

Audited Financial Statements

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

For the Years Ended June 30, 2022 and 2021

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

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Balance Sheets	4
Statements of Operations and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to the Financial Statements	7
SINGLE AUDIT	
Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards	27
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 <i>Government Auditing Standards</i>	28
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	30
Schedule of Findings and Questioned Costs	33
Schedule of Prior Year Findings and Questioned Costs	35

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

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, 2022, and 2021, 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.

In our opinion, the financial statements 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, 2022, and 2021, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Gardner Family Health Network, Inc. d/b/a Gardner Health Services' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Gardner Family Health Network, Inc. d/b/a Gardner Health Services' ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2022 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

CAW. LLP

Fresno, California
October 27, 2022

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Balance Sheet
June 30, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 19,721,536	\$ 14,578,303
Investments	2,712,787	393,594
Patient accounts receivable, net	2,030,420	1,897,689
Grant, contract, and other receivables	7,025,111	6,431,418
Inventory	308,076	367,243
Prepaid expenses, deposits, & other current assets	527,424	545,463
Total current assets	32,325,354	24,213,710
Estimated third-party payor settlements	5,669,960	7,180,013
Property and equipment, net	10,720,351	10,636,255
Total assets	\$ 48,715,665	\$ 42,029,978
 Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 2,741,320	\$ 1,637,470
Accrued payroll and related liabilities	6,076,744	7,388,335
Accruals for self-insurance	1,167,878	1,769,321
Deferred revenue	1,055,443	5,308
Estimated third-party payor settlements	732,866	338,786
Long-term debt, current portion	200,904	192,406
Total current liabilities	11,975,155	11,331,626
Long-term liabilities:		
Long-term lease incentive	1,032,191	1,127,750
Estimated third party payor settlements	1,391,930	1,391,930
Long-term debt, net of current portion	6,626,681	6,827,577
Total long-term liabilities	9,050,802	9,347,257
Total liabilities	21,025,957	20,678,883
Net assets:		
Net assets without donor restrictions	27,391,223	20,504,387
Net assets with donor restrictions	298,485	846,708
Total net assets	27,689,708	21,351,095
Total liabilities and net assets	\$ 48,715,665	\$ 42,029,978

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, 2022 and 2021

	2022	2021
Change in net assets without donor restrictions:		
Revenues and other support:		
Patient service revenue, net	\$ 28,326,652	\$ 22,049,569
Capitation revenue	461,898	462,346
Grant and contract revenue	46,405,261	44,816,133
Contribution revenue	5,921,437	2,863,625
In-kind contributions	104,363	395,031
Other revenue	281,201	2,374,618
Net assets released from restrictions	842,440	169,257
Total unrestricted revenue and other support	82,343,252	73,130,579
Expenses:		
Salaries and wages	44,066,662	40,611,564
Employee benefits	11,263,168	11,708,639
Contract services	1,784,375	2,024,625
Professional fees	3,738,458	1,988,261
Supplies	2,422,338	2,387,341
Travel, training, conference & meetings	429,238	422,275
Occupancy costs	3,273,159	2,862,789
Insurance	224,128	201,682
Depreciation and amortization	1,226,888	1,643,511
Interest	299,287	307,421
Printing	87,001	61,325
IT costs	2,694,403	1,307,366
Communications	630,812	495,667
Minor equipment costs	691,541	641,021
Membership & subscription	316,911	144,369
Postage & shipping	50,988	51,729
Banking, taxes, fees & penalties	106,002	81,035
Family & client assistance	1,319,418	947,081
Fund development	59,834	7,790
Other expenses	262,683	707,358
Total expenses	74,947,294	68,602,849
Gain (loss) on investments	(509,122)	24,894
Change in net assets without donor restrictions	6,886,836	4,552,624
Change in net assets with donor restrictions:		
Contributions	294,217	938,152
Net assets released from donor restriction	(842,440)	(169,257)
Change in net assets with donor restrictions	(548,223)	768,895
Change in net assets	6,338,613	5,321,519
Net Assets:		
Beginning of year	21,351,095	16,029,576
End of year	\$ 27,689,708	\$ 21,351,095

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, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 6,338,613	\$ 5,321,519
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,226,888	1,643,511
Donated supplies	-	(1,152)
Forgiveness of debt	-	(1,900,000)
Changes in operating assets and liabilities:		
Patient accounts receivable	(132,731)	(353,155)
Grant, contract, and other receivable	(593,693)	103,608
Inventory	59,167	(60,701)
Prepaid expenses, deposits, & other current assets	18,039	52,498
Estimated third-party payer settlements	1,904,133	(1,023,148)
Accounts payable and other accrued expenses	1,103,850	334,802
Accrued payroll and related liabilities	(1,311,591)	2,786,155
Accruals for self-insurance	(601,443)	(310,329)
Deferred revenue	1,050,135	(20,877)
Net cash provided by operating activities	9,061,367	6,572,731
Cash flows from investing activities:		
Purchase of investments	(2,319,193)	(281,012)
Purchase of property and equipment	(1,310,984)	(673,122)
Net cash used in investing activities	(3,630,117)	(954,134)
Cash flows from financing activities:		
Change in long-term lease incentives	(95,559)	(73,630)
Principal payments on long-term debt	(192,398)	(172,892)
Net cash used in financing activities	(287,957)	(246,522)
Net increase in cash and cash equivalents	5,143,233	5,372,075
Cash and cash equivalents at beginning of year:	14,578,303	9,206,228
Cash and cash equivalents at end of year:	19,721,536	\$ 14,578,303
Supplemental disclosure of cash flow information:		
Interest paid	\$ 299,287	\$ 307,421
In-kind contributions	\$ 104,363	\$ 395,031
Forgiveness of debt	\$ -	\$ 1,900,000

See accompanying Notes to the Financial Statements

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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:

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

Net assets with donor restrictions: 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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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, 2022.

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, 2022 and 2021 the carrying amount of all the accounts, net of outstanding checks, was \$19,721,536 and \$14,578,303 respectively. Per the various financial institutions as of June 30, 2022 and 2021, approximately \$750,000 and \$1,000,000 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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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 \$0 and \$1,152 for the year ended June 30, 2022 and 2021 respectively.

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, 2022. There are no insurance recovery receivables recorded at June 30, 2022.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

Note 2: Significant Accounting Policies (Continued)

Self-insurance and IBNR Payable:

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

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.

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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

Note 2: Significant Accounting Policies (Continued)

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 598 employees. A concentration of labor supply in employees working under union collective bargaining agreements represents approximately 60% 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.

In-kind Contributions:

The Organization receives significant in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations, special events, and fund-raising campaigns. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated occupancy and advertising are based on the fair market value at the time of donation. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. The Organization received the following in-kind contributions for the years ending June 30, 2022 and 2021:

	2022	2021
Donated occupancy	\$ -	\$ 284,408
Donated advertising	104,363	109,471
Donated supplies	-	1,152
Total	\$ 104,363	\$ 395,031

All donated services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Donated space included space at the School of Arts at Mexican Heritage Plaza for vaccine administration and is valued at the fair value of similar properties available in commercial real estate listings. Donated advertising is valued based on the cost of similar advertising.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

Note 2: Significant Accounting Policies (Continued)

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 October 27, 2022, which is the date the financial statements were available to be issued.

Note 3: Investments

Investments include the following at June 30, 2022 and 2021.

	2022	2021
Money market	\$ 75,832	\$ 18,898
Equity funds	1,222,608	207,246
Fixed income funds	1,414,347	167,450
Total	\$ 2,712,787	\$ 393,594

Investment income is primarily comprised of interest and dividend income, which amounted to \$123,245 and \$14,098 for the years ended June 30, 2022 and 2021, respectively. The Organization had unrealized losses of \$509,122 for the year ended June 30, 2022 and unrealized gains of \$24,894 for the year ended June 30, 2021.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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:

	2022	2021
Medicare	\$ 1,470,149	\$ 1,217,029
Medi-Cal	22,092,505	17,810,244
Other third-party payors	2,094,938	768,368
Private pay	3,130,958	2,716,274
Net patient service revenue	\$ 28,788,550	\$ 22,511,915

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 \$5,669,960 and \$7,180,013 as of June 30, 2022 and 2021, respectively, and estimated third-party payor liabilities of \$2,124,795 and \$1,730,716 as of June 30, 2022 and 2021, 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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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, 2022:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
2022				
Equity funds	\$ 1,222,608	\$ 1,222,608	\$ -	\$ -
Fixed income funds	1,414,347	-	1,414,347	-
Total	\$ 2,636,955	\$ 1,222,608	\$ 1,414,347	\$ -
2021				
Equity funds	\$ 207,246	\$ 207,246	\$ -	\$ -
Fixed income funds	167,450	-	167,450	-
Total	\$ 374,696	\$ 207,246	\$ 167,450	\$ -

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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

Note 6: Concentration of Risk (Continued)

Significant concentrations of net patient accounts receivable as of June 30, 2022 and 2021 were as follows:

	2022	2021
Medi-Cal	84%	82%
Medicare	6%	6%
Other third-party payors	4%	9%
Private Pay	6%	3%
	100%	100%

For the year ended June 30, 2022 and 2021, the Organization received \$12,797,110 and \$10,294,258, respectively, in Community Health Organization grants from the Department of Health and Human Services, which represents 16% and 14% of the total revenue received.

Note 7: Grant, Contract, and Other Receivable

Grants and contracts receivable were comprised of the following at June 30, 2022 and 2021:

	2022	2021
County of Santa Clara	\$ 4,762,202	\$ 5,408,391
Federal	618,755	302,026
WIC	627,138	271,398
Other	854,993	421,186
Lucile Packard Children's Hospital	162,023	28,417
Total	\$ 7,025,111	\$ 6,431,418

Note 8: Property and Equipment

Land, building and equipment at June 30, 2022 and 2021 was comprised of the following:

	2022	2021
Land	\$ 2,822,259	\$ 2,822,259
Buildings and building improvements	18,378,470	17,876,225
Leasehold improvements	5,407,084	5,407,084
Construction in progress	1,096,862	506,739
Furniture and equipment	3,400,286	3,181,671
Total	31,104,961	29,793,978
Less: Accumulated depreciation and amortization	(20,384,610)	(19,157,723)
Property and equipment, net	\$ 10,720,351	\$ 10,636,255

Depreciation and amortization expense for the years ended June 30, 2022, and 2021 was \$1,226,888 and \$1,643,511, respectively. As of June 30, 2022, the remaining commitments related to ongoing construction contracts totaled \$1,006,677.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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, 2022, 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, 2022 and 2021, the Organization has recorded an estimated receivable of \$1,167,061 and \$3,219,282, respectively and an estimated liability of \$732,866 and \$338,786, 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, 2022 and 2021, consist of the following:

<u>Fiscal Year</u>	<u>2022</u>	<u>2021</u>
2006 - 2007	\$ 580,484	\$ 580,484
2007 - 2008	122,474	122,474
2008 - 2009	755,432	755,432
2009 - 2010	403,150	403,150
2012 - 2013	345,212	345,212
2019 - 2020	2,336,716	2,336,716
2020 - 2021	873,820	873,820
2021 - 2022	596,704	-
	<u>6,013,992</u>	<u>5,417,288</u>
Provision for uncollectible	(1,511,093)	(1,528,557)
Net value	<u>\$ 4,502,899</u>	<u>\$ 3,888,731</u>

Estimated third-party payor settlement liabilities as of June 30, 2022 and 2021, consist of the following:

<u>Fiscal Year</u>	<u>2022</u>	<u>2021</u>
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	<u>\$ (1,391,930)</u>	<u>\$ (1,391,930)</u>

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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, 2022 and 2021, the balance in the SIMMF account is \$1,293,557 and \$1,373,332 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 \$200,000 or \$7,337,040 in aggregate are covered through the stop loss insurance policy. As of June 30, 2022 and 2021, the accrued liability under self-insurance program is \$215,721 and \$284,741, 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, 2022 and 2021, the accrued IBNR under the self-insurance program is \$952,157 and \$1,484,581, respectively.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

Note 12: Long-term Debt

Long-term debt at June 30, 2022 consisted of the following:

	2022	2021
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.	\$ 4,348,278	\$ 4,476,561
On June 20, 2022, 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.	2,479,307	2,543,422
Total long-term debt	6,827,585	7,019,983
Less: current portion	(200,904)	(192,406)
	\$ 6,626,681	\$ 6,827,577

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

Year	Principal
2023	\$ 200,904
2024	209,002
2025	219,010
2026	228,685
2027	238,803
Thereafter	5,731,181
Total	\$ 6,827,585

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, 2022.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 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, 2022 and 2021.

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 UCC-Business Assets and matures on April 2, 2023. The line of credit had no outstanding balance as of June 30, 2022 and 2021.

Note 14: Commitments and Contingencies

Federal and state contracts and other requirements:

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

Contingencies:

In the ordinary course of business, the Organization may be a party to claims and legal actions. While the outcome cannot be determined at this time, management's opinion is the liability, if any, from these actions will not have a material adverse effect on the Organization's financial position. The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Organization is subject to similar regulatory reviews, there are no reviews currently underway, and management believes that the outcome of any potential regulatory review will not have a material adverse effect on the Organization's financial position.

Medical Malpractice Claims:

The U.S. Department of Health and Human Services has deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Management is not aware of any pending claims that exceed the limitations provided by this coverage.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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, 2022, for each of the next five years are:

2023	\$ 972,556
2024	\$ 995,185
2025	\$ 1,023,908
2026	\$ 1,054,625
2027	\$ 1,086,263
Thereafter	\$ 551,158

Rental expense for the years ended June 30, 2022 and 2021 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, 2022 include:

	Program Services	General & Administration	Fund Development	Total
Salaries and wages	\$ 36,271,071	\$ 7,454,025	\$ 341,566	\$ 44,066,662
Employee benefits	9,145,522	2,046,775	70,871	11,263,168
Contract services	1,526,371	256,664	1,340	1,784,375
Professional fees	1,818,109	1,916,753	3,596	3,738,458
Supplies	2,227,898	81,938	112,502	2,422,338
Travel, training, conference & meetings	350,764	76,074	2,400	429,238
Occupancy costs	2,679,077	591,289	2,793	3,273,159
Insurance	184,345	37,900	1,883	224,128
Depreciation and amortization	1,004,579	219,988	2,321	1,226,888
Interest	212,134	86,364	789	299,287
Printing	33,006	7,020	46,975	87,001
IT costs	2,216,130	455,767	22,506	2,694,403
Communications	518,838	106,704	5,270	630,812
Minor equipment costs	598,368	86,464	6,709	691,541
Membership & subscription	190,075	124,296	2,540	316,911
Postage & shipping	28,301	10,492	12,195	50,988
Banking, taxes, fees & penalties	39,167	65,658	1,177	106,002
Family & client assistance	1,319,418	-	-	1,319,418
Fund development	-	-	59,834	59,834
Other expenses	61,288	200,413	982	262,683
Total expenses	\$ 60,424,461	\$ 13,824,584	\$ 698,249	\$ 74,947,294

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

Note 16: Functional Expenses (Continued)

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	<u>\$ 55,912,730</u>	<u>\$ 12,209,374</u>	<u>\$ 480,745</u>	<u>\$ 68,602,849</u>

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.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2022 and 2021

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, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 19,721,536	\$ 14,578,303
Investments	2,712,787	393,594
Patient accounts receivable	2,030,420	1,897,689
Grant receivable	7,025,111	6,431,418
Total financial assets	<u>31,489,854</u>	<u>23,301,004</u>
Deferred revenue	(1,055,443)	(5,308)
Net assets with donor restrictions	(298,485)	(846,708)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 30,135,926</u>	<u>\$ 22,448,988</u>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Pfizer RxPathway	\$ 493	\$ 987
The Health Trust	-	217,000
Sobrato	39,375	195,000
Sunlight Giving	250,000	375,000
Other	8,617	58,721
Total	<u>\$ 298,485</u>	<u>\$ 846,708</u>

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, 2022, and 2021, net assets released from donor restrictions consist of the following:

	<u>2022</u>	<u>2021</u>
Pfizer RxPathway	\$ 494	\$ 4,920
Silicon Valley Community Foundation	12,383	63,293
Sunlight Giving	125,000	-
The Health Trust	217,000	-
Sobrato	155,625	-
Other	331,938	101,044
Total	<u>\$ 842,440</u>	<u>\$ 169,257</u>

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, 2022

Federal Grant / Program Title	ALN	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	\$ 7,645,827
COVID-19 American Rescue Plan	*93.224	N/A	5,151,283
Total Community Health Center Cluster			<u>12,797,110</u>
Substance Abuse	93.243	N/A	299,072
COVID-19 Provider Relief Fund	93.498	N/A	108,682
Subtotal			<u>13,204,864</u>
Passed Through:			
County of Santa Clara			
Expanded Differential Response	93.556	SBC DFCS-GARDNER/ DR FY2020	<u>210,397</u>
Total U.S. Department of Health and Human Services			13,415,261
U.S. Department of Agriculture:			
Passed Through:			
California Department of Public Health			
Supplemental Food Program - WIC	10.557	115-10083	1,889,916
Total			<u>\$15,305,177</u>

* 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, 2022

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, 2022. 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 ALN 93.498, the amount included on the Schedule is based on the Period 2 and Period 3 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.

**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, 2022 and 2021 and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

CAW. LLP

Fresno, California

October 27, 2022

**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***Opinion on 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, 2022. 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.

In our opinion, the Organization 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 June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CAW. LLP

Fresno California
October 27, 2022

**Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2022**

I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs: Material weakness identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> 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)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Major Programs

	<u>ALN</u>
Community Health Cluster/Hypertension	93.224
American Rescue Plan	93.224
Dollar threshold used to distinguish Types A and B programs	\$ 750,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2022**

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings: None Reported

Federal Award Findings And Questioned Costs: None Reported

**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, 2022**

2021-001 Eligibility– Corrected