EL RIO SANTA CRUZ NEIGHBORHOOD HEALTH CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS, OTHER FINANCIAL INFORMATION AND SINGLE AUDIT REPORTS

December 31, 2023 and 2022

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Financial Statements, Other Financial Information and Single Audit Reports

December 31, 2023 and 2022

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FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
El Rio Santa Cruz Neighborhood Health Center, Inc.
Tucson, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center, a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of El Rio Santa Cruz Neighborhood Health Center, Inc. as of December 31, 2023 and 2022, and the changes in its net assets and their 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 audit 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. 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 the Center and to meet our 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards 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 consolidated 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 consolidated 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 the Center'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated 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 June 4, 2024 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

June 4, 2024

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Statements of Financial Position

December 31,

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	$ 38,229,169	$ 26,737,914
Investments	28,803,699	24,574,180
Accounts receivable, net	24,075,062	26,127,066
Contribution receivable, net	1,000,000	1,000,000
Grants and other receivables	2,599,635	3,701,023
Other current assets	3,917,116	3,782,280
Total current assets	98,624,681	85,922,463
Assets limited as to use	12,394,727	21,509,974
Restricted cash	788,346	890,987
Notes receivable	23,562,325	23,562,325
Contributions receivable	1,791,718	2,834,437
Land, buildings and equipment:		
Land	6,788,826	6,788,826
Buildings and improvements	98,077,205	92,138,913
Equipment	53,670,508	54,650,938
	158,536,539	153,578,677
Less accumulated depreciation	(71,410,583)	(62,078,206)
	87,125,956	91,500,471
Other assets:		
Right-of-use assets, net	4,857,329	5,782,298
Total assets	$ 229,145,082	$ 232,002,955
Liabilities and Net Assets		
Current liabilities:		
Accrued employee compensation and benefits	$ 23,592,581	$ 21,476,091
Accounts payable and accrued expenses	5,322,515	12,911,893
Current portion of long-term debt	916,434	1,200,539
Current portion of lease liabilities	963,113	915,392
Other current liabilities	499,977	990,757
Total current liabilities	31,294,620	37,494,672
Long-term debt, less current portion, net	46,949,519	47,793,207
Other noncurrent liabilities	54,839	502,686
Lease liabilities	4,258,310	5,221,424
Total liabilities	82,557,288	91,011,989
Net assets:		
Without donor restrictions:		
Undesignated	136,417,555	118,974,181
Board designated	236,931	12,236,931
	136,654,486	131,211,112
With donor restrictions:		
Purpose restrictions	9,909,390	9,755,936
Perpetual in nature	23,918	23,918
	9,933,308	9,779,854
Total net assets	146,587,794	140,990,966
Total liabilities and net assets	$ 229,145,082	$ 232,002,955

The accompanying notes are an integral part of these financial statements.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Statements of Activities

Years Ended December 31,

	2023	2022
Revenue and public support:		
Patient service fees, net	$ 240,769,803	$ 210,063,157
Public support - Department of Health and Human Services	14,886,721	22,618,114
Public support - other	5,707,820	4,752,613
Other	10,411,874	14,624,253
In-kind contributions	5,072,208	3,901,490
Total revenue and public support	276,848,426	255,959,627
Expenses:		
Salaries and wages	142,888,800	123,564,806
Employee benefits	29,709,484	26,205,740
Medical services	11,400,959	10,164,416
Supplies	55,812,537	43,711,682
Other operating expenses	23,440,522	25,424,434
Depreciation	8,353,983	7,849,299
Interest	1,555,662	1,123,962
In-kind expenses	5,072,208	3,901,490
Total expenses	278,234,155	241,945,829
Changes in net assets from operations	(1,385,729)	14,013,798
Changes in fair value of interest rate swaps		1,313,750
Investment income (loss)	6,829,103	(4,395,553)
Increase in net assets without donor restrictions	$ 5,443,374	$ 10,931,995

The accompanying notes are an integral part of these financial statements.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Statements of Changes in Net Assets

Years Ended December 31,

	2023	2022
Net assets without donor restrictions:		
Changes in net assets from operations	$ (1,385,729)	$ 14,013,798
Changes in fair value of interest rate swaps		1,313,750
Investment income (loss)	6,829,103	(4,395,553)
Increase in net assets without donor restrictions	5,443,374	10,931,995
Net assets with donor restrictions:		
Contributions and special events	1,683,135	6,464,461
Net assets released from restrictions	(1,529,681)	(1,831,061)
Increase in net assets with donor restrictions	153,454	4,633,400
Increase in net assets	5,596,828	15,565,395
Net assets, beginning of the year	140,990,966	125,425,571
Net assets, end of the year	$ 146,587,794	$ 140,990,966

The accompanying notes are an integral part of these financial statements.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31,

	2023	2022
Operating activities		
Increase in net assets	$ 5,596,828	$ 15,565,395
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	8,353,983	7,849,299
Amortization of deferred financing costs	77,872	77,874
Realized and unrealized losses (gains) on investments and assets limited as to use	(3,983,999)	5,885,723
Changes in fair value of interest rate swaps		(1,313,750)
Changes in operating assets and liabilities:		
Accounts receivable, net	2,052,004	(14,683,458)
Contributions receivables	1,042,719	(3,834,437)
Grants and other receivables	1,101,388	190,286
Other current assets	(134,836)	(913,179)
Accrued employee compensation and benefits	2,116,490	(472,892)
Accounts payable and accrued expenses, excluding construction-related liabilities	(7,589,378)	(9,808,869)
Other current liabilities	(490,780)	75,330
Other non-current liabilities	(447,847)	(1,057,879)
Net cash provided (used) by operating activities	7,694,444	(2,440,557)
Investing activities		
Purchases of land, buildings and improvements and equipment	(3,054,499)	(5,751,169)
Net sales (purchases) of investments	(476,042)	14,327,523
Proceeds from maturities of assets limited as to use	15,125,167	(34,334,759)
Purchases of assets limited as to use	(5,779,398)	(596,891)
Net cash provided (used) by investing activities	5,815,228	(26,355,296)
Financing activities		
Repayment of bonds and notes payable	(2,121,058)	(1,037,949)
Net cash used by financing activities	(2,121,058)	(1,037,949)
Increase (decrease) in cash and cash equivalents and restricted cash	11,388,614	(29,833,802)
Cash and cash equivalents and restricted cash, beginning of the year	27,628,901	57,462,703
Cash and cash equivalents and restricted cash, end of the year	$ 39,017,515	$ 27,628,901
Cash and cash equivalents and restricted cash:		
Cash and cash equivalents	$ 38,229,169	$ 26,737,914
Restricted cash	788,346	890,987
	$ 39,017,515	$ 27,628,901
Supplemental Disclosures:		
Cash paid during the year for interest	$ 1,555,662	$ 1,123,962

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Organization and Principles of Consolidations

El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center) is a Federally Qualified Health Center (FQHC) that provides health care and related services to the indigent and low-income population of Tucson, Arizona. The Center is an Arizona nonprofit corporation and is exempt from state and federal income taxes as an organization described under Section 501(c)(3) of the Internal Revenue Code.

The Center established the El Rio Foundation, Inc. (the Foundation), whose sole purpose is to solicit, receive gifts, money and property and to distribute the same to the Center to support the charitable, scientific and educational activities related to the Center and its health care mission. The balances and transactions of the Foundation are included in the accompanying financial statements.

In September 2016 the Center entered into a joint venture agreement with Tucson Medical Center to form Health on Tucson LLC. In conjunction with forming the joint venture, the Center also entered into a professional and management services agreement to manage the facility and provide all personnel, accounting, and billing services in exchange for an administrative fee. The balances and transactions of Health on Tucson LLC are included in the accompanying financial statements.

Cherrybell Holdings, Inc. (CBH, a 501(c)(3) nonprofit organization) was established in July 2018. The Center is the controlling member of CBH, which operates exclusively for the benefit of the Center. CBH was formed in conjunction with the 2018 New Market Tax Credit transaction (Note 9).

Southeast Holdings, Inc. (SEH, a 501(c)(3) nonprofit organization) was established in September 2018. The Center is the controlling member of SEH, which operates exclusively for the benefit of the Center. SEH was formed in conjunction with the 2018 New Market Tax Credit transaction (Note 9).

Grant Road Holdings, Inc. (GRH, a 501(c)(3) nonprofit organization) was established in April 2021. The Center is the controlling member of GRH, which operates exclusively for the benefit of the Center. GRH was formed in conjunction with the 2021 New Market Tax Credit transaction (Note 9).

Significant intercompany accounts and transactions have been eliminated in these consolidated financial statements.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. The Center and the Foundation are required to report information regarding their financial position and activities according to the following net assets classifications.

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, approximately $237 thousand for future liabilities.

1. Summary of Significant Accounting Policies (continued)

Net Assets With Donor Restrictions: Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the restricted stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid instruments with initial maturities of three months or less.

Investments

Investments primarily consist of corporate bond funds, equity securities and shares in mutual funds, and are stated at fair value. Unrealized gains and losses are accounted for as other income (Note 5).

Inventory

Inventory is included in other current assets and is comprised of pharmaceutical and medical supplies. Inventory is stated at the lower of cost or market, using the first-in, first-out method. Donated pharmaceuticals are stated at estimated fair value at the date of donation, which approximates cost.

Contributions Receivables

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Management considers its contributions receivable to be fully collective, and accordingly, no allowance for doubtful accounts has been recorded.

Assets Limited as to Use

Assets limited as to use consist of funds from nonpublic sources set aside by the Center's Board of Directors. The Board retains control of these funds and may, at its discretion, direct the use of these funds in future periods. The investments included in assets limited as to use are carried at fair value based on quoted market prices. Realized and unrealized gains and losses are accounted for as other income.

1. Summary of Significant Accounting Policies (continued)

Restricted Cash

Restricted cash represents the required maintenance reserve funds for Cherrybell Holdings, Inc., Southeast Holdings, Inc. and Grant Road Holdings, Inc. and unspent proceeds from notes payables, which are restricted by lenders.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at historical cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings and improvements are depreciated over 10 to 40 years and equipment is depreciated over 3 to 20 years. Computer equipment costing $1,500 or more, and land, buildings, and other equipment costing $5,000 or more are capitalized.

United States Department of Health and Human Services (DHHS) retains a reversionary interest in property and equipment purchased with its funds, as well as proceeds from the sale of such assets.

Patient Service Fees, Net

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from their established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Patient service fees are reported at the estimated net realizable amounts from patients, third-party payors, and for other services rendered including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Annually, Medicare cost reports are filed with the intermediary and are subject to audit and adjustments prior to final settlement. Estimates of final settlements for the 2023 and 2022 cost reports have been recognized in these consolidated financial statements.

The Center also has agreements with various health maintenance organizations (HMOs) and AHCCCS to provide medical services to subscribing participants. Under these agreements, the Center receives monthly capitation payments based on the number of participants, regardless of services actually performed by the Center.

Changes in Net Assets from Operations

The consolidated statement of activities includes a measurement for changes in net assets from operations. Components of changes in net assets from operations exclude changes in the fair value of the interest rate swaps, investment income and capital grants, consistent with industry practice.

1. Summary of Significant Accounting Policies (continued)

Public Support Revenue

The Center receives annual grants awarded by DHHS which are primarily to subsidize care provided to the indigent population of the community and to provide prevention and primary health care services to persons with HIV infection and/or AIDS. These grants are subject to renewal periodically. The Center also receives grants awarded by the State of Arizona and other entities for specific public health care purposes. The Center recognizes grants as support when eligible costs are incurred or services are provided. Grants receivable are recorded when grant expenses are incurred or contracted services have been provided, but reimbursement has not been received by the Center.

Uncompensated Care

The Center provides health care and other related services to patients who meet certain criteria under its charity care policy. Because the Center does not pursue collection of amounts which qualify as charity care, they are not reported as net patient service fees. Uncompensated care provided by the Center under its policy amounted to $15,401,015 and $13,228,253 in 2023 and 2022, respectively.

Derivative and Hedging Instruments

The Center recognizes all derivatives in the consolidated statements of financial position at fair value. Derivatives that are not hedges must be adjusted to fair value through the consolidated statement of activities. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair values of the derivative are offset against one of the following: the change in fair value of assets, liabilities, or firm commitments through the consolidated statement of activities. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in the excess of revenue over expenses. The Center has interest rate swaps to manage the cost of borrowing its outstanding debt. The interest rate swaps converted the interest on the Center's long-term debt from floating rates to fixed rates.

Income Taxes

The Center, Foundation, CBH, SEH, and GRH are exempt from federal and state income taxes as organizations other than private foundations under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. Health on Tucson LLC is considered a disregarded entity for tax purposes, as each of its members are nonprofit organizations.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in Note 14. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

In-Kind Contributions

Donated goods or services are recorded at their estimated fair value at the date of the donation, and presented as revenues and expenses in the consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications were made to the 2022 financial statements in order to conform to the 2023 presentation.

Right-Of-Use Assets

The Center accounted for its existing operating lease as operating lease as operating leases without reassessing whether the unamortized initial direct costs before transition adjustments (as of December 31, 2021) would have met the definition of initial direct costs in ASU 2016-02 at lease commencement. Operating leases can be seen on statement of financial position as right-of-use assets.

Subsequent Events

The Center evaluated all events or transactions that occurred after December 31, 2023 through June 4, 2024, the date the Center issued these financial statements.

2. Liquidity and Availability

The Center monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Center has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

	2023	2022
Financial assets:		
Cash, cash equivalents and restricted cash	$ 39,017,515	$ 27,628,901
Investments	28,803,699	24,574,180
Accounts receivable, net	24,075,062	26,127,066
Contributions receivables	2,791,718	3,834,437
Grants and other receivables	2,599,635	3,701,023
Assets limited to use	12,394,727	21,509,974
Total financial assets	109,682,356	107,375,581
Less amounts unavailable for general expenditure within one year:		
Board-designated operating reserves	(236,931)	(12,236,931)
Donor restricted for purpose	(9,909,390)	(9,755,936)
Donor restricted in perpetuity	(23,918)	(23,918)
Assets limited to use	(12,394,727)	(21,509,974)
Restricted cash	(788,346)	(890,987)
Total financial assets available to meet cash needs for general expenditures within one year	$ 86,329,044	$ 62,957,835

In addition to financial assets available to meet general expenditures over the year, the Center operates with a balanced budget and anticipates covering its general expenditures by collecting patient receivables, contributions, grants, and other revenues and by utilizing donor-restricted resources from current and prior years gifts.

3. Concentration of Risk

The Center received payments for services rendered to patients under payment arrangements with payors which include third-party payors contracting with the Center to provide services under capitated arrangements, DHHS and other federally funded programs, and others. The following table summarizes the percentages of net revenues from each of these payors for the years ended December 31:

	2023 Percent (%)	2022 Percent (%)
Department of Health and Human Services	6%	9%
Patient service fees:		
AHCCCS insurance plans	42	43
Other fee-for-service insurance plans	46	40
Other	6	8
	100%	100%

Collective Bargaining Agreement

Certain of the Center's employees, including its physicians and nonmanagerial employees, are covered by a collective bargaining agreement. At December 31, 2023 and 2022, 21.2 and 20.9 percent of the Center's employees were participating under this agreement.

Credit Risk

The Center and the Foundation maintain cash and cash equivalents and investment balances at several financial institutions. Bank and investment accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). Additionally, the Center maintains investments in money market funds that are secured by United States Treasury Securities and are considered to be fully backed by the United States federal government. Balances may at times exceed insured amounts; however, the Center and the Foundation manage the concentration of credit risk by maintaining deposits in multiple financial institutions. The Center and the Foundation have not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

4. Accounts Receivable, Net

Accounts receivable consists of charges to patients for services provided to them. Settled patient charges have been adjusted by a sliding fee schedule based on each patient's ability to pay. Allowances for doubtful accounts and contractual allowances have been provided to cover receivable amounts management estimates will not be collected.

The amount due (to)/from AHCCCS is included in accounts receivable, net, and it represents amounts due to the Center for the unreimbursed cost of providing primary health care to AHCCCS members. The Center completes annual reconciliations between actual costs of providing healthcare services to AHCCCS members and the payments received for those encounters. FQHCs receive the majority of their all-inclusive per visit cost for each AHCCCS encounter by directly billing the contracted third party AHCCCS insurance plans, and AHCCCS provided quarterly supplemental payments to FQHCs based on AHCCCS patients assigned to the Center.

4. Accounts Receivable, Net (continued)

The following is a summary at December 31:

	2023	2022
Accounts receivable	$ 35,583,327	$ 49,122,870
Allowance for doubtful accounts and contractual allowances	(22,978,420)	(24,227,534)
Net accounts receivable	12,604,907	24,895,336
Due (to)/from AHCCCS	11,470,155	1,231,730
	$ 24,075,062	$ 26,127,066

5. Investments, Assets Limited as to Use, and Fair Value Measurements

Accounting principles generally accepted in the United States of America (GAAP) establish a framework for measuring fair value and expand disclosures about fair value measurements, which are determined based on assumptions that market participants would use in pricing assets and liabilities. GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions and the Center's own assumptions about market participant assumptions.

Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are the Center's own assumptions about what market participants would assume based on the best information available in the circumstance.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Mutual funds: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

Level 1 inputs - A quoted price in the active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The Center's assets limited as to use and investments are valued using Level 1 inputs.

Level 2 inputs - These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The Center does not have any financial instruments valued using level 2 inputs.

Level 3 inputs - These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Center does not have any financial instruments valued using level 3 inputs.

As of December 2023 and 2022, the fair value of the Center's other financial instruments approximates their carrying amounts, either because the expected collection or payment period is relatively short or because the terms are similar to market terms.

5. Investments, Assets Limited as to Use, and Fair Value Measurements (continued)

Fair value of assets measured on a recurring basis at December 31, 2023 was as follows:

	Total	Level 1
Assets limited as to use:		
Cash equivalents	$ 1,952,013	$ 1,952,013
Fixed income mutual funds	1,824,640	1,824,640
Equity securities	8,618,074	8,618,074
Total assets limited as to use	12,394,727	12,394,727
Investments:		
Fixed income mutual funds	2,532,554	2,532,554
Equity securities and mutual funds	26,271,145	26,271,145
Total investments	28,803,699	28,803,699
	$ 41,198,426	$ 41,198,426

Fair value of assets measured on a recurring basis at December 31, 2022 was as follows:

	Total	Level 1
Assets limited as to use:		
Cash equivalents	$ 12,013,598	$ 12,013,598
Fixed income mutual funds	1,791,689	1,791,689
Equity securities	7,704,687	7,704,687
Total assets limited as to use	21,509,974	21,509,974
Investments:		
Fixed income mutual funds	1,952,168	1,952,168
Equity securities and mutual funds	22,327,458	22,327,458
Other	294,554	294,554
Total investments	24,574,180	24,574,180
	$ 46,084,154	$ 46,084,154

Income earned from investments and assets limited as to use is comprised of the following for the years ended December 31:

	2023	2022
Unrealized and realized gains (losses)	$ 3,983,999	$ (5,885,723)
Dividends	1,020,026	752,900
Interest	1,825,078	737,270
	6,829,103	(4,395,553)

6. Contributions Receivable

Unconditional promises to give, due in more than one year, are reflected at the present value of estimated future cash flows using a discount rate of 3% for each pledge at the date of donation. The Center considers the balances to be fully collectible and has not recorded an allowance for doubtful accounts at December 31, 2023. The Center's contribution receivable are due as follows at December 31:

	2023	2022
Receivables due in less than one year	$ 1,000,000	$ 1,000,000
Receivables due in one to three years	2,000,000	3,000,000
	3,000,000	4,000,000
Less: discount to net present value	(208,282)	(165,563)
	$ 2,791,718	$ 3,834,437

7. Notes Receivable

In conjunction with the 2018 New Market Tax Credit transaction (Note 9), the Center issued unsecured notes receivable. The balance of the notes receivable at December 31, 2023 and 2022 was $14,674,600. The notes mature on December 2044 and interest accrues monthly at a rate of 1 percent. Interest only payments of $36,686 are due quarterly until October 2025, and principal and interest payments of $219,920 are due quarterly thereafter.

In conjunction with the 2021 New Market Tax Credit transaction (Note 9), the Center issued unsecured notes receivable. The balance of the notes receivable at December 31, 2023 and 2022 were $8,887,725. The notes mature on December 2046 and interest accrues monthly at a rate of 1.0589 percent. Interest only payments of $23,529 are due quarterly until December 2027, and principal and interest payments of $136,711 are due quarterly thereafter.

8. Long-Term Debt

Long-term debt was comprised of the following at December 31:

	2023	2022
Series 2010 Healthcare Revenue Bonds	$ 8,116	$ 334,060
$11,750,000 note payable to financial institution	8,716,341	9,382,168
$7,927,500 note payable to financial institution	7,625,549	7,839,443
$10,508,800 note payable to Catalyst CDE-14, LLC	10,508,800	10,508,800
$4,891,200 note payable to Catalyst CDE-14, LLC	4,891,200	4,891,200
$4,165,800 note payable to Prestamos Sub-CDE 6, LLC	4,165,800	4,165,800
$1,714,200 note payable to Prestamos Sub-CDE 6, LLC	1,714,200	1,714,200
$1,937,925 note payable to Clearinghouse NMTC (Sub-51), LLC	1,937,925	1,937,925
$729,575 note payable to Clearinghouse NMTC (Sub-51), LLC	729,575	729,575
$6,949,800 note payable to URP Sub-CDE 44, LLC	6,949,800	6,949,800
$2,050,200 note payable to URP Sub-CDE 44, LLC	2,050,200	2,050,200
Less unamortized debt issuance costs	(1,431,553)	(1,509,425)
	47,865,953	48,993,746
Less current portion	(916,434)	(1,200,539)
	$ 46,949,519	$ 47,793,207

8. Long-Term Debt (continued)

In June 2010, the Center issued $4,000,000 Series 2010 Healthcare Revenue Bonds through the Industrial Development Authority of Pima County, Arizona (Series 2010 Bonds). The proceeds of the Series 2010 Bonds were used for construction, acquisition and development of medical facilities and to pay the cost of issuance. Under the terms of the Series 2010 Bonds, one financial institution agreed to purchase all of the bonds. Repayment on the bonds is due in monthly installments of approximately $21,000 including principal and interest at 3.85 percent according to the terms of an interest rate swap agreement (Note 10). The bonds are secured by a deed of trust on the constructed building and mature in June 2025.

In June 2021, the Center signed a $7,927,500 note payable to a financial institution with interest rate of 3.13 percent. Repayment on the note is interest only payments to be made monthly through 2022, followed by monthly installments of approximately $40,000, including principal and interest at 3.13 percent according to the terms of an interest rate swap agreement (Note 10). The noted is secured by a deed of trust on real property and matures in August 2028.

In October 2018, the Center signed a $11,750,000 note payable to a financial institution. Repayment on the note is due in monthly installments of approximately $92,000, including principal and interest at 4.68 percent according to the terms of an interest rate swap agreement (Note 10). The note is secured by a deed of trust on real property and matures in December 2028.

In October 2018, CBH signed a $10,508,800 note payable due to Catalyst CDE-14, LLC with interest rate of 1.20 percent. Interest only payments are to be made quarterly through 2024, followed by quarterly principal and interest payments of $56,411 through 2048. The note is secured by a deed of trust on real property.

In October 2018, CBH signed a $4,891,200 note payable due to Catalyst CDE-14, LLC with interest rate of 1.20 percent. Interest only payments are to be made quarterly through 2024, followed by quarterly principal and interest payments of $60,931 through 2048. The note is secured by a deed of trust on real property.

In December 2018, SEH signed a $4,165,800 note payable due to Prestamos Sub-CDE 6, LLC with interest rate of 1.29 percent. Interest only payments are to be made quarterly through 2025, followed by quarterly principal and interest payments of $60,253 through 2044. The note is secured by a deed of trust on real property.

In December 2018, SEH signed a $1,714,200 note payable due to Prestamos Sub-CDE 6, LLC with interest rate of 1.29 percent. Interest only payments are to be made quarterly through 2025, followed by quarterly principal and interest payments of $21,555 through 2044. The note is secured by a deed of trust on real property.

In June 2021, GRH signed a $1,937,925 note payable due to Clearinghouse NMTC Sub-51, LLC with interest rate of 1.00 percent. Interest only payments are to be made quarterly through 2028, followed by quarterly principal and interest payments of $4,845 through 2048. The note is secured by a deed of trust on real property.

In June 2021, GRH signed a $729,575 note payable due to Clearinghouse NMTC Sub-51, LLC with interest rate of 1.00 percent. Interest only payments are to be made quarterly through 2028, followed by quarterly principal and interest payments of $1,824 through 2048. The note is secured by a deed of trust on real property.

8. Long-Term Debt (continued)

In June 2021, GRH signed a $6,949,800 note payable due to URP Sub-CDE 44, LLC with interest rate of 1.0 percent. Interest only payments are to be made quarterly through 2028, followed by quarterly principal and interest payments of $17,375 through 2048. The note is secured by a deed of trust on real property.

In June 2021, GRH signed a $2,050,200 note payable due to URP Sub-CDE 44, LLC with interest rate of 1.0 percent. Interest only payments are to be made quarterly through 2028, followed by quarterly principal and interest payments of $5,126 through 2048. The note is secured by a deed of trust on real property.

Future principal payments on long-term debt are as follows at December 31, 2023:

2024	$ 925,766
2025	1,105,639
2026	1,852,453
2027	1,909,580
2028	13,511,936
Thereafter	29,992,132
	49,297,506
Unamortized issuance costs	(1,431,553)
Total	$ 47,865,953

9. New Market Tax Credits Transactions

New Market Tax Credits - Cherrybell Holdings, Inc.

In October 2018, the Center entered into a transaction which generated "New Market Tax Credits" (NMTC) under Section 45D of Internal Revenue Code of 1986, as amended (Section 45D). The transaction was initiated by Wells Fargo Community Investment Holdings, LLC (Tax Credit Investor) who contributed equity of $5,491,200 to an investment fund established for the transaction. The investment fund also received loan proceeds totaling $10,508,800. The capital contribution and loan proceeds were used to make a Qualified Equity Investment (QEI) (as defined by Section 45D of the code) totaling $16,000,000 to Catalyst CDE-14, LLC (Catalyst), to carry out the transaction. The investment fund used the remaining funds to establish reserve requirements and to pay certain transaction fees.

Catalyst loaned $15,400,000 to Cherrybell Holdings, Inc. (Note 8). Cherrybell Holdings, Inc. (CBH) is the Qualified Low-Income Business (QALICB) under Section 45D. The transaction was structured as a 30-year debt financing with a 7-year NMTC compliance period, at the end of which the Center will have the option to acquire all membership rights of the investment fund. Catalyst used the remaining funds to establish reserve requirements and to pay certain transaction fees.

CBH used the loan proceeds for acquisition and renovation of the Cherrybell clinic (the Property). The debt is guaranteed and secured by the Property. The Property qualifies as low-income property under Section 45D. As such, the financing arrangements between CBH and Catalyst qualifies as a "qualified low-income community investment" (QLICI) and generates a NMTC.

9. New Market Tax Credits Transactions (continued)

The Center and CBH entered into a rental agreement on October 2018, for which, upon completion of the property, the Center rents the property from CBH for $99,353 per year for years 1-6, $293,996 for year 7, and $877,925 per annum for remainder of the 30-year lease. In addition, the Center and CBH also entered into a 7-year equipment lease agreement whereby the Center rents the equipment from CBH for $25,000 per annum. Rental expense and rental income, along with the deferred rent payable and receivable, are intercompany transactions that will be eliminated in future years for purposes of the consolidated financial statements.

New Market Tax Credits - Southeast Holdings, Inc.

In December 2018, the Center entered into a transaction which generated "New Market Tax Credits" (NMTC) under Section 45D of Internal Revenue Code of 1986, as amended (Section 45D). The transaction was initiated by Wells Fargo Community Investment Holdings, LLC (Tax Credit Investor) who contributed equity of $2,082,600 to an investment fund established for the transaction. The investment fund also received loan proceeds totaling $4,165,800. The capital contribution and loan proceeds were used to make a Qualified Equity Investment (QEI) (as defined by Section 45D of the code) totaling $2,750,000 to Prestamos Sub-CDE 6, LLC (Prestamos), to carry out the transaction. The investment fund used the remaining funds to establish reserve requirements and to pay certain transaction fees.

Prestamos loaned $5,880,000 to Southeast Holdings, Inc. (Note 8). Southeast Holdings, Inc. (SEH) is the Qualified Low-Income Business (QALICB) under Section 45D. The transaction was structured as a 26-year debt financing with a 7-year NMTC compliance period, at the end of which the Center will have the option to acquire all membership rights of the investment fund. Prestamos used the remaining funds to establish reserve requirements and to pay certain transaction fees.

SEH used the loan proceeds for acquisition and renovation of the Southeast clinic (the Property). The debt is guaranteed and secured by the Property. The Property qualifies as low-income property under Section 45D. As such, the financing arrangements between SEH and the Prestamos qualifies as a "qualified low-income community investment" (QLICI) and generates a NMTC.

The Center and SEH entered into a rental agreement on December 2018, for which, upon completion of the Property, the Center rents the Property from SEH for $105,000 per year for years 1-7 and $327,170 per annum for remainder of the 26-year lease. Rental expense and rental income, along with the deferred rent payable and receivable, are intercompany transactions that will be eliminated in future years for purposes of the consolidated financial statements.

New Market Tax Credits - Grant Road Holdings, Inc.

In June 2021, the Center entered into a transaction which generated "New Market Tax Credits" (NMTC) under Section 45D of Internal Revenue Code of 1986, as amended (Section 45D). The transaction was initiated by Wells Fargo Bank, National Association (Lender) who contributed equity of $7,927,500 to a Leverage Lender established for the transaction. The Leverage Lender contributed to an investment fund that received loan proceeds totaling $8,887,725. The capital contribution and loan proceeds were used to make a Qualified Equity Investment (QEI) (as defined by Section 45D of the code) totaling $2,750,000 and $9,000,000 to Clearinghouse NMTC (Sub-51), LLC (Sub-CDE 1) and URP Subsidiary CDE 44, LLC (Sub-CDE 2), respectively, to carry out the transaction. The investment funds used the remaining funds to establish reserve requirements and to pay certain transaction fees.

9. New Market Tax Credits Transactions (continued)

Sub-CDE 1 loaned $1,937,925 and $729,575 to Grant Road Holdings, Inc. (Note 8). Grant Road Holdings, Inc. (GRH) is the Qualified Low-Income Business (QALICB) under Section 45D. The transaction was structured as a 30-year debt financing with a 7-year NMTC compliance period, at the end of which the Center will have the option to acquire all membership rights of the investment fund. Clearinghouse NMTC used the remaining funds to establish reserve requirements and to pay certain transaction fees.

Sub-CDE 2 loaned $6,949,800 and $2,050,200 to Grant Road Holdings, Inc. (Note 8). Grant Road Holdings, Inc. (GRH) is the Qualified Low-Income Business (QALICB) under Section 45D. The transaction was structured as a 30-year debt financing with a 7-year NMTC compliance period, at the end of which the Center will have the option to acquire all membership rights of the investment fund. URP Sub-CDE used the remaining funds to establish reserve requirements and to pay certain transaction fees

GRH used the loan proceeds for acquisition and renovation of the Grant Road clinic (the Property). The debt is guaranteed and secured by the Property. The Property qualifies as low-income property under Section 45D. As such, the financing arrangements between GRH, Sub-CDE 1, and Sub-CDE 2 qualifies as a "qualified low-income community investment" (QLICI) and generates a NMTC.

10. Interest Rate Swaps

In June 2010, the Center entered into an interest rate swap agreement that hedges an initial notional amount of $4,000,000 at a fixed rate of 3.85 percent against 65 percent of 1-month LIBOR plus 1.3 percent. The notional amount will decrease over the term of the agreement as principal payments are made on the underlying debt. The interest rate swap agreement will terminate in June 2025.

In August 2013, the Center entered into an interest rate swap agreement that hedges an initial notional amount of $5,000,000 at a fixed rate of 3.84 percent against 1-month LIBOR plus 1.85 percent. The notional amount will decrease over the term of the agreement as principal payments are made on the underlying debt. The interest rate swap agreement terminated in August 2020.

In October 2018, the Center entered into an interest rate swap agreement that hedges an initial notional amount of $11,750,000 at a fixed rate of 3.45 percent against 1-month LIBOR. The notional amount will decrease over the term of the agreement as principal payments are made on the underlying debt. The interest rate swap agreement will terminate in December 2028.

In June 2021, the Center entered into an interest rate swap agreement that hedges an initial notional amount of $7,927,500 at a fixed rate of 1.396 percent against 1-month LIBOR. The notional amount will decrease over the term of the agreement as principal payments are made on the underlying debt. The interest rate swap agreement will terminate in August 2028.

Changes in the fair value of the interest rate swap agreements resulted in a decrease in net assets of $0 and $1,313,750 during the years ended December 31, 2023 and 2022, respectively.

11. Operating Leases

The Center has several non-cancelable operating leases for certain facilities and equipment that expire on various dates through 2052.

Operating lease cost:	
Rent expense	$ 1,054,650

Supplemental information for the statement of activities for the year ended December 31, 2023 related to lease was as follows:

Operating lease right-of-use assets, net	$ 4,857,329
Operating lease liabilities:	
Current portion of long-term debt	963,113
Long-term debt	4,258,310
Weighted average remaining lease term	7 years
Operating leases	

During the year ended December 31, 2023, the Center had the following cash and non-cash activities associated with leases:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 1,045,073
Non-cash investing and financing activities	
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	5,782,299

Future minimum operating lease commitments are as follows:

Year ending December 31,	
2024	$ 1,072,062
2025	1,099,774
2026	1,083,567
2027	674,160
2028	481,714
Thereafter	1,196,896
	5,608,173
Less: interest	(386,751)
Present value of lease liabilities	$ 5,221,423

The Center utilizes its incremental borrowing rate as the discount rate. As of December 31, 2023, the discount rate on the operating lease was 2.31%.

12. Retirement Plans

The Center has a 403(b) Tax Deferred Annuity Plan (TDA) for the benefit of its employees, which is administered by a pension plan administrator. The Center contributes 1.5 percent of qualifying gross salaries and wages to the TDA and matches employees' contributions up to three percent of qualifying salaries and wages. The Center made contributions to the TDA of $6,039,476 and $4,638,628 in 2023 and 2022, respectively.

13. In-kind Contributions

In-kind contributions are measured at estimated fair value at the date of donation and consisted of the following during the years ended December 31:

	2023	2022
Immunizations and HIV pharmaceuticals received from the State of Arizona	$ 4,986,464	$ 3,861,602
Other	85,744	39,888
	$ 5,072,208	$ 3,901,490

14. Functional Expense Classification

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses allocated on a square-footage proportional basis include occupancy, depreciation, and amortization. Expenses allocated on the basis of estimates of proportional use or time and effort are salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other. In addition, depreciation that is for administrative purpose like furniture and fixtures, office equipment, and computer equipment are considered as administrative expenses following the Medicare cost report guidelines.

The following summarizes the Center's expenses by function for the for the year ended December 31, 2023:

	Program Services Primary healthcare	Management and General	Fundraising and Development	Total
Salaries and wages	$ 127,972,284	$ 14,916,516		$ 142,888,800
Employee benefits	26,608,037	3,101,447		29,709,484
Medical services and supplies	64,701,583	2,250,966	$ 260,947	67,213,496
Other operating expenses	20,342,109	1,807,769	1,290,644	23,440,522
Depreciation	3,655,437	4,698,546		8,353,983
Interest	1,555,662			1,555,662
In-kind expenses	4,986,463		85,745	5,072,208
Total	$ 249,821,575	$ 26,775,244	$ 1,637,336	$ 278,234,155

14. Functional Expense Classification (continued)

The following summarizes the Center's expenses by function for the for the year ended December 31, 2022:

	Program Services Primary healthcare	Management and General	Fundraising and Development	Total
Salaries and wages	$ 110,694,938	$ 12,869,868		$ 123,564,806
Employee benefits	23,476,286	2,729,454		26,205,740
Medical services and supplies	51,889,408	1,757,661	$ 229,029	53,876,098
Other operating expenses	22,149,484	1,625,831	1,649,119	25,424,434
Depreciation	3,572,998	4,276,301		7,849,299
Interest	1,123,962			1,123,962
In-kind expenses	3,861,602		39,888	3,901,490
Total	$ 216,768,678	$ 23,259,115	$ 1,918,036	$ 241,945,829

15. Net Assets with Donor Restrictions

Net asset activity with donor restrictions for the year ended December 31, 2023 is as follows:

	Beginning Balance	Contributions	Releases	Ending Balance
Medical Programs	$ 3,334,082	$ 1,533,630	$ (1,205,880)	$ 3,661,832
El Rio Central Project	37,454			37,454
St. Elizabeth	423,249	21,543	(46,083)	398,709
Medical Equipment	150,009			150,009
Workforce Programs	339,484	51,594	(48,948)	342,130
Other	5,495,576	76,368	(228,770)	5,343,174
	$ 9,779,854	$ 1,683,135	$ (1,529,681)	$ 9,933,308

Net asset activity with donor restrictions for the year ended December 31, 2022 is as follows:

	Beginning Balance	Contributions	Releases	Ending Balance
Medical Programs	$ 3,080,925	$ 1,540,340	$ (1,287,183)	$ 3,334,082
El Rio Central Project	239,254	48,200	(250,000)	37,454
St. Elizabeth	500,480		(77,231)	423,249
Medical Equipment	150,009			150,009
Workforce Programs	348,626	44,831	(53,973)	339,484
Other	827,160	4,831,090	(162,674)	5,495,576
	$ 5,146,454	$ 6,464,461	$ (1,831,061)	$ 9,779,854

16. Commitments and Contingencies

Healthcare regulations: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Center is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) broadened the scope of certain fraud and abuse laws by adding several criminal provisions for fraud offenses that apply to all healthcare benefit programs. HIPAA also added a prohibition against incentives intended to influence decisions by Medicare beneficiaries as to the provider from which they receive services. HIPAA requirements were updated by the Health Information Technology for Economic and Clinical Health Act (HITECH Act). Under the HITECH Act, violations of HIPAA requirements could now result in civil penalties of up to $50,000 per incident, and up to $1.5 million in total for each type of violation in a calendar year.

Professional liability insurance: The Federally Supported Health Centers Assistance Act of 1992 authorizes the Public Health Service to assume responsibility for medical malpractice claims involving approved grantees and certain other health care providers under the Federal Tort Claim Act (FTCA). The Center is currently covered under the FTCA. In addition, the Center has general liability and umbrella coverage.

Litigation: Periodically, the Center is involved in litigation and claims arising in the normal course of operations. In the opinion of management, based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

17. Conditional Contributions and Grants

The Center received conditional contributions and grants during the fiscal year ending December 31, 2023. Conditional contributions and grants are recorded when the donor-imposed conditions are substantially met. Certain conditions are required to be met by the Center in the subsequent years in order to earn and receive these amounts. Amounts awarded but not yet earned totaled $14,158,591 and $9,591,355 as of the year ended December 31, 2023 and 2022, respectively. While management believes that the Center will meet these conditions, they had not been met as of the year ended December 31, 2023 and 2022. Accordingly, no amount has been recorded for these conditional contributions and grants as a receivable in these financial statements.

OTHER FINANCIAL INFORMATION

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Other Financial Information

The Board of Directors of
El Rio Santa Cruz Neighborhood Health Center, Inc.
Tucson, Arizona

Our audits were conducted for the purpose of forming an opinion on the 2023 and 2022 consolidated financial statements taken as a whole. The details of the 2023 and 2022 consolidated statements of financial position and the related details of the consolidated statements of activities and changes in net assets of El Rio Santa Cruz Neighborhood Health Center, Inc., and the 2023 statements of financial position and activities and changes in net assets of El Rio Foundation, Inc. (other financial information) are presented for purposes of additional analysis and are not a required part of the basic consolidated 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 basic consolidated financial statements. The other financial information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other financial information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Fester & Chapman, PLLC

June 4, 2024

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El Rio Santa Cruz Neighborhood Health Center, Inc.
Details of Consolidated Statements of Financial Position
December 31, 2023

	The Center							
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Grant Road Holdings, Inc.	Foundation	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 36,349,556					$ 1,879,613		$ 38,229,169
Investments	28,803,699							28,803,699
Accounts receivable, net	24,024,278			$ 50,784				24,075,062
Contribution receivables						1,000,000		1,000,000
Grants and other receivables	2,599,635							2,599,635
Due from other funds	33,531,166	$ 27,605,690			$ 4,324,944	96,594	$ (65,558,394)	
Other current assets	3,442,895	472,726				1,495		3,917,116
Total current assets	128,751,229	28,078,416		50,784	4,324,944	2,977,702	(65,558,394)	98,624,681
Assets limited as to use						12,394,727		12,394,727
Restricted cash			$ 264,490	337,826	186,030			788,346
Notes receivable	23,562,325							23,562,325
Contributions receivables						1,791,718		1,791,718
Land, buildings and equipment:								
Land	4,956,588				1,832,238			6,788,826
Building and improvements	61,563,263	2,084,220	14,077,293	11,417,339	8,935,090			98,077,205
Equipment	51,180,139	273,669	1,357,195	331,876	527,629			53,670,508
	117,699,990	2,357,889	15,434,488	11,749,215	11,294,957			158,536,539
Less accumulated depreciation	(65,912,911)	(1,250,694)	(2,508,606)	(1,290,881)	(447,491)			(71,410,583)
	51,787,079	1,107,195	12,925,882	10,458,334	10,847,466			87,125,956
Right-of-use assets, net	3,139,721	1,717,608						4,857,329
Total assets	$ 207,240,354	$ 30,903,219	$ 13,190,372	$ 10,846,944	$ 15,358,440	$ 17,164,147	$ (65,558,394)	$ 229,145,082
Liabilities and Net Assets								
Current liabilities:								
Accrued employee compensation and benefits	$ 22,807,016	$ 785,565						$ 23,592,581
Accounts payable and accrued expenses	5,181,447	41,050	$ 46,275	$ 10,416	$ 29,169	$ 14,158		5,322,515
Current portion of long-term debt	916,434							916,434
Current portion of lease liabilities	521,625	441,488						963,113
Due to other funds	31,546,683	29,545,717			4,319,183	146,811	$ (65,558,394)	
Other current liabilities	499,977							499,977
Total current liabilities	61,473,182	30,813,820	46,275	10,416	4,348,352	160,969	(65,558,394)	31,294,620
Long-term debt, less current portion, net	15,384,258		14,855,500	5,530,422	11,179,339			46,949,519
Other noncurrent liabilities	54,839							54,839
Lease liabilities	2,677,903	1,580,407						4,258,310
Total liabilities	79,590,182	32,394,227	14,901,775	5,540,838	15,527,691	160,969	(65,558,394)	82,557,288
Net assets:								
Without donor restrictions	127,650,172	(1,491,008)	(1,711,403)	5,306,106	(169,251)	7,069,870		136,654,486
With donor restrictions						9,933,308		9,933,308
Total net assets	127,650,172	(1,491,008)	(1,711,403)	5,306,106	(169,251)	17,003,178		146,587,794
Total liabilities and net assets	$ 207,240,354	$ 30,903,219	$ 13,190,372	$ 10,846,944	$ 15,358,440	$ 17,164,147	$ (65,558,394)	$ 229,145,082

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.
Details of Consolidated Statements of Financial Position
December 31, 2022

	The Center							
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Grant Road Holdings, Inc.	Foundation	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 24,374,192					$ 2,363,722		$ 26,737,914
Investments	24,574,180							24,574,180
Accounts receivable, net	26,076,282			$ 50,784				26,127,066
Contribution receivables						1,000,000		1,000,000
Grants and other receivables	3,701,023							3,701,023
Due from other funds	19,603,419	$ 14,708,926			$ 4,324,944	92,862	$ (38,730,151)	
Other current assets	3,752,205	27,855				2,220		3,782,280
Total current assets	102,081,301	14,736,781		50,784	4,324,944	3,458,804	(38,730,151)	85,922,463
Assets limited as to use	12,000,000					9,509,974		21,509,974
Restricted cash			$ 338,236	335,488	217,263			890,987
Notes receivable	23,562,325							23,562,325
Contributions receivables						2,834,437		2,834,437
Land, buildings and equipment:								
Land	4,956,588				1,832,238			6,788,826
Building and improvements	57,709,191	2,068,454	14,077,293	11,417,339	8,935,090		(2,068,454)	92,138,913
Equipment	52,434,238	273,669	1,357,195	331,876	527,629		(273,669)	54,650,938
	115,100,017	2,342,123	15,434,488	11,749,215	11,294,957		(2,342,123)	153,578,677
Less accumulated depreciation	(58,836,791)	(1,024,256)	(2,056,618)	(993,037)	(191,760)		1,024,256	(62,078,206)
	56,263,226	1,317,867	13,377,870	10,756,178	11,103,197		(1,317,867)	91,500,471
Other assets:								
Right-of-use assets, net	3,665,909	2,116,389						5,782,298
Total assets	$ 197,572,761	$ 18,171,037	$ 13,716,106	$ 11,142,450	$ 15,645,404	$ 15,803,215	$ (40,048,018)	$ 232,002,955
Liabilities and Net Assets								
Current liabilities:								
Accrued employee compensation and benefits	$ 20,901,197	$ 574,894						$ 21,476,091
Accounts payable and accrued expenses	12,861,084	41,050				$ 9,759		12,911,893
Current portion of long-term debt	1,200,539							1,200,539
Current portion of lease liabilities	491,779	423,613						915,392
Due to other funds	18,644,983	15,505,247			$ 4,319,183	260,738	$ (38,730,151)	
Other current liabilities	990,757							990,757
Total current liabilities	55,090,339	16,544,804			4,319,183	270,497	(38,730,151)	37,494,672
Long-term debt, less current portion, net	16,282,052		$ 14,833,690	$ 5,516,607	11,160,858			47,793,207
Other noncurrent liabilities	502,686							502,686
Lease Liabilities	3,199,528	2,021,896						5,221,424
Total liabilities	75,074,605	18,566,700	14,833,690	5,516,607	15,480,041	270,497	(38,730,151)	91,011,989
Net assets (deficit):								
Without donor restrictions	122,498,156	(395,663)	(1,117,584)	5,625,843	165,363	5,752,864	(1,317,867)	131,211,112
With donor restrictions						9,779,854		9,779,854
Total net assets (deficits)	122,498,156	(395,663)	(1,117,584)	5,625,843	165,363	15,532,718	(1,317,867)	140,990,966
Total liabilities and net assets	$ 197,572,761	$ 18,171,037	$ 13,716,106	$ 11,142,450	$ 15,645,404	$ 15,803,215	$ (40,048,018)	$ 232,002,955

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.
Details of Consolidated Statements of Activities and Changes in Net Assets
Year ended December 31, 2023

	The Center							
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Grant Road Holdings, Inc.	Foundation	Eliminations	Total
Net assets without donor restrictions:								
Revenue and public support:								
Patient service fees, net	$ 235,898,914	$ 4,870,889						$ 240,769,803
Public support - Department of Health and Human Services	14,664,772	221,949						14,886,721
Public support - other	5,407,387					$ 300,433		5,707,820
Other	9,325,456		$ 124,352	$ 105,000	$ 96,948	1,529,681	$ (769,563)	10,411,874
In-kind contributions	4,986,464					85,744		5,072,208
Total revenue and public support	270,282,993	5,092,838	124,352	105,000	96,948	1,915,858	(769,563)	276,848,426
Expenses:								
Salaries and wages	139,589,142	3,299,658						142,888,800
Employee benefits	29,007,818	701,666						29,709,484
Medical services	11,004,949	163,721				232,289		11,400,959
Supplies	55,211,541	574,632				26,364		55,812,537
Other operating expenses	22,777,449	1,222,068	34,809	74,814	29,987	1,388,825	(2,087,430)	23,440,522
Depreciation	7,121,981	226,438	451,988	297,844	255,732			8,353,983
Interest	1,126,366		231,374	52,079	145,843			1,555,662
In-kind expenses	4,986,464					85,744		5,072,208
Total expenses	270,825,710	6,188,183	718,171	424,737	431,562	1,733,222	(2,087,430)	278,234,155
Changes in net assets from operations	(542,717)	(1,095,345)	(593,819)	(319,737)	(334,614)	182,636	1,317,867	(1,385,729)
Investment earnings	5,694,733					1,134,370		6,829,103
Increase (decrease) in net assets without donor restrictions	5,152,016	(1,095,345)	(593,819)	(319,737)	(334,614)	1,317,006	1,317,867	5,443,374
Net assets with donor restrictions:								
Contributions and special events						1,683,135		1,683,135
Net assets released from restrictions						(1,529,681)		(1,529,681)
Increase in net assets with donor restrictions						153,454		153,454
Increase (decrease) in net assets	$ 5,152,016	$ (1,095,345)	$ (593,819)	$ (319,737)	$ (334,614)	$ 1,470,460	$ 1,317,867	$ 5,596,828

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.
Details of Consolidated Statements of Activities and Changes in Net Assets
Year ended December 31, 2022

	The Center							
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Grant Road Holdings, Inc.	Foundation	Eliminations	Total
Net assets without donor restrictions:								
Revenue and public support:								
Patient service fees, net	$ 206,520,290	$ 3,542,867						$ 210,063,157
Public support - Department of Health and Human Services	22,362,279	255,835						22,618,114
Public support - other	4,377,571					$ 375,042		4,752,613
Other	14,535,505	681	$ 124,352	$ 105,000	$ 96,948	1,831,061	$ (2,069,294)	14,624,253
In-kind contributions	3,861,602					39,888		3,901,490
Total revenue and public support	251,657,247	3,799,383	124,352	105,000	96,948	2,245,991	(2,069,294)	255,959,627
Expenses:								
Salaries and wages	120,792,744	2,772,062						123,564,806
Employee benefits	25,613,540	592,200						26,205,740
Medical services	9,858,939	99,692				205,785		10,164,416
Supplies	43,300,076	389,595				22,011		43,711,682
Other operating expenses	24,128,292	1,115,957	54,811	74,867	34,253	1,668,182	(1,651,928)	25,424,434
Depreciation	6,662,106	210,718	486,646	298,069	191,760			7,849,299
Interest	800,527		165,098	41,662	116,675			1,123,962
In-kind expenses	3,861,602					39,888		3,901,490
Total expenses	235,017,826	5,180,224	706,555	414,598	342,688	1,935,866	(1,651,928)	241,945,829
Changes in net assets from operations	16,639,421	(1,380,841)	(582,203)	(309,598)	(245,740)	310,125	(417,366)	14,013,798
Change in fair value of interest rate swaps	1,313,750							1,313,750
Investment earnings	(3,061,945)					(1,333,608)		(4,395,553)
Increase (decrease) in net assets without donor restrictions	14,891,226	(1,380,841)	(582,203)	(309,598)	(245,740)	(1,023,483)	(417,366)	10,931,995
Net assets with donor restrictions:								
Contributions and special events						6,464,461		6,464,461
Net assets released from restrictions						(1,831,061)		(1,831,061)
Increase in net assets with donor restrictions						4,633,400		4,633,400
Increase (decrease) in net assets	$ 14,891,226	$ (1,380,841)	$ (582,203)	$ (309,598)	$ (245,740)	$ 3,609,917	$ (417,366)	$ 15,565,395

See accompanying note.

1. Summary of Significant Accounting Policies

Fund Accounting

The following funds are maintained by the Center:

- *El Rio* - represents the balances and transactions of the Center's general operations.

- *Health on Tucson LLC* - represents the balances and transactions of a joint venture with the Center and Tucson Medical Center.

- *Cherrybell Holdings, Inc.* - represents the balances and transactions of a 501(c)(3) entity created to administrator New Market Tax Credits for the Cherrybell clinic.

- *Southeast Holdings, Inc.* - represents the balances and transactions of a 501(c)(3) entity created to administrator New Market Tax Credits for the Southeast clinic.

- *Grant Road Holdings, Inc.* - represents the balances and transaction of a 501(c)(3) entity created to administrator New Market Tax Credits for the Grant Road clinic.

El Rio Foundation, Inc.

Statement of Financial Position

December 31, 2023

Assets	
Cash and cash equivalents	$ 1,879,613
Contributions and other receivables	2,791,718
Other assets	1,495
Assets limited as to use:	
Without donor restrictions	12,370,809
With donor restrictions	23,918
	12,394,727
Total assets	$ 17,067,553
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	$ 14,158
Due to the Center	50,217
Total liabilities	64,375
Net assets:	
Without donor restrictions:	
Undesignated	6,832,939
Board designated	236,931
	7,069,870
With donor restrictions:	
Purpose restrictions	9,909,390
Perpetual in nature	23,918
Total net assets	17,003,178
Total liabilities and net assets	$ 17,067,553

El Rio Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and support:			
Grants and contributions	$ 300,433	$ 1,683,135	$ 1,983,568
Net investment income	1,134,370		1,134,370
In-kind contributions	85,744		85,744
	1,520,547	1,683,135	3,203,682
Net assets released from restrictions	1,529,681	(1,529,681)	
Total revenues and support	3,050,228	153,454	3,203,682
Expenses:			
Program services	1,302,423		1,302,423
Management and general	314,489		314,489
Special events and fundraising	30,566		30,566
In-kind expenses	85,744		85,744
Total expenses	1,733,222		1,733,222
Increase in net assets	1,317,006	153,454	1,470,460
Net assets, beginning of year	5,752,864	9,779,854	15,532,718
Net assets, end of year	$ 7,069,870	$ 9,933,308	$ 17,003,178

SINGLE AUDIT SECTION

El Rio Santa Cruz Neighborhood Health Center, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Agency/Federal Assistance Listings Number	Federal Program Name	Cluster Title	Pass-through Grantor	Pass-through Grantor's number	Program Expenditures
	US. Department of Agriculture				
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children	N/A	Arizona Department of Health Services	CTR040827	$ 757,589
	Total US. Department of Agriculture				757,589
	U.S. Department of Housing and Urban Development				
14.900	Lead Hazard Reduction Grant Program	N/A	City of Tucson	18387	10,490
	Total U.S. Department of Housing and Urban Development				10,490
	U.S. Department of Health and Human Service				
93.107	Area Health Education Centers	N/A	University of Arizona	None	647,825
93.110	Maternal and Child Health Federal Consolidated Programs	N/A	Arizona Alliance for Community Health Centers	None	20,000
93.113	Environmental Health	N/A	University of Arizona	434510	10,019
93.135	Centers for Research and Demonstration for Health Promotion and Disease Prevention	N/A	University of Arizona	540889	9,036
93.217	Family Planning Services (Title X)	N/A	Arizona Family Health Partnership	1 FPHPA006250-01-00	1,081,936
93.224	Health Center Program	Health Center Program	N/A	N/A	4,636,286
93.527	Grants for New and Expanded Services under the Health Center Program	Health Center Program	N/A	N/A	7,310,286
	Total Health Center Program Cluster				11,946,572

The accompanying notes are an integral part of this schedule.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

(Continued)

Federal Agency/Federal Assistance Listings Number	Federal Program Name	Cluster Title	Pass-through Grantor	Pass-through Grantor's number	Program Expenditures
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	N/A	Old Pueblo Community Services	None	$ 69,019
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	N/A	N/A	N/A	524,691
	Total 93.243				593,710
93.247	Advanced Nursing Education Workforce Grant Program	N/A	N/A	N/A	441,081
93.273	Alcohol Research Programs	N/A	Brown University	00001674	17,323
93.332	Cooperative Agreement to Support Navigators in Federally-facilitated Exchanges	N/A	Arizona Alliance for Community Health Centers	None	247,444
93.421	Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	N/A	National Association of Community Health Centers	None	52,195
93.498	COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution	N/A	N/A	N/A	2,037,363
93.516	COVID-19 Public Health Training Centers Program	N/A	N/A	N/A	161,288
93.526	COVID-19 Grants for Capital Development in Health Centers	N/A	N/A	N/A	422,629
93.530	Teaching Health Center Graduate Medical Education Payment	N/A	N/A	N/A	147,200
93.569	Community Services Block Grant	N/A	Pima Country Community & Workforce Development	CT-CR-22-14	23,000
93.767	Children's Health Insurance Program	N/A	Arizona Alliance for Community Health Centers	None	12,957
93.822	Health Careers Opportunity Program	N/A	University of Arizona	653355, 646644	105,255
93.822	COVID-19 Health Careers Opportunity Program	N/A	University of Arizona	655130	187,508
	Total 93.822				292,763

The accompanying notes are an integral part of this schedule.

Federal Agency/Federal Assistance Listings Number	Federal Program Name	Cluster Title	Pass-through Grantor	Pass-through Grantor's number	Program Expenditures
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	N/A	University of Arizona	473036	20,494
93.867	Vision Research	N/A	University of Arizona	518965	16,014
93.884	Primary Care Training and Enhancement	N/A	A.T. Still University	T0BHP33099	535,821
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	N/A	Pima County Health Department	CT-HD-22-420	72,273
93.917	HIV Care Formula Grants	N/A	Arizona Department of Health Services	ADHS-18-205224	1,812,927
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	N/A	N/A	N/A	913,916
93.924	Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	N/A	Family Health Centers at NYU-Language	H65HA307840101	128,670
93.994	Maternal and Child Health Services Block Grant to the State	N/A	Arizona Family Health Partnership	ADHS17-157599	9,796
	Total U.S. Department of Health and Human Services				21,674,252
	Total Expenditures of Federal Awards				$ 22,442,331

The accompanying notes are an integral part of this schedule.

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center), for the year ended December 31, 2023. 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).

NOTE 2 - Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principle contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

NOTE 3 - Federal Assistance Listings Number

The program titles and Federal Assistance Listing numbers were obtained from the federal or pass-through grantors, or the 2023 *Federal Assistance Listings*. When no Federal Assistance Listings numbers had been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two digit federal agency identifier and the word "unknown" were used.

NOTE 4 - Indirect Cost Rate

The Center did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

NOTE 5 - Subrecipients

The Center did not pass any funds onto subrecipients during the year ended December 31, 2023.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
El Rio Santa Cruz Neighborhood Health Center, Inc.
Tucson, Arizona

We have audited, in accordance with the 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 consolidated financial statements of El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center), which comprise the consolidated statements of financial position as of December 31, 2023, and the related consolidated statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 4, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated 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 consolidated 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman, PLLC

June 4, 2024

Independent Auditors' Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors of
El Rio Santa Cruz Neighborhood Health Center, Inc.
Tucson, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2023. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

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; the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Center 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 Center'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 Center's federal programs.

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Auditors' 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 Center'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 generally accepted auditing standards, *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 involved 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 Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Center'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 Center'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 Center'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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and that is described in the accompanying schedule of findings and questioned costs as item 2023-101. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Center's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-101 to be a material weakness.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the Center's response to the noncompliance and internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the other auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

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

Fester & Chapman, PLLC

June 4, 2024

El Rio Santa Cruz Neighborhood Health Center, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	Unmodified			
Is a going concern empahsis-of-matter paragraph included in the auditors' report?		yes	X	no
Internal control over financial reporting:				
Material weaknesses identified?		yes	X	no
Significant deficiencies identified?		yes	X	none reported
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards:

Internal control over major programs:				
Material weaknesses identified?	X	yes		no
Significant deficiencies identified?		yes	X	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	yes		no

Identification of major programs:

Federal Assistance Listing Number	Name of Federal Programs or Cluster
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children
93.224/93.527	*Health Center Program Cluster:* Health Center Program; Grants for New and Expanded Services under the Health Center Program
93.498	COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000			
Auditee qualified as low-risk auditee?		yes	X	no

Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR 200.511(b)?	X	yes		no

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

2023-101 Reporting (Noncompliance, Material Weakness)

Assistance Listing Number and Name:	93.498 COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution
Federal Agency:	Department of Health and Human Services
Compliance Requirement:	Reporting
Questioned Costs:	N/A

Criteria: The Provider Relief Fund grant requires the submission of the PRF Report. One of the critical line items on the PRF Report is the calculation of Lost Revenue. The Center opted to utilize actual revenue/net patient charges (the Actuals) from patient care services for the computation of Lost Revenue. The Lost Revenue calculation serves as a pivotal component of the PRF Report, enabling the Center to demonstrate its eligibility for receiving grant funds and ensure compliance with the program's requirements.

Condition: The Center intended to utilize the Provider Relief Fund (PRF) grant under the provision of Lost Revenue, and it met the eligibility criteria based on the 2020 budgeted method. However, the Center failed to accurately report its use of the Lost Revenue on the required PRF Report for the period ended March 31, 2023. Instead, the Center mistakenly reported that actual expenditures incurred would be charged to the grant.

Cause: The Center lacked proper internal control over preparing and reviewing the required PRF Reports.

Effect: The Center did not report the required Lost Revenue calculation on the PRF Report.

Recommendation: We recommend that the PRF Reports are reviewed and approved by a management team member who is not involved in the preparation and has sufficient knowledge of the program's requirements.

EL RIO HEALTH

June 4, 2024

We have prepared the following corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by 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*. Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Federal Award Findings and Questioned Costs:

2023-101 Reporting

Recommendation: We recommend that the PRF Reports are reviewed and approved by a management team member who is not involved in the preparation, and has sufficient knowledge of the program's requirements.
Action Taken: The Center concurs and has implemented the recommendation.
Contact Person: Controller
Completion date: Fiscal year ending 2024.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Status of Financial Statement Findings:

Prior Reference Number: 2022-001
Subject: Allowance for Accounts Receivable, Patient Revenue
Status: Fully corrected

Prior Reference Number: 2022-002
Subject: Year-End Closing
Status: Fully corrected

Prior Reference Number: 2022-003
Subject: Journal Entries
Status: Fully corrected

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Status of Federal Award Findings and Questioned Costs:

Prior Reference Number:	2022-101
Subject:	Special Tests and Provisions
Assistance Listing number and name:	93.224 Health Center Program
Agency:	Department of Health and Human Services
Status:	Fully corrected

Signature: Jody Yarbrough

Title: Chief Financial Officer

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