

Audited Financial Statements



June 30, 2021

Quigley & Miron

Suite 1660
3550 Wilshire Boulevard
Los Angeles, California 90010

Telephone: (213) 639-3550
Facsimile: (213) 639-3555

Suite 700
1999 South Bascom Avenue
Campbell, California 95008

Telephone: (408) 614-0100
Facsimile: (213) 639-3555

Independent Auditor's Report

Board of Directors

Peninsula Healthcare Connection, Inc.

Palo Alto, California

We have audited the accompanying financial statements of Peninsula Healthcare Connection, Inc. (PHC), a nonprofit organization, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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


Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peninsula Healthcare Connection, Inc. as of June 30, 2021, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Peninsula Healthcare Connection, Inc.'s June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Campbell, California
December 17, 2021

A handwritten signature in black ink that reads "Ziegler & Miron". The signature is written in a cursive, flowing style.

Peninsula Healthcare Connection, Inc.
Statement of Financial Position
June 30, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 1,076,045	\$ 385,085
PPP restricted cash		80,927
Government grants receivable—Note 3	380,320	415,058
Grants and contributions receivable—Note 4	175,000	305,109
Prepaid expenses and other assets	11,068	9,247
	<u>1,642,433</u>	<u>1,195,426</u>
Total Assets	\$ 1,642,433	\$ 1,195,426
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 41,304	\$ 59,920
Salaries and employee benefits payable	203,884	81,809
PPP advance—Note 5		80,927
	<u>245,188</u>	<u>222,656</u>
Total Liabilities	245,188	222,656
 Net Assets		
Without donor restrictions	1,144,745	517,816
With donor restrictions—Note 6	252,500	454,954
	<u>1,397,245</u>	<u>972,770</u>
Total Net Assets	1,397,245	972,770
Total Liabilities and Net Assets	\$ 1,642,433	\$ 1,195,426

See notes to financial statements.

Peninsula Healthcare Connection, Inc.
Statement of Activities
Year Ended June 30, 2021
(with comparative totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Operating Activities				
Public Support and Revenue				
Government grants	\$ 2,309,756	\$	\$ 2,309,756	\$ 2,068,170
Grants and contributions	659,418	252,500	911,918	988,875
PPP grant—Note 5	80,927		80,927	306,231
In-kind contributions	283,730		283,730	221,900
Fee for service	50,000		50,000	50,000
Clinical fees	13,162		13,162	8,359
Other income	1,213		1,213	778
Net assets released from restrictions	454,954	(454,954)		
Total Public Support and Revenue	3,853,160	(202,454)	3,650,706	3,644,313
Expenses				
Program services				
New Directions	2,557,791		2,557,791	2,185,905
Clinic	590,444		590,444	563,461
Total Program Services	3,148,235		3,148,235	2,749,366
Supporting services				
Management and general	64,437		64,437	165,398
Fundraising	13,559		13,559	371
Total Expenses	3,226,231		3,226,231	2,915,135
Change in Net Assets From Operations	626,929	(202,454)	424,475	729,178
Net Assets at Beginning of Year	517,816	454,954	972,770	243,592
Net Assets at End of Year	\$ 1,144,745	\$ 252,500	\$ 1,397,245	\$ 972,770

See notes to financial statements.

Peninsula Healthcare Connection, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021
(with comparative totals for 2020)

	Program Services			Supporting Services		2021 Total	2020 Total
	New Directions	Clinic	Total	Management and General	Fundraising		
Expenses							
Salaries	\$ 1,802,614	\$ 101,939	\$ 1,904,553	\$ 36,052	\$ 11,532	\$ 1,952,137	\$ 1,780,992
Payroll taxes	161,989	6,153	168,142	100	1,015	169,257	142,258
Employee benefits	243,955	15,594	259,549	95	773	260,417	239,296
Total Personnel Expenses	2,208,558	123,686	2,332,244	36,247	13,320	2,381,811	2,162,546
Professional fees	101,072	353,428	454,500	24,481	217	479,198	389,807
Program outreach	59,461	48,594	108,055			108,055	136,310
Occupancy	72,456	14,880	87,336			87,336	57,000
Transportation	27,192	13,518	40,710	6		40,716	46,575
Insurance	22,502	2,094	24,596	3,447		28,043	29,399
Telephone	20,221	7,662	27,883	59		27,942	27,512
Dues and subscriptions	19,111	3,334	22,445	140		22,585	10,280
Supplies	3,252	15,139	18,391			18,391	18,043
Office expenses	11,823	1,052	12,875		22	12,897	17,751
Computer	5,000	3,058	8,058			8,058	5,830
Meetings and trainings	1,708	3,613	5,321			5,321	3,258
Interest expense	3,636	144	3,780	52		3,832	6,305
Printing	1,799	242	2,041	5		2,046	4,519
Total Expenses	\$ 2,557,791	\$ 590,444	\$ 3,148,235	\$ 64,437	\$ 13,559	\$ 3,226,231	\$ 2,915,135

See notes to financial statements.

Peninsula Healthcare Connection, Inc.
Statement of Cash Flows
Year Ended June 30, 2021
(with comparative totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operations		
Change in net assets	\$ 424,475	\$ 729,178
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Government grants receivable	34,738	(140,993)
Grants and contributions receivable	130,109	(267,609)
Other receivables		31,790
Prepaid expenses and other assets	(1,821)	(950)
Accounts payable and accrued expenses	(18,616)	(12,317)
Salaries and employee benefits payable	122,075	30,398
PPP advance	(80,927)	80,927
Deposits		(2,720)
Cash Provided by Operating Activities	610,033	447,704
Cash Flows from Financing Activities		
Proceeds from amounts due to related parties		231,515
Payments on amounts due to related parties		(231,515)
Proceeds from line of credit		50,000
Payments on line of credit		(50,000)
Cash Provided by Financing Activities		
Increase in Cash, Cash Equivalents, and Restricted Cash	610,033	447,704
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	466,012	18,308
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u>\$ 1,076,045</u>	<u>\$ 466,012</u>
Supplementary Disclosures		
Income taxes paid	<u>\$</u>	<u>\$</u>
Interest paid	<u>\$ 3,831</u>	<u>\$ 6,305</u>

See notes to financial statements.

Peninsula Healthcare Connection, Inc.
Notes to Financial Statements
June 30, 2021

Note 1—Organization and Summary of Significant Accounting Policies

Organization—Peninsula Healthcare Connection, Inc. (PHC), a Palo Alto-based 501(c)(3) nonprofit organization, was founded in 2005 as a collaborative venture between the Community Working Group, Palo Alto Medical Foundation, and Stanford University School of Medicine. Formerly known as Opportunity Health Partners, PHC opened its medical clinic in 2006 at the Opportunity Center in Palo Alto to provide affordable healthcare to underserved and at-risk men and women, particularly individuals experiencing homelessness. In 2011, PHC became a California state licensed clinic, and in 2019 was officially designated as a Federally Qualified Health Center Lookalike (FQHC-LAL). In 2013, PHC partnered with New Directions, an intensive case management program previously operated under the Hospital Council of Northern and Central California, to provide community-based, wraparound services to individuals with complex medical and psychosocial needs.

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. PHC recognizes grants and contributions as revenue in the period received. Contributions and net assets are classified on the existence or absence of donor-imposed restrictions. The net assets of PHC and changes therein are classified and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of PHC. These net assets may be used at the discretion of PHC’s management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of PHC and/or the passage of time.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported in the statement of activities as net assets released from restrictions. It is the policy of PHC to record contributions that are restricted by the donor as an increase in net assets without donor restrictions if the restriction expires in the reporting period recognized.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of activities to provide primary and mental healthcare and intensive case management for homeless individuals or those at risk of becoming homeless. PHC did not engage in any reportable nonoperating activities during the years ended June 30, 2021 and 2020.

Income Taxes—The Internal Revenue Service (IRS) has classified PHC as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and PHC is exempt from California state income taxes from the Franchise Tax Board. Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered ‘more likely than not’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2021 and 2020. Generally, PHC’s information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Peninsula Healthcare Connection, Inc.
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Cash, Cash Equivalents, and Restricted Cash—PHC considers all highly liquid investments with a maturity of three months or less when purchases to be cash equivalents. Cash consists of balances in checking and savings accounts and in certificates of deposit at banks. Restricted cash consists of funds from the PPP advance for which qualifying expenditures had not yet been met (see Note 5).

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the cash, cash equivalents, and restricted cash shown in the statement of cash flows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,076,045	\$ 385,085
PPP restricted cash		80,927
	<u>Totals</u>	<u>Totals</u>
	<u>\$ 1,076,045</u>	<u>\$ 466,012</u>

Recently Adopted Accounting Principles

Contributions—In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies and improves the scope of the accounting guidance for contributions received and contributions made. The clarifications and improved scope assist entities in 1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or as exchange (reciprocal) transactions, and 2) determining whether a contribution is conditional. The clarified guidance applies to all entities that receive or make contributions (grants). ASU No. 2018-08 has been adopted by PHC for the year ended June 30, 2020. PHC has determined that adopting ASU No. 2018-08 has had no material effect on the financial statements.

Revenue Recognition—In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. PHC has adopted ASU No. 2014-09 for the year ended June 30, 2021 and noted that there was no material effect on the financial statements.

Restricted Cash—In February 2016, FASB issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU No. 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. Entities are required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash, and restricted cash equivalents on the balance sheet when these are shown in more than one line item. PHC has adopted ASU No. 2016-18 for the year ended June 30, 2021, and has adjusted the presentation of the financial statements accordingly.

Peninsula Healthcare Connection, Inc.
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Government Grants—Revenues from government grants are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred or as services are performed, based on the terms of each grant. The amount expended in excess of reimbursements are reported as government grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Grants and contributions—PHC recognizes all unconditional grants and contributions and promises to give in the period notified. Grants and contributions are reported as increases without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Unconditional promises to give are recorded as grants and contributions receivable at net realizable value.

Fee for service—Fees are recognized at the time services are provided.

Clinical fees—Fees are recognized at the time services are provided.

In-Kind Contributions—PHC records in-kind contributions including office space, professional services, supplies, and use of facilities. Donated services are recorded at fair value at the date of donation only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

PHC occupies space in downtown Palo Alto at no charge for the use of its Clinic program. In-kind occupancy at this location is recorded at the estimated fair value of space provided, at an approximate rate of \$2.50 per square foot.

In-kind contributions of \$283,730 and \$221,900 for the years ended June 30, 2021 and 2020, respectively, have been recorded in the in-kind contributions caption of the statement of activities at their fair value and included in the statement of functional expenses as follows:

	<u>2021</u>	<u>2020</u>
Professional fees	\$ 268,850	\$ 221,900
Occupancy	14,880	
Totals	<u>\$ 283,730</u>	<u>\$ 221,900</u>

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program services and supporting services benefitted. Salaries, employee benefits, and payroll taxes are allocated on the basis of time and effort. All other functional expenses are allocated directly to the function benefitted.

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 certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Peninsula Healthcare Connection, Inc.
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Comparative Totals for 2020—The accompanying financial statements include certain prior-year summarized comparative financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with PHC’s audited financial statements for the year ended June 30, 2020, from which the summarized information was derived

Note 2—Availability of Financial Assets and Liquidity

PHC’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$700,000). The following represents the availability and liquidity of PHC’s financial assets at June 30, 2021 to cover operating expenses for the next fiscal year:

Cash and cash equivalents, net of donor restrictions	\$	998,545
Government grants receivable		380,320
		<hr/>
Current Availability of Financial Assets	\$	<u><u>1,378,865</u></u>

Note 3—Government Grants Receivable

Government grants receivable at June 30, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
County of Santa Clara	\$ 267,070	\$ 370,386
Santa Clara Family Health Plan	113,250	44,672
	<hr/>	<hr/>
Totals	<u><u>\$ 380,320</u></u>	<u><u>\$ 415,058</u></u>

Note 4—Grants and Contributions Receivable

Grants and contributions receivable at June 30, 2021 and 2020 consist of amounts due from foundations well-known to PHC with favorable past payment history.

Note 5—PPP Advance

On April 30, 2020, PHC received a \$387,158 Paycheck Protection Program (PPP) advance from the Small Business Administration through a bank in response to the COVID-19 pandemic (see Note 10). Total grant revenue recognized during the years ended June 30, 2021 and 2020, amounted to \$80,927 and \$306,231 based on qualifying expenditures incurred. At June 30, 2020, the outstanding balance for the PPP advance totaled \$80,927, which was forgiven in full during the year ended June 30, 2021. There was no outstanding balance at June 30, 2021.

Peninsula Healthcare Connection, Inc.
Notes to Financial Statements—Continued

Note 6—Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Medical respite program	\$ 43,750	\$ 149,845
Healthcare access and delivery	33,750	
Total Subject to Purpose Restrictions	77,500	149,845
Time restricted for future periods:		
Medical respite program	175,000	147,609
Healthcare access and delivery		67,500
General operations		90,000
Total Subject to Time Restrictions	175,000	305,109
Total Net Assets with Donor Restrictions	\$ 252,500	\$ 454,954

Net assets released from donor restrictions for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction of specified purpose:		
Medical respite program	\$ 297,454	\$
Satisfaction of time restrictions:		
General operations	90,000	37,500
Healthcare access and delivery	67,500	
Total Net Assets Released from Donor Restrictions	\$ 454,954	\$ 37,500

Note 7—Employee Benefit Plan

PHC has adopted a 401(k) plan (the Plan) that covers employees who are at least 21 years of age and have completed 1,000 hours of service in 12 months of employment. Participants may elect to defer up to 80% of their annual salaries under the Plan, subject to Internal Revenue Service limitations. The Plan provides for matching of 100% of deferrals up to the first 6% of compensation. Employees vest immediately in all voluntary contributions to the Plan. PHC's contribution to the Plan was \$46,448 and \$40,749 for the years ended June 30, 2021 and 2020.

Note 8—Related Party Transactions

PHC enters into various intercompany transactions with Downtown Streets, Inc. (DST), a separate nonprofit organization with two common officers of PHC. PHC shares certain common expenses with DST to receive volume discounts, with PHC's purchases reimbursed to DST; such expenses during the years ended June 30, 2021 and 2020 amounted to \$70,329 and \$64,815, respectively. PHC received a series of short-term loans from DST during the year ended June 30, 2020 which totaled \$231,515, and were repaid in full at June 30, 2020.

PHC subleases its administrative office from DST under a month-to-month lease; such rental expense paid during the years ended June 30, 2021 and 2020 totaled \$72,000 and \$57,000, respectively.

Peninsula Healthcare Connection, Inc.
Notes to Financial Statements—Continued

Note 9—Recent Accounting Pronouncements

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity’s policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. PHC is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

Note 10—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. PHC has continued to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on PHC, if any, cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 11—Subsequent Events

Management evaluated all activities of Peninsula Healthcare Connection, Inc. through December 17, 2021, which is the date the financial statements were available to be issued, and concluded that other no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.