Audited Financial Statements

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services

For the Years Ended June 30, 2021 and 2020

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services

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CHW LLP
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Independent Auditor's Report

Board of Directors
Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Alviso, California

Report on the Financial Statements

We have audited the accompanying financial statements of Gardner Family Health Network, Inc. d/b/a Gardner Health Services (the "Organization"), which comprise the balance sheets as of June 30, 2021 and 2020 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. d/b/a Gardner Health Services as of June 30, 2021 and 2020 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.

Emphasis of Matter
As discussed in Note 2, the Organization adopted Accounting Standards Update ("ASU") ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, for the year ended June 30, 2021. Our opinion is not modified with respect to this matter.

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 December 9, 2021 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.

CHW, LLP

Fresno, California
December 9, 2021

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Balance Sheet
June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	$ 14,578,303	$ 9,206,228
Investments	393,594	112,582
Patient accounts receivable, net	1,897,689	1,544,534
Grant, contract, and other receivables	6,431,418	6,535,026
Inventory	367,243	305,390
Prepaid expenses, deposits, & other current assets	545,463	597,961
Total current assets	24,213,710	18,301,721
Estimated third-party payor settlements	7,180,013	6,526,886
Property and equipment, net	10,636,255	11,606,644
Total assets	$ 42,029,978	$ 36,435,251
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and other accrued expenses	$ 1,637,470	$ 1,302,668
Accrued payroll and related liabilities	7,388,335	4,602,180
Accruals for self-insurance	1,769,321	2,079,650
Deferred revenue	5,308	26,185
Estimated third-party payor settlements	338,786	708,807
Long-term debt, current portion	192,406	184,795
Total current liabilities	11,331,626	8,904,285
Long-term liabilities:		
Long-term lease incentive	1,127,750	1,201,380
Estimated third party payor settlements	1,391,930	1,391,930
Long-term debt, net of current portion	6,827,577	8,908,080
Total long-term liabilities	9,347,257	11,501,390
Total liabilities	20,678,883	20,405,675
Net assets:		
Net assets without donor restrictions	20,504,387	15,951,763
Net assets with donor restrictions	846,708	77,813
Total net assets	21,351,095	16,029,576
Total liabilities and net assets	$ 42,029,978	$ 36,435,251

See accompanying Notes to the Financial Statements

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Statement of Operations and Changes in Net Assets
For the years ended June 30, 2021 and 2020

	2021	2020
Change in net assets without donor restrictions:		
Revenues and other support:		
Patient service revenue, net	$ 22,049,569	$ 22,404,282
Capitation revenue	462,346	896,004
Grant and contract revenue	44,816,133	44,785,360
Contribution revenue	3,258,656	767,415
Other revenue	2,399,512	324,572
Net assets released from restrictions	169,257	147,404
Total unrestricted revenue and other support	73,155,473	69,325,037
Expenses:		
Salaries and wages	40,611,564	39,858,452
Employee benefits	11,708,639	13,488,571
Contract services	2,024,625	1,470,678
Professional fees	1,988,261	1,832,245
Supplies	2,387,341	2,003,869
Travel, training, conference & meetings	422,275	571,244
Occupancy costs	2,862,789	3,000,557
Insurance	201,682	209,483
Depreciation and amortization	1,643,511	1,505,950
Interest	307,421	270,917
Printing	61,325	84,498
IT costs	1,307,366	930,497
Communications	495,667	445,369
Minor equipment costs	641,021	535,460
Membership & subscription	144,369	134,144
Postage & shipping	51,729	75,537
Banking, taxes, fees & penalties	81,035	82,798
Family & client assistance	947,081	963,400
Fund development	7,790	66,286
Other expenses	707,358	476,261
Total expenses	68,602,849	68,006,216
Change in net assets without donor restrictions	4,552,624	1,318,821
Change in net assets with donor restrictions:		
Contributions	938,152	207,935
Net assets released from donor restriction	(169,257)	(147,404)
Change in net assets with donor restrictions	768,895	60,531
Change in net assets	5,321,519	1,379,352
Net Assets:		
Beginning of year	16,029,576	14,650,224
End of year	$ 21,351,095	$ 16,029,576

See accompanying Notes to the Financial Statements

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Statement of Cash Flows
For the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 5,321,519	$ 1,379,352
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,643,511	1,505,950
Donated supplies / services	(1,152)	(17,684)
Forgiveness of debt	(1,900,000)	(1,297,151)
Changes in operating assets and liabilities:		
Patient accounts receivable	(353,155)	610,334
Grant, contract, and other receivable	103,608	495,762
Inventory	(60,701)	95,854
Prepaid expenses, deposits, & other current assets	52,498	362,304
Estimated third-party payer settlements	(1,023,148)	(3,138,522)
Accounts payable and other accrued expenses	334,802	(363,122)
Accrued payroll and related liabilities	2,786,155	940,067
Accruals for self-insurance	(310,329)	792,065
Deferred revenue	(20,877)	(62,464)
Net cash provided by operating activities	6,572,731	1,302,745
Cash flows from investing activities:		
Purchase of investments	(281,012)	(80,466)
Purchase of property and equipment	(673,122)	(1,713,422)
Net cash used in investing activities	(954,134)	(1,793,888)
Cash flows from financing activities:		
Change in long-term lease incentives	(73,630)	(52,342)
Proceeds from new debt	-	4,505,000
Principal payments on long-term debt	(172,892)	(1,671,014)
Net cash provided by (used in) financing activities	(246,522)	2,781,644
Net increase in cash and cash equivalents	5,372,075	2,290,501
Cash and cash equivalents at beginning of year:	9,206,228	6,915,727
Cash and cash equivalents at end of year:	$ 14,578,303	$ 9,206,228
Supplemental disclosure of cash flow information:		
Interest paid	$ 307,421	$ 270,917
In-kind contributions	$ 395,031	$ 17,684
Forgiveness of debt	$ 1,900,000	$ 1,297,151

See accompanying Notes to the Financial Statements

Note 1: Organization and Operations

Gardner Family Health Network, Inc. d/b/a Gardner Health Services (the "Organization") was founded in 1967 as a California nonprofit corporation, located in the Alviso District of San Jose. The Organization provides primary health and behavior-social care services to medically under-served residents of Santa Clara and San Mateo Counties.

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:

- Primary Care Program (general and internal medicine, pediatrics, nutrition, pharmacies, health education, and integrated behavioral health services).
- Specialty Services (OB/GYN and podiatry)
- Ancillary Services (Dental, Optometry, Chiropractic)
- Health Care for the Homeless Program
- First 5 Program
- Behavior Health Programs (Gardner Centro De Bienestar)
- Women, Infants, and Children (WIC) Program
- Proyecto Primavera Programs
    - Pre-Trial Diversion
    - Drinking Driver Program

These programs are provided at the seven health center 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, Gardner Specialty Services Center, and other sites in Santa Clara and San Mateo counties.

Note 2: 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 on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

<u>Net assets without donor restrictions:</u> Net assets are those currently available for use and are not subject to donor-imposed stipulations.

<u>Net assets with donor restrictions</u>: Contributions, including government grants and contracts, are recorded as donor restricted if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restrictions ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue.

Note 2: Significant Accounting Policies (Continued)

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 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, 2021.

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, 2021 and 2020 the carrying amount of all the accounts, net of outstanding checks, was $14,578,303 and $9,206,228 respectively. Per the various financial institutions as of June 30, 2021 and 2020, approximately $1,000,000 and $750,000 was covered by federal depository insurance respectively.

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

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

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

Note 2: 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 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.

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 $1,152 and $17,684 for the year ended June 30, 2021 and 2020 respectively.

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 statement of financial position date and an actuarial review of historical claim experience.

Note 2: Significant Accounting Policies (Continued)

Workers' Compensation Insurance:
The Organization is insured for workers' compensation claims under an occurrence policy, with no 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 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 financial statements are adequate to cover such claims. There are no accrued worker's compensation claims at June 30, 2021. There are no insurance recovery receivables recorded at June 30, 2021.

Grant 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 in the period when expenditures have been incurred in compliance with the grantor's restrictions. Other grants and contributions that have been awarded for a specified purpose but have not yet been spent are recognized as net assets with donor restrictions. When the services have been rendered, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations 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.

Note 2: Significant Accounting Policies (Continued)

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

The Organization provides medical, dental, optometry, chiropractic, mental health, health education and enabling services to eligible patients at a discounted rate or for a nominal fee, based on eligibility determined by the patient's household size and income.

The Organization has agreements with Santa Clara and San Mateo Counties to provide a comprehensive range of professional health care and social services. Under the agreements, the Organization received monthly capitation payments based on the number of participants, regardless of the services actually performed by the Organization. Capitation payments are recognized as capitation revenue during the period in which the Organization is obligated to provide services to participants. The Organization also receives interim payments from the Medi-Cal program. These payments are reconciled on an annual basis to insure the Organization ultimately receives the established Medi-Cal payment rate for all visits under these contracts.

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 530 employees. A concentration of labor supply in employees working under union collective bargaining agreements represents approximately 61 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 operations and in the footnote 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.

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, 2021 and 2020:

	2021	2020
Donated occupancy	$ 284,408	$ -
Donated advertising	109,471	-
Donated supplies	1,152	17,684
Total	$ 395,031	$ 17,684

During the fiscal year, the Organization received 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 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.

Subsequent Events:
The Organization has evaluated subsequent events through December 9, 2021, which is the date the financial statements were available to be issued.

Note 2: Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncement:
In May 2014, the FASB issued Accounting Standards Update "ASU" No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfied a performance obligation. In August 2015, the FASB issued ASU No. 2015-14, Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance in ASU 2014-09, while retaining the related principles for those areas. In May 2016, the FASB issued ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, which provides narrow scope improvements and practical expedients to ASU 2014-09.

The Organization adopted the provisions of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 using the modified retrospective method applied to all contracts existing as of July 1, 2020. Prior to the adoption of ASU 2014-09, a significant portion of the provision and allowance for uncollectible accounts was related to uninsured patients and expected uncollectible deductibles and copayments on accounts which the third- party payor had not yet paid. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that represent a direct reduction to net patient service revenue and a corresponding reduction to patient accounts receivable. The adoption of ASU 2014-09 also implemented additional disclosure requirements.

Note 3: Investments

Investments include the following at June 30, 2021 and 2020.

	2021	2020
Money market	$ 18,898	$ 5,276
Equity funds	207,246	60,240
Fixed income funds	167,450	47,066
Total	$ 393,594	$ 112,582

Investment income is primarily comprised of interest and dividend income, which amounted to $14,098 and $31,067 for the years ended June 30, 2021 and 2020, respectively. The Organization had realized gains of $24,894 for the year ended June 30, 2021 and realized losses of $3,885 for the year ended June 30, 2020.

Note 4: Patient Service Revenue, Net

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

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

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

Effective with the adoption of ASU 2014-09 on July 1, 2020, for changes in credit issues not assessed at the date of service, such as a payor files for bankruptcy or a patient defaults on a payment plan, the Organization recognizes these write-offs as bad debt expense, which is presented on the accompanying statements of operations and changes in net assets as a component of other expenses.

The Organization is approved as a Federally Qualified Health Center ("FQHC") for both Medicare and Medi-Cal reimbursement purposes. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare: Covered 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: Covered services rendered to Medi-Cal beneficiaries are paid under a Prospective Payment System, using rates established by the Organization’s “Base Years” - fiscal years ended December 31, 2000 and 1999 cost reports filed under the previous cost-based reimbursement system. These rates are adjusted annually according to changes in the Medicare Economic Index and any approved changes in the Organization’s scope of service. The Organization is required to file a payment reconciliation report with the state. In the opinion of management, any reconciliation settlement of the payment reconciliation will not materially affect the financial statements of the Organization.

Note 4: Patient Service Revenue, Net (Continued)

Other: Payments for services rendered to those payors other than Medicare or Medi-Cal are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations which provide for various discounts from established rates.

As of June 30, the following table reflects the net patient service revenue including capitation by major payor groups:

	2021	2020
Medicare	$ 1,217,029	$ 1,357,210
Medi-Cal	17,810,244	18,137,346
Other third-party payors	768,368	707,105
Private pay	2,716,274	3,098,625
Net patient service revenue	$ 22,511,915	$ 23,300,286

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

The Organization has recorded an estimated third-party payor receivable of $7,180,013 and $6,526,886 as of June 30, 2021 and 2020, respectively, and estimated third-party payor liabilities of $1,730,716 and $2,100,737 as of June 30, 2021 and 2020, respectively. These balances comprise estimated settlements due to PPS Reconciliation Requests, Rate Setting Cost Reports, Change in Scope of Service Requests, and the County of Santa Clara's Mental Health Services. Management periodically evaluates estimated third-party payor settlements based on the current information available and believes the final settlements will not materially affect the financial statements of the Organization. Please see footnote 9 for more information on these estimated third-party payor settlements.

Note 5: 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, 2021:

		Fair Value Measurement Using		
2021	Fair Value	Level 1	Level 2	Level 3
Equity funds	$ 207,246	$ 207,246	$ -	$ -
Fixed income funds	167,450	-	167,450	-
Total	$ 374,696	$ 207,246	$ 167,450	$ -
2020	Fair Value	Level 1	Level 2	Level 3
Equity funds	$ 60,240	$ 60,240	$ -	$ -
Fixed income funds	47,066	-	47,066	-
Total	$ 107,305	$ 60,240	$ 47,066	$ -

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 6: 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.

Note 6: Concentration of Risk (Continued)

Significant concentrations of net patient accounts receivable as of June 30, 2021 and 2020 were as follows:

	2021	2020
Medi-Cal	82%	68%
Medicare	6%	9%
Other third-party payors	9%	10%
Private Pay	3%	12%
	100%	100%

For the year ended June 30, 2021 and 2020, the Organization received $10,294,258 and $8,246,970, respectively, in Community Health Organization grants from the Department of Health and Human Services, which represents 14% and 12% of the total revenue received.

Note 7: Grant, Contract, and Other Receivable

Grants and contracts receivable were comprised of the following at June 30, 2021 and 2020:

	2021	2020
County of Santa Clara	$ 5,408,391	$ 5,485,390
Federal	302,026	-
WIC	271,398	656,204
Other	421,186	272,264
Lucile Packard Children's Hospital	28,417	121,168
Total	$ 6,431,418	$ 6,535,026

Note 8: Property and Equipment

Land, building and equipment at June 30, 2021 and 2020 was comprised of the following:

	2021	2020
Land	$ 2,822,259	$ 1,506,605
Buildings and building improvements	17,876,225	18,686,497
Leasehold improvements	5,407,084	5,442,484
Construction in progress	506,739	1,201,504
Furniture and equipment	3,181,671	2,955,232
Total	29,793,978	29,792,322
Less: Accumulated depreciation and amortization	(19,157,723)	(18,185,678)
Property and equipment, net	$ 10,636,255	$ 11,606,644

Depreciation and amortization expense for the years ended June 30, 2021, and 2020 was $1,643,511 and $1,505,950, respectively. As of June 30, 2021, the remaining commitments related to ongoing construction contracts totaled $68,567.

Note 9: 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.

Estimated third-party payor settlements comprise estimated settlements of annual PPS reconciliations through June 30, 2021, rate setting cost reports, and 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.

As of June 30, 2021 and 2020, the Organization has recorded an estimated receivable of $3,219,282 and $3,465,856, respectively and an estimated liability of $338,786 and $708,807, respectively, related to PPS reconciliations and rate setting cost reports. Estimated third-party payor settlement receivables from the County of Santa Clara's Mental Health Services as of June 30, 2021 and 2020, consist of the following:

Fiscal Year	2021	2020
2006 - 2007	$ 580,484	$ 580,484
2007 - 2008	122,474	122,474
2008 - 2009	755,432	755,432
2009 - 2010	403,150	403,150
2012 - 2013	345,212	345,212
2019 - 2020	2,336,716	2,336,716
2020 – 2021	873,820	-
	5,417,288	4,543,468
Provision for uncollectible	(1,528,557)	(1,482,438)
Net value	$ 3,888,731	$ 3,061,030

Estimated third-party payor settlement liabilities as of June 30, 2021 and 2020, consist of the following:

Fiscal Year	2021	2020
2010 - 2011	$ (89,850)	$ (89,850)
2013 - 2014	(10,189)	(10,189)
2014 - 2015	(216,657)	(216,657)
2015 - 2016	(106,299)	(106,299)
2016 - 2017	(114,595)	(114,595)
2017 - 2018	(125,102)	(125,102)
2018 - 2019	(729,238)	(729,238)
Net value	$ (1,391,930)	$ (1,391,930)

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, 2020 and 2021 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 reimbursed LPCH $10,000 per month until the remaining balances of the loan were forgiven on June 30, 2020.

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, 2021 and 2020, the balance in the SIMMF account is $1,373,332 and $1,001,762 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 $185,000 or $7,339,700 in aggregate are covered through the stop loss insurance policy. As of June 30, 2021 and 2020, the accrued liability under self-insurance program is $284,741 and $706,327, 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, 2021 and 2020, the accrued IBNR under the self-insurance program is $1,484,581 and $1,373,323, respectively.

Note 12: Long-term Debt

Long-term debt at June 30, 2021 consisted of the following:

	2021	2020
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.	4,476,561	4,587,875
On June 20, 2021, the Organization secured a loan from Heritage Bank for $2,605,000, with an annual interest rate of 3.99%, amortized over 10 years with fixed monthly payment of $13,819 and a maturity date of June 19, 2030. The loan is secured by the Deed of Trust on the 195 E. Virginia Street, San Jose property.	2,543,422	2,605,000
On May 2, 2020, the Organization secured a loan from Bank of America for $1,900,000 with an annual interest rate of 1.00%. These funds were allocated from the Small Business Administration Paycheck Protection Program as a forgivable loan. The note matures May 2, 2022.	-	1,900,000
Total long-term debt	7,019,983	9,092,875
Less: current portion	(192,406)	(184,795)
	$ 6,827,577	$ 8,908,080

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

Year	Principal
2022	$ 192,406
2023	200,904
2024	209,002
2025	219,010
2026	228,685
Thereafter	5,969,976
Total	$ 7,019,983

The loan agreements contain various covenants, which among other things place restrictions on the Organization's ability to incur additional indebtedness and require the Organization to maintain certain financial ratios. The Organization was in compliance with these requirements as of June 30, 2021.

Note 13: Line of Credit

The Organization has a revolving line of credit for a maximum of $1,000,000 through Heritage Bank of Commerce. The line of credit is secured by property and matures on June 19, 2025. The interest is payable monthly at a variable rate that is .250 percentage points above the Prime Rate as published by the Wall Street Journal. The initial interest rate is 3.25%. The line of credit had no outstanding balance as of June 30, 2021 and 2020.

The Organization has a revolving line of credit for a maximum of $1,500,000 through Pacific Premier Bank. The line of credit is secured by property and matures on April 2, 2022. The line of credit had no outstanding balance as of June 30, 2021 and 2020.

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.

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 as of June 30, 2021, for each of the next five years are:

2022	$ 939,738
2023	$ 965,131
2024	$ 994,085
2025	$ 1,023,908
2026	$ 1,054,625
Thereafter	$ 1,637,422

Rental expense for the years ended June 30, 2021 and 2020 was $844,190 and $844,190, respectively.

Note 16: Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and occupancy costs, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort. Expenses for the year ended June 30, 2021 include:

	Program Services	General & Administration	Fund Development	Total
Salaries and wages	$ 32,899,952	$ 7,422,197	$ 289,415	$ 40,611,564
Employee benefits	9,543,561	2,110,605	54,473	11,708,639
Contract services	1,670,929	353,666	30	2,024,625
Professional fees	1,384,527	550,168	53,566	1,988,261
Supplies	2,285,105	99,144	3,092	2,387,341
Travel, training, conference & meetings	340,618	78,580	3,077	422,275
Occupancy costs	2,454,567	407,078	1,144	2,862,789
Insurance	163,236	36,033	2,413	201,682
Depreciation and amortization	1,363,032	278,288	2,191	1,643,511
Interest	217,157	89,615	649	307,421
Printing	38,872	1,601	20,852	61,325
IT costs	1,058,145	233,579	15,642	1,307,366
Communications	334,147	160,550	970	495,667
Minor equipment costs	511,004	130,017	-	641,021
Membership & subscription	50,040	93,215	1,114	144,369
Postage & shipping	34,013	14,214	3,502	51,729
Banking, taxes, fees & penalties	42,010	38,172	853	81,035
Family & client assistance	947,081	-	-	947,081
Fund development	-	-	7,790	7,790
Other expenses	574,734	112,652	19,972	707,358
Total expenses	$ 55,912,730	$ 12,209,374	$ 480,745	$ 68,602,849

Note 16: Functional Expenses (Continued)

Expenses for the year ended June 30, 2020 include:

	Program Services	General & Administration	Fund Development	Total
Salaries and wages	$ 32,750,917	$ 6,893,343	$ 214,192	$ 39,858,452
Employee benefits	10,635,318	2,801,973	51,280	13,488,571
Contract services	1,244,696	225,960	22	1,470,678
Professional fees	1,209,160	570,130	52,955	1,832,245
Supplies	1,876,390	121,696	5,783	2,003,869
Travel, training, conference & meetings	441,051	128,303	1,890	571,244
Occupancy costs	2,557,722	441,776	1,059	3,000,557
Insurance	167,586	39,802	2,095	209,483
Depreciation and amortization	1,108,343	396,847	760	1,505,950
Interest	179,263	91,133	521	270,917
Printing	26,038	35,998	22,462	84,498
IT costs	891,035	37,580	1,882	930,497
Communications	284,822	159,297	1,250	445,369
Minor equipment costs	409,253	118,204	8,003	535,460
Membership & subscription	45,172	87,961	1,011	134,144
Postage & shipping	40,024	16,928	18,585	75,537
Banking, taxes, fees & penalties	54,460	27,397	941	82,798
Family & client assistance	963,400	-	-	963,400
Fund development	-	-	66,286	66,286
Other expenses	136,897	312,144	27,220	476,261
Total expenses	$ 55,021,547	$ 12,506,472	$ 478,197	$ 68,006,216

Note 17 - Information Regarding Liquidity and Availability of Resources

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, investments, various receivables, and a line of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing healthcare-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Note 17 - Information Regarding Liquidity and Availability of Resources (continued)

The Organization strives to maintain liquid financial assets sufficient to cover 30 days of general expenditures. The following table reflects the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date.

	2021	2020
Cash and cash equivalents	$ 14,578,303	$ 9,206,228
Investments	393,594	112,582
Patient accounts receivable	1,897,689	1,544,534
Grant receivable	6,431,418	6,535,026
Total financial assets	23,301,004	17,398,370
Deferred revenue	(5,308)	(26,185)
Net assets with donor restrictions	(846,708)	(77,813)
Financial assets available to meet cash needs for general expenditures within one year	$ 22,448,988	$ 17,294,372

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient patient service revenue to cover general expenditures not covered by grants or donor-restricted resources. The Organization also has a line of credit available to meet short-term needs. See note 13 for information about this arrangement.

Note 18 - Net Assets with Donor Restrictions

Net assets with donor restrictions were comprised of the following programs at June 30, 2021 and 2020:

	2021	2020
Pfizer RxPathway	$ 987	$ 4,755
Silicon Valley Community Foundation	-	63,293
The Health Trust	217,000	-
Sobrato	195,000	-
Sunlight Giving	375,000	-
Other	58,721	9,765
Total	$ 846,708	$ 77,813

As net assets with donor restrictions are expended, the net assets released from restrictions are recognized as revenue without donor restrictions. As of June 30, 2021, and 2020, net assets released from donor restrictions consist of the following:

	2021	2020
Pfizer RxPathway	$ 4,920	$ 30,211
Silicon Valley Community Foundation	63,293	101,707
Other	101,044	15,486
Total	$ 169,257	$ 147,404

SINGLE AUDIT REPORTS

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Federal Grant / Program Title	Federal CFDA Number	Pass-Through Identification Number	Expenditures
U.S. Department of Health and Human Services, Public Health Service:			
Direct Programs:			
Community Health Cluster/Hypertension	*93.224	N/A	$ 8,107,016
American Rescue Plan	*93.224	N/A	810,087
COVID-19 CARES Act	*93.224	N/A	804,001
COVID-19 ECT Testing	*93.224	N/A	573,154
Total Community Health Center Cluster			10,294,258
Substance Abuse	93.243	N/A	413,967
COVID-19 Provider Relief Fund	93.498	N/A	108,682
Subtotal			10,816,907
Passed Through:			
County of Santa Clara			
Expanded Differential Response	93.556	MCDFCS-GFCC-2014	208,473
Total U.S. Department of Health and Human Services			11,025,380
Federal Communications Commission			
FCC TeleHealth Grant	32.006	N/A	314,778
U.S. Department of Agriculture:			
Passed Through:			
California Department of Public Health			
Supplemental Food Program - WIC	*10.557	115-10083	1,793,315
Total			$ 13,133,473

* Denotes major program

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of Gardner Family Health Network, Inc. d/b/a Gardner Health Services (the "Organization") under programs of the federal government for the year ended June 30, 2021. 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. For CFDA 93.498, the amount included on the Schedule is based on the Period 1 PRF report. 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.

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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.
d/b/a Gardner Health Services
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. d/b/a Gardner Health Services (the "Organization"), which comprise the balance sheets as of June 30, 2021 and 2020 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 December 9, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gardner Family Health Network, Inc. d/b/a Gardner Health Services 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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gardner Family Health Network, Inc. d/b/a Gardner Health Services 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*.

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.

CHW, LLP

Fresno, California
December 9, 2021

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Healthcare Audit, Tax & Consulting Services

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.
d/b/a Gardner Health Services
Alviso, California

Report on Compliance for Each Major Federal Program

We have audited Gardner Family Health Network, Inc. d/b/a Gardner Health Services (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, 2021. 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. d/b/a Gardner Health Services 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, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. 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.

Report on Internal Control Over Compliance

Management of Gardner Family Health Network, Inc. d/b/a Gardner Health Services 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. 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.

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.

CHW, LLP

Fresno California
December 9, 2021

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2021

I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs: Material weakness identified?	_____ Yes	__X__ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	__X__ Yes	____ 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)?	__X__ Yes	_____ No

Major Programs	CFDA Number
Community Health Cluster/Hypertension	93.224
American Rescue Plan	93.224
COVID-19 CARES Act	93.224
COVID-19 ECT Testing	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?	__X__ Yes	_____ No

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2021

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings: None Reported

Federal Award Findings And Questioned Costs:

2021-001 Eligibility

CFDA Number: **10.557**
Program: **Supplemental Food Program - WIC**
Compliance Requirement: **(E) Eligibility**

Criteria: Applicants for WIC program benefits are screened at WIC clinic sites to determine their WIC eligibility. To be certified eligible, they must meet the eligibility criteria defined at 7 CFR sections 246.7(c), (d), (e), (g), and (l) related to Category, Identity and Residency, Income, and Nutritional Risk.

Finding/ Condition: During our testing of 25 samples for eligibility, we noted that 13 beneficiaries used the self-declaration process as a result of the COVID-19 pandemic to establish Identity and Residency and Income eligibility. Of those 13 samples, there was no documentation of the self-declaration for six beneficiaries.

Questioned Cost: None.

Effect: Lack of strict adherence to documentation requirements may have resulted in the Organization providing benefits to ineligible beneficiaries.

Cause: During the COVID-19 pandemic, there was unclear instructions from program administrators at the State and Federal levels as to what documentation was necessary and how various program compliance waivers affect program administration.

Recommendation: We recommend self-declaration forms be maintained for all program beneficiaries.

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

GARDNER Health Services

SPECIALTY SERVICE CENTER | CORPORATE OFFICE
160 E. Virginia Street, Suite 100, San Jose, CA 95112
Office: 408.200.2291 | Facsimile: 408.278.7799
www.gardnerhealthservices.org

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Prior Year Findings and Questioned Costs
For the year ended June 30, 2021

2020-001 Compliance over Reporting – Corrected

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Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Corrective Action Plan
For the year ended June 30, 2021

2021-001 Compliance over Reporting

Name of Contact Person: Kim Potter, WIC Director

Corrective Action: The Organization agrees with the recommendation and has taken steps to correct these errors by implementing controls to make sure self-declarations are maintained in beneficiary files.

Proposed Completion Date: December 31, 2021