Audited Financial Statements

peninsula healthcare CONNECTION

June 30, 2022

Quigley & Miron

Quigley & Miron

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Independent Auditor's Report

Board of Directors
Peninsula Healthcare Connection, Inc.
Palo Alto, California

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PHC as of June 30, 2022, 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.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 PHC and to meet our other ethical responsibilities, in accordance with the 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 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 PHC's ability to continue as a going concern for one year after the date that the financial statements are 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 is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 PHC's 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 PHC's 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.

Report on Summarized Comparative Information

We have previously audited Peninsula Healthcare Connection, Inc.'s June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 17, 2021. 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.

Quigley & Miron

Campbell, California
January 23, 2023

Peninsula Healthcare Connection, Inc.
Statement of Financial Position
June 30, 2022
(with comparative totals for 2021)

	2022	2021
Assets		
Cash and cash equivalents	$ 929,153	$ 1,076,045
Government grants receivable—Note 3	415,868	267,070
Grants and contributions receivable—Note 4		175,000
Accounts receivable	488,084	113,250
Loan receivable from related party—Note 10	450,000	
Prepaid expenses and other assets	10,216	11,068
Property and equipment, net	28,967	
Total Assets	**$ 2,322,288**	**$ 1,642,433**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 266,022	$ 41,304
Salaries and employee benefits payable	241,024	203,884
Total Liabilities	**507,046**	**245,188**
Net Assets		
Without donor restrictions	1,640,113	1,144,745
With donor restrictions—Note 6	175,129	252,500
Total Net Assets	**1,815,242**	**1,397,245**
Total Liabilities and Net Assets	**$ 2,322,288**	**$ 1,642,433**

See notes to financial statements.

Peninsula Healthcare Connection, Inc.
Statement of Activities
Year Ended June 30, 2022
(with summarized comparative totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Operating Activities				
Public Support and Revenue				
Government grants	$ 2,153,183	$	$ 2,153,183	$ 1,895,722
Grants and contributions	1,035,917	175,129	1,211,046	911,918
PPP grant—Note 5				80,927
In-kind contributions—Note 9	249,842		249,842	283,730
Fee for service	713,737		713,737	464,034
Clinical fees	52,597		52,597	13,162
Other income	3,927		3,927	1,213
Net assets released from restrictions	252,500	(252,500)		
Total Public Support and Revenue	**4,461,703**	**(77,371)**	**4,384,332**	**3,650,706**
Expenses				
Program services				
New Directions	2,743,942		2,743,942	2,557,791
Clinic	952,957		952,957	590,444
Total Program Services	**3,696,899**		**3,696,899**	**3,148,235**
Supporting services				
Management and general	196,843		196,843	64,437
Fundraising	72,593		72,593	13,559
Total Expenses	**3,966,335**		**3,966,335**	**3,226,231**
Change in Net Assets From Operations	**495,368**	**(77,371)**	**417,997**	**424,475**
Net Assets at Beginning of Year	**1,144,745**	**252,500**	**1,397,245**	**972,770**
Net Assets at End of Year	**$ 1,640,113**	**$ 175,129**	**$ 1,815,242**	**$ 1,397,245**

See notes to financial statements.

Peninsula Healthcare Connection, Inc.
Statement of Functional Expenses
Year Ended June 30, 2022
(with summarized comparative totals for 2021)

	Program Services			Supporting Services			
	New Directions	**Clinic**	**Total**	**Management and General**	**Fundraising**	**2022 Total**	**2021 Total**
Expenses							
Salaries	$ 1,821,620	$ 351,451	$ 2,173,071	$ 94,973	$ 55,220	$ 2,323,264	$ 1,952,137
Payroll taxes	148,481	31,048	179,529	13,891	5,740	199,160	169,257
Employee benefits	270,413	45,476	315,889	13,543	8,882	338,314	260,417
Total Personnel Expenses	**2,240,514**	**427,975**	**2,668,489**	**122,407**	**69,842**	**2,860,738**	**2,381,811**
Professional fees	231,854	426,828	658,682	54,000	1,581	714,263	479,198
Occupancy	86,000	26,918	112,918			112,918	87,336
Program outreach	60,076	23,060	83,136		1,082	84,218	108,055
Insurance	17,264	5,650	22,914	9,343		32,257	28,043
Telephone	20,507	9,657	30,164	1,777		31,941	27,942
Transportation	27,514	2,172	29,686	39		29,725	40,716
Computer	23,203	2,583	25,786	1,714		27,500	8,058
Dues and subscriptions	13,579	3,751	17,330	4,955		22,285	22,585
Supplies	3,707	18,393	22,100	37		22,137	18,391
Office expenses	11,043	5,199	16,242	2,056	88	18,386	12,897
Interest expense	3,471	426	3,897			3,897	3,832
Meetings and trainings	3,064		3,064			3,064	5,321
Printing	2,146	345	2,491	515		3,006	2,046
Total Expenses	**$ 2,743,942**	**$ 952,957**	**$ 3,696,899**	**$ 196,843**	**$ 72,593**	**$ 3,966,335**	**$ 3,226,231**

See notes to financial statements.

Peninsula Healthcare Connection, Inc.
Statement of Cash Flows
Year Ended June 30, 2022
(with comparative totals for 2021)

	2022	2021
Cash Flows from Operations		
Change in net assets	$ 417,997	$ 424,475
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Government grants receivable	(148,798)	147,988
Grants and contributions receivable	175,000	130,109
Accounts receivable	(374,834)	(113,250)
Prepaid expenses and other assets	852	(1,821)
Accounts payable and accrued expenses	224,718	(18,616)
Salaries and employee benefits payable	37,140	122,075
PPP advance		(80,927)
Cash Provided by Operating Activities	**332,075**	**610,033**
Cash Flows from Investing Activities		
Purchases of property and equipment	(28,967)	
Loans to related party	(450,000)	
Cash Used in Investing Activities	**(478,967)**	
Increase (Decrease) in Cash and Cash Equivalents	**(146,892)**	**610,033**
Cash and Cash Equivalents at Beginning of Year	**1,076,045**	**466,012**
Cash and Cash Equivalents at End of Year	**$ 929,153**	**$ 1,076,045**
Supplementary Disclosures		
Income taxes paid	$	$
Interest paid	$ 3,897	$ 3,832

See notes to financial statements.

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, 2022 and 2021.

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, 2022 and 2021. 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.

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

Cash and Cash Equivalents—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.

Accounts Receivable—Accounts receivable consists primarily of amounts due from fee for service and clinical fees, and are stated at the amount that management expects to collect from outstanding balances. Management believes that accounts receivable as of June 30, 2022 and 2021 are fully collectible, and the PHC has therefore not recorded an allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible.

Property and Equipment—Property and equipment are stated at cost or estimated fair market value at date of gift, and depreciated using the straight-line method over the estimated useful lives of five to seven years. Amounts over $5,000 are capitalized when such amounts are determined to benefit future periods.

Concentration of Credit Risk—Financial instruments which potentially subject PHC to concentrations of credit risk consist of cash and cash equivalents and receivables. PHC places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. At times, such cash and cash equivalent balances are in excess of the FDIC insurance limits. Management regularly reviews the financial stability of its cash and money market fund depositories and deems the risk of loss due to these concentrations to be minimal.

Recently Adopted Accounting Principles

Revenue Recognition—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (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 on a retrospective basis 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 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 on a retrospective basis for the year ended June 30, 2021, and has adjusted the presentation of the financial statements accordingly.

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

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 has been adopted by PHC for the year ended June 30, 2022. PHC has determined that adopting ASU No. 2020-07 has had no material effect on the financial statements.

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 the value of donated materials and services, which includes donated office space, professional services, supplies, and use of facilities, at their fair value of donation. 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.

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.

Reclassifications—Certain amounts in 2021 have been reclassified to conform with the 2022 financial statement presentation.

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

Comparative Totals for 2021—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, 2021, 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, 2022 and 2021 to cover operating expenses for the next fiscal year:

	2022	2021
Cash and cash equivalents, net of donor restrictions	$ 754,024	$ 998,545
Government grants receivable	415,868	267,070
Accounts receivables	488,084	113,250
Loan receivable from related party	450,000	
Current Availability of Financial Assets	**$ 2,107,976**	**$ 1,378,865**

Note 3—Government Grants Receivable

Government grants receivable at June 30, 2022 and 2021 consist of the following:

	2022	2021
County of Santa Clara	$ 374,283	$ 267,070
Health Resources and Services Administration	41,585	
Totals	**$ 415,868**	**$ 267,070**

Note 4—Grants and Contributions Receivable

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

Note 5—PPP Grant

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. Total grant revenue recognized during the year ended June 30, 2021, amounted to $80,927 based on qualifying expenditures incurred.

Note 6—Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2022 and 2021 are as follows:

	2022	2021
Subject to purpose restrictions:		
Intensive case management services	$ 70,000	$
Clinic	52,629	77,500
Specific time period	37,500	
Psychiatric services	15,000	
Total Subject to Purpose Restrictions	**175,129**	**77,500**
Subject to time restrictions:		
Medical respite program		175,000
Total Subject to Time Restrictions		**175,000**
Total Net Assets with Donor Restrictions	**$ 175,129**	**$ 252,500**

Net assets released from donor restrictions for the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Satisfaction of purpose restrictions:		
Clinic	$ 77,500	$ 297,454
Satisfaction of time restrictions:		
Medical respite program	175,000	
General operations		90,000
Healthcare access and delivery		67,500
Total Net Assets Released from Donor Restrictions	**$ 252,500**	**$ 454,954**

Note 7—Employee Benefit Plan

PHC has adopted a 401(k) defined contribution 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 $63,894 and $46,448 for the years ended June 30, 2022 and 2021.

Note 8—Commitments

Subsequent to year-end, PHC signed a lease for its administrative office space, requiring monthly payments of $10,181. The future minimum annual rental commitments by year for under this lease greater than a year are as follows.

Year Ending June 30,		
2023	$	111,986
2024		122,166
2025		122,166
2026		20,361
Total	$	376,679

Note 9—In-Kind Contributions

In-kind contributions of $249,842 and $283,730 for the years ended June 30, 2022 and 2021, respectively, have been recorded in the without donor restricted in-kind contributions caption of the statement of activities at their fair value and included in the statement of functional expenses as follows:

	2022	2021
Professional fees	$ 234,962	$ 268,850
Occupancy	14,880	14,880
Totals	$ 249,842	$ 283,730

PHC recognized in-kind professional services of $234,962 and $268,850 during the years ended June 30, 2022 and 2021, respectively, for medical services valued at $200 per hour.

PHC recognized in-kind occupancy of $14,880 and $14,880 during the years ended June 30, 2022 and 2021, respectively, for the use of its 496 square foot clinic in downtown Palo Alto valued at $2.50 per square foot.

Note 10—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, 2022 and 2021 amounted to $113,083 and $70,329, respectively. PHC issued a series of interest free short-term loans to DST during the year ended June 30, 2022 which totaled $450,000. The outstanding balance at June 30, 2022 is $450,000.

PHC subleases its administrative office from DST under a month-to-month lease; such rental expense paid during the years ended June 30, 2022 and 2021 totaled $86,000 and $72,000, respectively.

Note 11—Recent Accounting Pronouncement

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is to be applied using the modified retrospective approach and is effective for nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. PHC is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

Note 12—Subsequent Events

Management evaluated all activities of Peninsula Healthcare Connection, Inc. through January 23, 2023, which is the date the financial statements were available to be issued, and concluded that other than the new lease described in Note 8, no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.