on the consolidated financial statements.

The FASB issued a new accounting standard, *Leases*, which will eliminate the concept of operating leases and include substantial changes for accounting by lessees; existing operating leases and all new leases, unless immaterial, will require balance sheet recognition (right to use asset and lease liability). The standard is expected to be effective for the Clinic with its 2020 year. The Clinic is evaluating the potential effects on the consolidated financial statements.

*Financial Instruments - Credit Losses*, (also known as CECL) requires the measurement of expected credit losses (allowance for doubtful accounts) be based on historical experience, current conditions, and reasonable and supportable forecasts that affect collectability of reported amounts. The standard is first effective for the Clinic with its 2022 year. The Clinic is evaluating the potential effects on the consolidated financial statements.

#### 19. CLINIC ACQUISITION

On July 1, 2016, the Clinic took over operation of the medical services of the Shawnee County Community Health Center, expanding operations into Topeka, Kansas. This acquisition includes the operation of two clinic locations. Shawnee County provided tax allocation funding to the Clinic of \$1,400,000 and \$1,800,000 for the years ended December 31, 2018 and 2017, respectively. Shawnee County will also provide \$1,800,000 of tax allocation funding over the next three years similar to what Shawnee County was providing the Shawnee County Community Health Center, to help support operations. This was recorded with contributions on the statement of activities.

INDEPENDENT AUDITOR'S 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*

Board of Directors  
**GraceMed Health Clinic, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of GraceMed Health Clinic, Inc., which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 19, 2019.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether GraceMed Health Clinic, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

July 19, 2019  
Wichita, Kansas

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors  
**GraceMed Health Clinic, Inc.**

**Report on Compliance for Each Major Federal Program**

We have audited GraceMed Health Clinic, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of GraceMed Health Clinic, Inc.'s major federal programs for the year ended December 31, 2018. GraceMed Health Clinic, Inc.'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 the federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of GraceMed Health Clinic, Inc.'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 GraceMed Health Clinic, Inc.'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 GraceMed Health Clinic, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, GraceMed Health Clinic, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

## Report on Internal Control Over Compliance

Management of GraceMed Health Clinic, Inc. 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 GraceMed Health Clinic, Inc.'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 GraceMed Health Clinic, Inc.'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.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

July 19, 2019  
Wichita, Kansas

GRACEMED HEALTH CLINIC, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?
Significant deficiencies identified?
Noncompliance material to financial statements noted?

FEDERAL AWARDS

Internal control over major programs:

- Material weaknesses identified?
Significant deficiencies identified?

Type of auditor's report issued on compliance for major federal programs:

See below

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes X No

Major federal programs, and type of auditor's report issued on compliance for major federal programs:

Table with 3 columns: CFDA Number, NAME OF FEDERAL PROGRAM, OPINION. Row 1: 93.224 / 93.527, Health Center Cluster, Unmodified

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X Yes No

**GRACEMED HEALTH CLINIC, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2018  
(CONTINUED)

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SECTION II - FINANCIAL STATEMENT FINDINGS

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None were reported.

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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None were reported.

**GRACEMED HEALTH CLINIC, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2018

<u>Federal Grantor \ Pass-Through Grantor \ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
<i>Health Centers Cluster:</i>			
Passed through Health Resources and Services Administration:			
Consolidated Health Centers and Navigator Project	93.224 / 93.527	H80CS08772	\$ 5,359,265
Health Infrastructure Investment Program	93.527	C8DCS29666	<u>1,000,000</u>
Total Health Centers Cluster			<u>6,359,265</u>
Total Expenditures of Federal Awards			<u>\$ 6,359,265</u>

The accompanying notes are an integral part of this schedule.

**GRACEMED HEALTH CLINIC, INC.**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of GraceMed Health Clinic, Inc. (Clinic) under programs of the federal government for the year ended December 31, 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 Clinic, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Clinic.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 Clinic has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.