

Audited Financial Statements

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

For the Years Ended June 30, 2024 and 2023

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

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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 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, 2024, and 2023, 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, 2024, and 2023, 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 23, 2024 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 23, 2024

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Balance Sheet
June 30, 2024 and 2023

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 7,789,919	\$ 11,802,794
Investments	3,352,965	3,052,364
Patient accounts receivable, net	4,633,877	4,082,461
Grant, contract, and other receivables	8,229,250	9,035,368
Inventory	436,408	332,139
Prepaid expenses, deposits, & other current assets	613,941	619,230
Total current assets	25,056,360	28,924,356
Cash and cash equivalents restricted to La Placita project	4,534,224	-
Right of use asset	2,876,366	3,647,787
Estimated third-party payor settlements	5,144,707	5,459,428
Investment in 1751 Alum Rock, LLC	4,208,919	3,696,516
Property and equipment, net	15,109,866	12,508,011
Total assets	\$ 56,930,442	\$ 54,236,098
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable and other accrued expenses	\$ 3,045,500	\$ 3,687,307
Accrued payroll and related liabilities	4,943,079	4,899,177
Accruals for self-insurance	1,420,242	1,232,539
Deferred revenue	36,423	685,391
Estimated third-party payor settlements	429,833	530,525
Lease liability, current portion	1,007,722	937,134
Long-term debt, current portion	215,134	209,002
Total current liabilities	11,097,933	12,181,075
Long-term liabilities:		
Estimated third party payor settlements	1,845,329	2,236,885
Lease liability, net of current portion	2,629,975	3,621,890
Long-term debt, net of current portion	6,199,207	6,417,693
Total long-term liabilities	10,702,635	12,276,468
Total liabilities	21,772,444	24,457,543
Net assets:		
Net assets without donor restrictions	29,078,185	28,872,240
Net assets with donor restrictions	6,079,813	906,315
Total net assets	35,157,998	29,778,555
Total liabilities and net assets	\$ 56,930,442	\$ 54,236,098

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, 2024 and 2023

	2024	2023
Change in net assets without donor restrictions:		
Revenues and other support:		
Patient service revenue, net	\$ 36,594,047	\$ 29,516,780
Capitation revenue	530,453	891,027
Grant and contract revenue	50,230,315	50,782,083
Contribution revenue	368,741	336,940
In-kind contributions	127,914	104,946
Other revenue	438,300	410,274
Net assets released from restrictions	1,281,051	559,516
Total unrestricted revenue and other support	89,570,821	82,601,566
Expenses:		
Salaries and wages	52,403,525	47,696,496
Employee benefits	12,999,117	12,743,593
Contract services	1,800,266	2,046,707
Professional fees	3,283,470	3,230,474
Supplies	3,431,893	2,666,201
Travel, training, conference & meetings	721,806	647,137
Occupancy costs	3,990,992	3,816,069
Insurance	300,168	258,013
Depreciation and amortization	1,449,359	1,327,496
Interest	441,849	290,794
Printing	109,581	81,447
IT costs	2,969,807	1,759,246
Communications	691,339	666,158
Minor equipment costs	669,514	527,032
Membership & subscription	345,248	312,269
Postage & shipping	45,955	65,830
Banking, taxes, fees & penalties	82,569	74,724
Family & client assistance	3,274,032	2,400,850
Fund development	66,160	59,230
Other expenses	501,188	447,934
Total expenses	89,577,838	81,117,700
Gain (loss) on investments	212,962	(2,849)
Change in net assets without donor restrictions	205,945	1,481,017

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, 2024 and 2023

	2024	2023
Change in net assets with donor restrictions:		
Contributions	6,454,549	1,167,346
Net assets released from donor restriction	(1,281,051)	(559,516)
Change in net assets with donor restrictions	5,173,498	607,830
Change in net assets	5,379,443	2,088,847
Net Assets:		
Beginning of year	29,778,555	27,689,708
End of year	\$ 35,157,998	\$ 29,778,555

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, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 5,379,443	\$ 2,088,847
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,449,359	1,327,496
Unrealized (gains) losses	(212,962)	2,849
Non-cash operating lease expense	(149,906)	(120,954)
Changes in operating assets and liabilities:		
Patient accounts receivable	(551,416)	(2,052,041)
Grant, contract, and other receivable	806,118	(2,010,257)
Inventory	(104,269)	(24,063)
Prepaid expenses, deposits, & other current assets	5,289	(91,806)
Estimated third-party payer settlements	(177,527)	853,146
Accounts payable and other accrued expenses	(673,041)	945,987
Accrued payroll and related liabilities	43,902	(1,177,567)
Accruals for self-insurance	187,703	64,661
Deferred revenue	(648,968)	(370,052)
Net cash provided by (used in) operating activities	5,353,725	(563,754)
Cash flows from investing activities:		
Purchase of investments	(87,639)	(342,426)
Investment in 1751 Alum Rock, LLC	(512,403)	(3,696,516)
Purchase of property and equipment	(4,019,980)	(3,115,156)
Net cash used in investing activities	(4,620,022)	(7,154,098)
Cash flows from financing activities:		
Principal payments on long-term debt	(212,354)	(200,890)
Net cash used in financing activities	(212,354)	(200,890)
Net increase (decrease) in cash and cash equivalents	521,349	(7,918,742)
Cash and cash equivalents at beginning of year:	11,802,794	19,721,536
Cash and cash equivalents at end of year:	12,324,143	11,802,794
Supplemental disclosure of cash flow information:		
Interest paid	\$ 441,849	\$ 290,794
In-kind contributions	\$ 127,914	\$ 104,946
Property and equipment additions financed through payables	\$ 31,234	\$ -

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, 2024 and 2023

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, 2024 and 2023

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, 2024.

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, 2024 and 2023 the carrying amount of all the accounts, net of outstanding checks, was \$12,324,143 and \$11,802,794 respectively. As of June 30, 2024, \$4,534,224 of cash and cash equivalents was restricted for the construction of the La Placita clinic site. Per the various financial institutions as of June 30, 2024 and 2023, approximately \$500,000 and \$750,000 was covered by federal depository insurance respectively.

Patient Accounts Receivable, Net and Credit Policy:

Patient accounts receivable are recorded at amounts that reflect the consideration to which the Organization expects to be entitled in exchange for providing patient care. Patient receivables are recorded in the accompanying balance sheet net of implicit and explicit price concessions, which reflect management's estimate of the transaction price. The Organization estimates the transaction price based on negotiated contractual agreements, historical experience, and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions and is recorded through a reduction of gross revenue and a credit to patient receivables. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Patient receivables are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient’s responsibility for copays, coinsurance, and deductibles is determined. Patient accounts receivable are due in full when billed. The Organization does not have a policy to charge interest on past due accounts.

No material credit loss expense has been recognized for the years ended June 30, 2024 and 2023.

As of June 30, 2022, patient accounts receivable, net was \$2,030,420.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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.

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, 2024. There are no insurance recovery receivables recorded at June 30, 2024.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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, 2024 and 2023

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 622 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 and (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. 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, 2024 and 2023:

	2024	2023
Donated advertising	\$ 119,251	\$ 104,946
Donated supplies	8,663	-
	\$ 127,914	\$ 104,946

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 advertising is valued based on the cost of similar advertising. Donated supplies is based on the fair market value at the time of donation.

Performance indicator:

The statements of operations and changes in net assets include changes in net assets as the performance indicator, which is consistent with industry practice.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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.

Recently Adopted Accounting Pronouncement:

Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, requires the Organization to present financial assets measured at amortized cost at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable supportable forecasts that affect the collectability of the reported amounts. The Organization adopted ASU No. 2016-13 on July 1, 2023. The adoption of this ASU did not have a material impact on the financial statements, but required some additional disclosures.

Subsequent Events:

The Organization has evaluated subsequent events through October 23, 2024, which is the date the financial statements were available to be issued.

Note 3: Investments

Investments include the following at June 30, 2024 and 2023.

	2024	2023
Money market	\$ 78,210	\$ 63,807
Equity funds	1,648,420	1,483,267
Fixed income funds	1,626,335	1,505,290
Total	\$ 3,352,965	\$ 3,052,364

Investment income is primarily comprised of interest and dividend income, which amounted to \$226,525 and \$241,831 for the years ended June 30, 2024 and 2023, respectively. The Organization had unrealized gains of \$212,962 and losses of \$2,849 for the years ended June 30, 2024 and 2023, respectively.

The Organization has entered into an agreement to jointly develop a new clinic location. 1751 Alum Rock, LLC has been created as a vehicle to jointly own this development and the Organization owns 35% of 1751 Alum Rock, LLC. The Organization has accounted for this ownership using the equity method of accounting. As of June 30, 2024 and 2023, The Organization has recorded \$4,208,919 and \$3,696,516 in long-term investments related to 1751 Alum Rock, LLC.

Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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.

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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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 by major payor groups:

	2024	2023
Medicare	\$ 608,131	\$ 1,469,681
Medi-Cal	32,490,657	24,050,409
Other third-party payors	2,399,932	3,470,120
Private pay	1,095,327	526,570
Net patient service revenue	\$ 36,594,047	\$ 29,516,780

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 \$5,144,707 and \$5,459,428 as of June 30, 2024 and 2023, respectively, and estimated third-party payor liabilities of \$2,275,162 and \$2,767,410 as of June 30, 2024 and 2023, 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.

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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, 2024:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
2024				
Equity funds	\$ 1,648,420	\$ 1,648,420	\$ -	\$ -
Fixed income funds	1,626,335	-	1,626,335	-
Total	\$ 3,274,755	\$ 1,648,420	\$ 1,626,335	\$ -
2023				
Equity funds	\$ 1,483,267	\$ 1,483,267	\$ -	\$ -
Fixed income funds	1,505,290	-	1,505,290	-
Total	\$ 2,988,557	\$ 1,483,267	\$ 1,505,290	\$ -

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.

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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

Note 6: Concentration of Risk (Continued)

Significant concentrations of net patient accounts receivable as of June 30, 2024 and 2023 were as follows:

	2024	2023
Medi-Cal	64%	68%
Medicare	5%	4%
Other third-party payors	4%	6%
Private Pay	28%	22%
	100%	100%

For the year ended June 30, 2024 and 2023, the Organization received \$7,848,544 and \$10,252,030, respectively, in Community Health Organization grants from the Department of Health and Human Services, which represents 9% 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, 2024 and 2023:

	2024	2023
County of Santa Clara	\$ 7,665,108	\$ 8,269,721
Federal	146,929	144,731
WIC	318,957	383,151
Other	-	8,000
Lucile Packard Children's Hospital	98,256	229,765
Total	\$ 8,229,250	\$ 9,035,368

Note 8: Property and Equipment

Land, building and equipment at June 30, 2024 and 2023 was comprised of the following:

	2024	2023
Land	\$ 2,822,259	\$ 2,822,259
Buildings and building improvements	22,135,599	18,742,888
Leasehold improvements	5,407,084	5,407,085
Construction in progress	1,359,698	1,883,578
Furniture and equipment	6,546,692	5,364,308
Total	38,271,332	34,220,118
Less: Accumulated depreciation and amortization	(23,161,466)	(21,712,107)
Property and equipment, net	\$ 15,109,866	\$ 12,508,011

Depreciation and amortization expense for the years ended June 30, 2024, and 2023 was \$1,449,359 and \$1,327,496, respectively. As of June 30, 2024, the remaining commitments related to ongoing construction contracts totaled \$1,055,089.

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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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, 2024, 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, 2024 and 2023, the Organization has recorded an estimated receivable of \$924,133 and \$1,016,877, respectively and an estimated liability of \$429,833 and \$530,525, 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, 2024 and 2023, consist of the following:

<u>Fiscal Year</u>	<u>2024</u>	<u>2023</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	610,643	610,643
	<u>6,027,931</u>	<u>6,027,931</u>
Provision for uncollectible	(1,807,357)	(1,585,380)
Net value	<u>\$ 4,220,574</u>	<u>\$ 4,442,551</u>

Estimated third-party payor settlement liabilities as of June 30, 2024 and 2023, consist of the following:

<u>Fiscal Year</u>	<u>2024</u>	<u>2023</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)
2022 - 2023	(453,399)	(844,955)
Net value	<u>\$ (1,845,329)</u>	<u>\$ (2,236,885)</u>

Gardner Family Health Network, Inc.
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For the years ended June 30, 2024 and 2023

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 \$600,000 up to \$1,000,000 for years ending June 30, 2025 and 2027 to reimburse the Organization for operational losses of the clinic recorded as grants and contracts revenue.

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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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, Acrisure of California, LLC d/b/a Progressive Benefit Group (PBG) Professional Insurance Services.

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.

PBG 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 & PBG, 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, 2024 and 2023, the balance in the SIMMF account is \$1,660,961 and \$1,527,402 respectively.

The medical and prescription drug plan is partially insured through a specific and aggregate stop loss (excess risk) insurance policy with Swiss Re Corporate Solutions America Insurance Corporation. Medical and prescription drug claims paid during the policy year per individual member in excess of \$200,000 or \$6,713,536 in aggregate are covered through the stop loss insurance policy. As of June 30, 2024 and 2023, the accrued liability under self-insurance program is \$444,780 and \$328,336, 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, PBG, 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, 2024 and 2023, the accrued IBNR under the self-insurance program is \$975,443 and \$904,202, respectively.

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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

Note 12: Long-term Debt

Long-term debt at June 30, 2024 consisted of the following:

	2024	2023
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 July 23, 2020, the Organization refinanced the loan for \$4,587,874 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.	\$ 4,074,400	\$ 4,214,145
On June 20, 2023, 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.	2,339,941	2,412,550
Total long-term debt	6,414,341	6,626,695
Less: current portion	(215,134)	(209,002)
	\$ 6,199,207	\$ 6,417,693

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

Year	Principal
2025	\$ 215,134
2026	228,685
2027	238,789
2028	3,696,037
2029	85,040
Thereafter	1,950,656
Total	\$ 6,414,341

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, 2024.

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For the years ended June 30, 2024 and 2023

Note 13: Line of Credit

The Organization has two revolving lines of credit through Heritage Bank of Commerce. The first line of credit is for \$2,000,000 and is secured by property and matures on June 24, 2027. The interest is payable monthly at a variable rate that is .20 percentage points above the Prime Rate as published by the Wall Street Journal. The initial interest rate is 8.7%. The second line of credit is for \$1,000,000 and is secured by property and matures on June 19, 2025. The interest is payable monthly at a variable rate that is .25 percentage points above the Prime Rate as published by the Wall Street Journal. The initial interest rate is 3.50%. The lines of credit had no outstanding balance as of June 30, 2024 and 2023.

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.
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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

Note 15: 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, 2024 include:

	Program Services	General & Administration	Fund Development	Total
Salaries and wages	\$ 43,253,850	\$ 8,711,407	\$ 438,268	\$ 52,403,525
Employee benefits	10,649,362	2,255,909	93,846	12,999,117
Contract services	1,480,856	319,257	153	1,800,266
Professional fees	2,624,470	653,321	5,679	3,283,470
Supplies	3,218,696	82,627	130,570	3,431,893
Travel, training, conference & meetings	527,476	188,464	5,866	721,806
Occupancy costs	3,306,693	680,145	4,154	3,990,992
Insurance	247,759	49,899	2,510	300,168
Depreciation and amortization	1,122,473	324,647	2,239	1,449,359
Interest	360,650	80,445	754	441,849
Printing	31,024	19,975	58,582	109,581
IT costs	2,431,040	534,386	4,381	2,969,807
Communications	570,631	114,926	5,782	691,339
Minor equipment costs	540,509	128,908	97	669,514
Membership & subscription	240,496	100,935	3,817	345,248
Postage & shipping	29,651	11,382	4,922	45,955
Banking, taxes, fees & penalties	36,510	45,164	895	82,569
Family & client assistance	3,274,032	-	-	3,274,032
Fund development	-	-	66,160	66,160
Other expenses	307,512	193,676	-	501,188
Total expenses	\$ 74,253,690	\$ 14,495,473	\$ 828,675	\$ 89,577,838

Gardner Family Health Network, Inc.
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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

Note 15: Functional Expenses (Continued)

Expenses for the year ended June 30, 2023 include:

	Program Services	General & Administration	Fund Development	Total
Salaries and wages	\$ 39,806,233	\$ 7,566,447	\$ 323,816	\$ 47,696,496
Employee benefits	10,800,882	1,857,414	85,297	12,743,593
Contract services	1,641,096	404,075	1,536	2,046,707
Professional fees	2,460,440	765,150	4,884	3,230,474
Supplies	2,474,571	84,306	107,324	2,666,201
Travel, training, conference & meetings	481,756	163,804	1,577	647,137
Occupancy costs	3,249,115	564,919	2,035	3,816,069
Insurance	215,331	40,931	1,751	258,013
Depreciation and amortization	1,080,595	244,595	2,306	1,327,496
Interest	211,492	78,540	762	290,794
Printing	14,970	19,097	47,380	81,447
IT costs	1,309,590	441,544	8,112	1,759,246
Communications	555,958	105,678	4,522	666,158
Minor equipment costs	417,540	109,391	101	527,032
Membership & subscription	216,956	92,200	3,113	312,269
Postage & shipping	20,745	9,426	35,659	65,830
Banking, taxes, fees & penalties	34,254	39,766	704	74,724
Family & client assistance	2,400,850	-	-	2,400,850
Fund development	-	-	59,230	59,230
Other expenses	189,096	196,711	62,127	447,934
Total expenses	\$ 67,581,470	\$ 12,783,994	\$ 752,236	\$ 81,117,700

Note 16: Leases

The Organization has operating leases for clinics and certain equipment. The leases have remaining lease terms of 1 year to 5 years, some of which include options to extend the leases for additional years, and some of which include options to terminate the leases within 1 year. The Organization elected the short-term lease practical expedient related to leases that are 12 months or less.

Leases for clinics typically include multiple optional renewal periods. Upon opening a new clinic location, the Organization typically installs leasehold improvements with various useful life. Due to the specialized nature of clinic space and leasehold improvements installed, Management concludes that it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term, and the related payments are reflected in the right of use asset and lease liability.

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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

Note 16: Leases (Continued)

Each operating lease includes fixed rental payments, however, it is common for the lease payments to increase at pre-determined dates based on the change in the consumer price index. The Organization's operating leases are comprised of both gross leases and net leases, in which separate payments are made to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. The Organization has elected the practical expedient not to separate lease and non-lease components for all building leases.

During the years ended June 30, 2024 and 2023, total lease expense was \$690,600 and \$844,195, respectively. During the years ended June 30, 2024 and 2023, the following were the cash and non-cash activities associated with the Organization's operating leases:

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,105,049	\$ 1,029,910
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for lease obligations	\$ 17,933	\$ 4,380,548

As of June 30, 2024, the weighted-average remaining lease term for all operating leases is 3.4 years. Because the Organization generally does not have access to the rate implicit in the lease, the Organization utilizes the incremental borrowing rate as the discount rate. The weighted average discount rate associated with operating leases as of December 31, 2023 is 4.0%

The future payments due under operating leases as of June 30, 2024 are as follows:

2025	\$ 1,134,475
2026	1,165,193
2027	1,132,434
2028	463,079
2028	2,205
	3,897,386
Less effects of discounting	(259,689)
Operating lease liabilities recognized	\$ 3,637,697

Gardner Family Health Network, Inc.
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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

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.

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, 2024 and 2023, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date.

	2024	2023
Cash and cash equivalents	\$ 12,324,143	\$ 11,802,794
Investments	3,352,965	3,052,364
Patient accounts receivable	4,633,877	4,082,461
Grant receivable	8,229,250	9,035,368
Total financial assets	<u>28,540,235</u>	<u>27,972,987</u>
Deferred revenue	(36,423)	(685,391)
Net assets with donor restrictions	<u>(6,079,813)</u>	<u>(906,315)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,469,654</u>	<u>\$ 26,381,281</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.

Gardner Family Health Network, Inc.
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Notes to Financial Statements
For the years ended June 30, 2024 and 2023

Note 18: Net Assets with Donor Restrictions

Net assets with donor restrictions were comprised of the following programs at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
The Health Trust – South County Diabetes	\$ 131,493	\$ 143,152
The Health Trust – La Placita	250,000	250,000
Sobrato	-	189,000
Sunlight Giving	375,000	125,000
California Health Care Foundation	1,253	93,271
El Camino Down with Diabetes	320,000	-
La Placita Project	4,857,710	-
CPCA – TCE Civic	94,741	-
Other	49,616	105,892
Total	<u>\$ 6,079,813</u>	<u>\$ 906,315</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, 2024, and 2023, net assets released from donor restrictions consist of the following:

	<u>2024</u>	<u>2023</u>
Pfizer RxPathway	\$ -	\$ 493
Silicon Valley Community Foundation	-	5,253
Sunlight Giving	125,000	125,000
El Camino Down with Diabetes	320,000	254,500
The Health Trust	176,658	9,348
Sobrato	189,000	39,375
CPCA – TCE Civic	105,259	-
Other	365,134	125,547
Total	<u>\$ 1,281,051</u>	<u>\$ 559,516</u>

The Organization has received restricted funding from multiple sources to develop the La Placita clinic site. The County of Santa Clara has contributed \$4,618,980 to help fund building improvements, which is included in the net asset with donor restriction balance. The Organization has received a grant from HRSA for \$1,000,000 to fund pre-construction costs. \$188,054 of this grant has been drawn and included in net assets with donor restrictions as of June 30, 2024. The Organization has also received a \$250,000 grant from Health Trust which is included in net assets with donor restrictions. The remaining balance is comprised of restricted interest earned of \$50,676, net of bank fees. These restricted contributions will be released from restriction once the clinic site is ready to be put into use.

SINGLE AUDIT REPORTS

Gardner Family Health Network, Inc.
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Schedule of Expenditures of Federal Awards
For the year ended June 30, 2024

Federal Grant / Program Title	ALN	Pass-Through Identification Number	Expenditures
U.S. Department of Health and Human Services, Public Health Service:			
Direct Programs:			
Health Center Program Cluster			
Community Health Cluster/Hypertension	93.224	N/A	\$ 7,101,745
Bridge Access Program	93.527	N/A	119,299
COVID-19 Expanding Covid-19 Vaccination	93.527	N/A	27,500
Total Health Center Program Cluster			<u>7,848,544</u>
Community Project Funding	*93.493	N/A	782,700
COVID-19 ARPA Infrastructure	93.526	N/A	374,795
Substance Abuse	93.243	N/A	90,745
Subtotal			<u>1,248,240</u>
Passed Through:			
County of Santa Clara			
Expanded Differential Response	93.590	SBC DFCS- GARDNER/DR-FY2024	18,726
Expanded Differential Response	93.556	SBC DFCS- GARDNER/DR-FY2024	198,549
Subtotal			<u>217,275</u>
Total U.S. Department of Health and Human Services			9,314,059
U.S. Department of Agriculture:			
Passed Through:			
California Department of Public Health			
Supplemental Food Program - WIC	*10.557	22-10248	1,915,246
WIC Farmers Market Nutrition Program	10.572	22-10248	1,042
Total			<u>\$11,230,347</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, 2024

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, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows for the Organization.

Note B: Summary of Significant Accounting Policies

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

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

Independent Auditor's Report

Board of Directors
Gardner Family Health Network, Inc.
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, 2024 and 2023 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 23, 2024.

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 23, 2024

**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, 2024. 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, 2024.

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 23, 2024

**Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2024**

I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Major Programs

	<u>ALN</u>	
Supplemental Food Program - WIC	10.557	
Community Project Funding	93.493	
Dollar threshold used to distinguish Types A and B programs	\$ 750,000	
Auditee qualified as low-risk auditee?	___ <u>X</u> ___ Yes	_____ No

**Gardner Family Health Network, Inc.
d/b/a Gardner Health Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2024**

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings: None Reported

Federal Award Findings And Questioned Costs: None Reported