EL RIO SANTA CRUZ NEIGHBORHOOD HEALTH CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

December 31, 2022 and 2021

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Financial Statements and
Other Financial Information

December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in the year ended December 31, 2022, the Center changed its method of accounting for lease due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended, using the modified retrospective approach. Our opinion is not modified with respect to this matter.

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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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have separately issued our report 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

September 28, 2023

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Statements of Financial Position

December 31,

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 26,737,914	$ 49,618,752
Investments	24,574,180	8,616,246
Accounts receivable, net	26,127,066	11,443,608
Contribution receivable, net	1,000,000	
Grants and other receivables	3,701,023	3,891,309
Other current assets	3,782,280	2,869,101
Total current assets	85,922,463	76,439,016
Assets limited as to use	21,509,974	21,435,753
Restricted cash	890,987	7,843,951
Notes receivable	23,562,325	23,562,325
Contributions receivable	2,834,437	
Land, buildings and equipment:		
Land	6,788,826	6,788,826
Buildings and improvements	92,138,913	86,130,404
Construction in progress		6,038,073
Equipment	54,650,938	49,435,971
	153,578,677	148,393,274
Less accumulated depreciation	(62,078,206)	(55,149,191)
	91,500,471	93,244,083
Other assets:		
Right-of-use assets, net	5,782,298	
Total assets	$ 232,002,955	$ 222,525,128
Liabilities and Net Assets		
Current liabilities:		
Accrued employee compensation and benefits	$ 21,476,091	$ 21,948,983
Accounts payable and accrued expenses	8,911,893	18,720,762
Contingency and risk pool reserves	4,000,000	4,000,000
Current portion of long-term debt	1,200,539	944,832
Current portion of lease liabilities	915,392	
Other current liabilities	990,757	915,427
Total current liabilities	37,494,672	46,530,004
Long-term debt, less current portion, net	47,793,207	49,008,989
Other noncurrent liabilities	502,686	1,560,564
Lease liabilities	5,221,424	
Total liabilities	91,011,989	97,099,557
Net assets:		
Without donor restrictions:		
Undesignated	118,974,181	108,042,186
Board designated	12,236,931	12,236,931
	131,211,112	120,279,117
With donor restrictions:		
Purpose restrictions	9,755,936	5,122,536
Perpetual in nature	23,918	23,918
	9,779,854	5,146,454
Total net assets	140,990,966	125,425,571
Total liabilities and net assets	$ 232,002,955	$ 222,525,128

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,

	2022	2021
Revenue and public support:		
Patient service fees, net	$ 210,063,157	$ 172,370,328
Public support - Department of Health and Human Services	22,618,114	25,440,826
Public support - other	4,752,613	6,134,029
Other	14,624,253	12,416,008
In-kind contributions	3,901,490	4,108,007
Total revenue and public support	255,959,627	220,469,198
Expenses:		
Salaries and wages	123,564,806	107,649,372
Employee benefits	26,205,740	24,049,895
Medical services	10,164,416	12,540,560
Supplies	43,711,682	33,099,162
Other operating expenses	25,424,434	19,694,744
Depreciation	7,849,299	5,575,745
Interest	1,123,962	1,011,531
In-kind expenses	3,901,490	4,108,007
Total expenses	241,945,829	207,729,016
Changes in net assets from operations	14,013,798	12,740,182
Changes in fair value of interest rate swaps	1,313,750	750,330
Investment income (loss)	(4,395,553)	2,087,380
Increase in net assets without donor restrictions	$ 10,931,995	$ 15,577,892

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,

	2022	2021
Net assets without donor restrictions:		
Changes in net assets from operations	$ 14,013,798	$ 12,740,182
Changes in fair value of interest rate swaps	1,313,750	750,330
Investment income (loss)	(4,395,553)	2,087,380
Increase in net assets without donor restrictions	10,931,995	15,577,892
Net assets with donor restrictions:		
Contributions and special events	6,464,461	2,087,274
Net assets released from restrictions	(1,831,061)	(1,751,263)
Increase in net assets with donor restrictions	4,633,400	336,011
Increase in net assets	15,565,395	15,913,903
Net assets, beginning of the year	125,425,571	109,511,668
Net assets, end of the year	$ 140,990,966	$ 125,425,571

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,

	2022	2021
Operating activities		
Increase in net assets	$ 15,565,395	$ 15,913,903
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	7,849,299	5,575,745
Amortization of deferred financing costs	77,874	(465,734)
Realized and unrealized losses (gains) on investments and assets limited as to use	5,885,723	(1,212,358)
Changes in fair value of interest rate swaps	(1,313,750)	(750,330)
Changes in operating assets and liabilities:		
Accounts receivable, net	(14,683,458)	3,716,345
Contributions receivables	(3,834,437)	
Grants and other receivables	190,286	(2,272,192)
Other current assets	(913,179)	481,996
Accrued employee compensation and benefits	(472,892)	942,079
Accounts payable and accrued expenses, excluding construction-related liabilities	(9,808,869)	462,320
Other current liabilities	75,330	265,638
Other non-current liabilities	(1,057,879)	(1,637,293)
Net cash provided by operating activities	(2,440,557)	21,020,119
Investing activities		
Purchases of land, buildings and improvements and equipment	(5,751,169)	(13,468,507)
Net sales of investments	14,327,523	
Funds invested in notes receivable		(8,887,725)
Proceeds from maturities of assets limited as to use	(34,334,759)	64,781
Purchases of assets limited as to use	(596,891)	(32,345)
Net cash used by investing activities	(26,355,296)	(22,323,796)
Financing activities		
Proceeds from debt issuance		18,220,473
Repayment of bonds and notes payable	(1,037,949)	
Net cash used by financing activities	(1,037,949)	18,220,473
Decrease in cash and cash equivalents and restricted cash	(29,833,802)	16,916,796
Cash and cash equivalents and restricted cash, beginning of the year	57,462,703	40,545,907
Cash and cash equivalents and restricted cash, end of the year	$ 27,628,901	$ 57,462,703
Cash and cash equivalents and restricted cash:		
Cash and cash equivalents	$ 26,737,914	$ 49,618,752
Restricted cash	890,987	7,843,951
	$ 27,628,901	$ 57,462,703
Supplemental Disclosures:		
Cash paid during the year for interest	$ 1,123,962	$ 1,011,531

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 $12 million 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.

Contingency and Risk Pool Reserves

Contingency and risk pool reserves consist of management's estimate of uncollectible amounts related to denied claims from Medicare and Arizona Health Care Cost Containment System (AHCCCS).

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 2022 and 2021 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 $13,228,253 and $15,601,379 in 2022 and 2021, 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 2021 financial statements in order to conform to the 2022 presentation.

Financial impact

The Center's operations have been affected by the ongoing outbreak of the Coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and the related financial impact. Possible effects may include, but are not limited to, disruption to the Center's patient revenue, absenteeism in the Center's labor workforce, unavailability of services and supplies used in operations, and a decline in value of assets held by the Center, including property and equipment.

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.

Change in Accounting Principle

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842*), which is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights of obligations created by leases that extended more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. the Center has elected the package of practical expedients permitted in ASU 2016-02. Accordingly, the Center accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASU 2016-02, (b) whether classification of the operating leases would be different in accordance with ASU 2016-02, or (c) 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. No changes to beginning net assets were necessary as the Center implemented this change in accounting principle on a modified retrospective basis.

Subsequent Events

The Center evaluated all events or transactions that occurred after December 31, 2022 through September 28, 2023, 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:

	2022	2021
Financial assets:		
Cash, cash equivalents and restricted cash	$ 27,628,901	$ 57,462,703
Investments	24,574,180	8,616,246
Accounts receivable, net	26,127,066	11,443,608
Contributions receivables	3,834,437	
Grants and other receivables	3,701,023	3,891,309
Assets limited to use	21,509,974	21,435,753
Total financial assets	107,375,581	102,849,619
Less amounts unavailable for general expenditure within one year:		
Board-designated operating reserves	(12,236,931)	(12,236,931)
Donor restricted for purpose	(9,755,936)	(5,122,536)
Donor restricted in perpetuity	(23,918)	(23,918)
Assets limited to use	(21,509,974)	(21,435,753)
Restricted cash	(890,987)	(7,843,951)
Total financial assets available to meet cash needs for general expenditures within one year	$ 62,957,835	$ 56,186,530

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:

	2022	2021
	Percent (%)	Percent (%)
Department of Health and Human Services	9%	13%
Patient service fees:		
AHCCCS insurance plans	43	40
Other fee-for-service insurance plans	40	38
Other	8	9
	100%	100%

3. Concentration of Risk (continued)

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, 2022 and 2021, 20.9 and 20.0 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.

The following is a summary at December 31:

	2022	2021
Accounts receivable	$ 49,122,870	$ 15,735,943
Allowance for doubtful accounts and contractual allowances	(24,227,534)	(3,469,337)
Net accounts receivable	24,895,336	12,266,606
Due (to)/from AHCCCS	1,231,730	(822,998)
	$ 26,127,066	$ 11,443,608

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, 2022 and 2021.

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 estimates the fair value of its interest rate swap hedge liabilities described in Note 10 based on 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 2022 and 2021, 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, 2022 was as follows:

	Total	Level 1	Level 2
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	$

Fair value of assets measured on a recurring basis at December 31, 2021 was as follows:

	Total	Level 1	Level 2
Assets limited as to use:			
Cash equivalents	$ 12,028,447	$ 12,028,447	
Fixed income mutual funds	757,513	757,513	
Equity securities	8,649,793	8,649,793	
Total assets limited as to use	21,435,753	21,435,753	
Investments:			
Fixed income mutual funds	2,457,952	2,457,952	
Equity securities and mutual funds	5,863,740	5,863,740	
Other	294,554	294,554	
Total investments	8,616,246	8,616,246	
Interest rate swap hedge	(1,177,191)		$ (1,177,191)
	$ 28,874,808	$ 30,051,999	$ (1,177,191)

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

	2022	2021
Unrealized and realized gains (losses)	$ (5,885,723)	$ 1,212,358
Dividends	752,900	555,342
Interest	737,270	319,680
	(4,395,553)	2,087,380

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, 2022. The Center's contribution receivable are due as follows at December 31:

	2022
Receivables due in less than one year	$ 1,000,000
Receivables due in one to three years	3,000,000
	4,000,000
Less: discount to net present value	(165,563)
	$ 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, 2022 and 2021 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, 2022 and 2021 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:

	2022	2021
Series 2010 Healthcare Revenue Bonds	$ 334,060	$ 647,659
$11,750,000 note payable to financial institution	9,382,168	10,018,461
$7,927,500 note payable to financial institution	7,839,443	7,927,500
$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	(1,509,425)	(1,587,299)
	48,993,746	49,953,821
Less current portion	(1,200,539)	(944,832)
	$ 47,793,207	$ 49,008,989

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 $450,000, 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, 2022:

2023	$ 1,200,539
2024	968,981
2025	1,105,639
2026	1,852,453
2027	1,909,580
Thereafter	43,465,979
	50,503,171
Unamortized issuance costs	(1,509,425)
Total	$ 48,993,746

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.

<u>New Market Tax Credits - Southeast Holdings, Inc.</u>

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.

<u>New Market Tax Credits - Grant Road Holdings, Inc.</u>

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 $1,313,750 and $750,330 during the years ended December 31, 2022 and 2021, 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	$	723,036

Supplemental information for the statement of activities for the year ended December 31, 2022 related to lease was as follows:

Operating lease right-of-use assets, net	$	5,782,298
Operating lease liabilities:		
Current portion of long-term debt		915,392
Long-term debt		5,221,424
Weighted average remaining lease term		8 years
Operating leases		

During the year ended December 31, 2022, 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	$	711,190
Non-cash investing and financing activities		
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		7,021,766

Future minimum operating lease commitments are as follows:

Year ending December 31,		
2023	$	1,045,073
2024		1,072,062
2025		1,099,774
2026		1,083,567
2027		674,160
Thereafter		1,678,610
		6,653,246
Less: interest		(516,431)
Present value of lease liabilities	$	6,136,816

The Center utilizes its incremental borrowing rate as the discount rate. As of December 31, 2022, the discount rate on the operating lease was 2.29%.

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 $4,638,628 and $4,867,344 in 2022 and 2021, 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:

	2022	2021
Immunizations and HIV pharmaceuticals received from the State of Arizona	$ 3,861,602	$ 4,052,353
Other	39,888	55,654
	$ 3,901,490	$ 4,108,007

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, 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

14. Functional Expense Classification (continued)

The following summarizes the Center's expenses by function for the for the year ended December 31, 2021:

	Program Services Primary healthcare	Management and General	Fundraising and Development	Total
Salaries and wages	$ 97,347,794	$ 10,301,578		$ 107,649,372
Employee benefits	21,748,424	2,301,471		24,049,895
Medical services and supplies	44,283,796	1,298,675	$ 57,251	45,639,722
Other operating expenses	16,329,722	1,557,852	1,807,170	19,694,744
Depreciation	3,040,831	2,534,914		5,575,745
Interest	1,011,531			1,011,531
In-kind expenses	4,052,353		55,654	4,108,007
Total	$ 187,814,451	$ 17,994,490	$ 1,920,075	$ 207,729,016

15. Net Assets with Donor Restrictions

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

Net asset activity with donor restrictions for the year ended December 31, 2021 is as follows:

	Beginning Balance	Contributions	Releases	Ending Balance
Medical Programs	$ 1,991,526	$ 1,519,573	$ (430,174)	$ 3,080,925
El Rio Central Project	803,068	136,634	(700,448)	239,254
St. Elizabeth	717,556		(217,076)	500,480
Medical Equipment	357,759		(207,750)	150,009
Workforce Programs	313,324	73,409	(38,107)	348,626
Other	627,210	357,658	(157,708)	827,160
	$ 4,810,443	$ 2,087,274	$ (1,751,263)	$ 5,146,454

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, 2022. 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 $9,591,355 and $6,210,685 as of the year ended December 31, 2022 and 2021, respectively. While management believes that the Center will meet these conditions, they had not been met as of the year ended December 31, 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 2022 and 2021 consolidated financial statements taken as a whole. The details of the 2022 and 2021 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 2022 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

September 28, 2023

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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	8,861,084	41,050				$ 9,759		8,911,893
Contingency and risk pool reserves	4,000,000							4,000,000
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:								
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	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 Financial Position
December 31, 2021

	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	$ 47,154,322					$ 2,464,430		$ 49,618,752
Investments	8,616,246							8,616,246
Accounts receivable, net	11,326,332			$ 50,784		66,492		11,443,608
Grants and other receivables	3,891,309							3,891,309
Due from other funds	4,757,682	$ 1,168,775			$ 479,961	37,293	$ (6,443,711)	
Other current assets	2,869,101							2,869,101
Total current assets	78,614,992	1,168,775		50,784	479,961	2,568,215	(6,443,711)	76,439,016
Assets limited as to use	12,000,000					9,435,753		21,435,753
Restricted cash			$ 411,983	333,202	7,098,766			7,843,951
Notes receivable	23,562,325							23,562,325
Land, buildings and equipment:								
Land	4,956,588				1,832,238			6,788,826
Building and improvements	60,635,772	2,064,134	14,077,293	11,417,339			(2,064,134)	86,130,404
Construction in progress					6,038,073			6,038,073
Equipment	47,746,900	273,669	1,357,195	331,876			(273,669)	49,435,971
	113,339,260	2,337,803	15,434,488	11,749,215	7,870,311		(2,337,803)	148,393,274
Less accumulated depreciation	(52,884,251)	(819,304)	(1,569,972)	(694,968)			819,304	(55,149,191)
	60,455,009	1,518,499	13,864,516	11,054,247	7,870,311		(1,518,499)	93,244,083
Total assets	$ 174,632,326	$ 2,687,274	$ 14,276,499	$ 11,438,233	$ 15,449,038	$ 12,003,968	$ (7,962,210)	$ 222,525,128
Liabilities and Net Assets								
Current liabilities:								
Accrued employee compensation and benefits	$ 21,948,983	$ 275,327					$ (275,327)	$ 21,948,983
Accounts payable and accrued expenses	18,527,497				$ 180,000	$ 13,265		18,720,762
Contingency and risk pool reserves	4,000,000							4,000,000
Current portion of long-term debt	944,832							944,832
Due to other funds	1,576,152	1,084,098			3,715,559	67,902	(6,443,711)	
Other current liabilities	915,427							915,427
Total current liabilities	47,912,891	1,359,425			3,895,559	81,167	(6,719,038)	46,530,004
Long-term debt, less current portion, net	17,551,941		$ 14,811,880	$ 5,502,792	11,142,376			49,008,989
Other noncurrent liabilities	1,560,564	342,671					(342,671)	1,560,564
Total liabilities	67,025,396	1,702,096	14,811,880	5,502,792	15,037,935	81,167	(7,061,709)	97,099,557
Net assets (deficit):								
Without donor restrictions	107,606,930	985,178	(535,381)	5,935,441	411,103	6,776,347	(900,501)	120,279,117
With donor restrictions						5,146,454		5,146,454
Total net assets (deficits)	107,606,930	985,178	(535,381)	5,935,441	411,103	11,922,801	(900,501)	125,425,571
Total liabilities and net assets	$ 174,632,326	$ 2,687,274	$ 14,276,499	$ 11,438,233	$ 15,449,038	$ 12,003,968	$ (7,962,210)	$ 222,525,128

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 (losses)	(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.

El Rio Santa Cruz Neighborhood Health Center, Inc.
Details of Consolidated Statements of Activities and Changes in Net Assets
Year ended December 31, 2021

	The Center							
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Grant Road Holdings, Inc.	Foundation	Eliminations	Total
Unrestricted net assets:								
Revenue and public support:								
Patient service fees, net	$ 172,370,328	$ 3,707,118					$ (3,707,118)	$ 172,370,328
Public support - Department of Health and Human Services	25,440,826	402,175					(402,175)	25,440,826
Public support - other	6,134,029							6,134,029
Other	12,433,688	2,080	$ 124,352	$ 105,000	$ 644,547	$ 1,751,263	(2,644,922)	12,416,008
In-kind contributions	4,052,353					55,654		4,108,007
Total revenue and public support	220,431,224	4,111,373	124,352	105,000	644,547	1,806,917	(6,754,215)	220,469,198
Expenses:								
Salaries and wages	107,649,372	2,164,145					(2,164,145)	107,649,372
Employee benefits	24,049,895	444,418					(444,418)	24,049,895
Medical services	12,503,388	619,991				37,172	(619,991)	12,540,560
Supplies	33,079,083	241,924				20,079	(241,924)	33,099,162
Other operating expenses	19,463,626	746,134	34,811	40,882	217,839	1,807,170	(2,615,718)	19,694,744
Depreciation	4,754,469	263,720	523,324	297,952			(263,720)	5,575,745
Interest	735,166		185,098	75,662	15,605			1,011,531
In-kind expenses	4,052,353					55,654		4,108,007
Total expenses	206,287,352	4,480,332	743,233	414,496	233,444	1,920,075	(6,349,916)	207,729,016
Changes in net assets from operations	14,143,872	(368,959)	(618,881)	(309,496)	411,103	(113,158)	(404,299)	12,740,182
Change in fair value of interest rate swaps	750,330							750,330
Investment income	1,299,941					787,439		2,087,380
Contribution expense	(620,310)						620,310	
Increase (decrease) in net assets without donor restrictions	15,573,833	(368,959)	(618,881)	(309,496)	411,103	674,281	216,011	15,577,892
Net assets with donor restrictions:								
Contributions and special events						2,087,274		2,087,274
Net assets released from restrictions						(1,751,263)		(1,751,263)
Increase in net assets with donor restrictions						336,011		336,011
Increase (decrease) in net assets	$ 15,573,833	$ (368,959)	$ (618,881)	$ (309,496)	$ 411,103	$ 1,010,292	$ 216,011	$ 15,913,903

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, 2022

Assets	
Cash and cash equivalents	$ 2,363,722
Contributions and other receivables	3,834,437
Other assets	2,220
Assets limited as to use:	
Without donor restrictions	9,486,056
With donor restrictions	23,918
	9,509,974
Total assets	$ 15,710,353
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	$ 9,759
Due to the Center	167,876
Total liabilities	177,635
Net assets:	
Without donor restrictions:	
Undesignated	5,515,933
Board designated	236,931
	5,752,864
With donor restrictions:	
Purpose restrictions	9,755,936
Perpetual in nature	23,918
Total net assets	15,532,718
Total liabilities and net assets	$ 15,710,353

El Rio Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and support:			
Grants and contributions	$ 375,042	$ 6,464,461	$ 6,839,503
Net investment income	(1,333,608)		(1,333,608)
In-kind contributions	39,888		39,888
	(918,678)	6,464,461	5,545,783
Net assets released from restrictions	1,831,061	(1,831,061)	
Total revenues and support	912,383	4,633,400	5,545,783
Expenses:			
Program services	1,588,801		1,588,801
Management and general	282,053		282,053
Special events and fundraising	25,124		25,124
In-kind expenses	39,888		39,888
Total expenses	1,935,866		1,935,866
Increase in net assets	(1,023,483)	4,633,400	3,609,917
Net assets, beginning of year	6,776,347	5,146,454	11,922,801
Net assets, end of year	$ 5,752,864	$ 9,779,854	$ 15,532,718