

EL RIO SANTA CRUZ NEIGHBORHOOD HEALTH CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

December 31, 2020 and 2019

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Financial Statements and
Other Financial Information

December 31, 2020 and 2019

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Audited Consolidated Financial Statements:	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities.....	4
Consolidated Statements of Changes in Net Assets.....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7 - 22
Other Financial Information:	
Independent Auditors' Report on Other Financial Information.....	23
Details of Consolidated Statements of Financial Position.....	24 - 25
Details of Consolidated Statements of Activities and Changes in Net Assets.....	26 - 27
Note to Other Financial Information.....	28
El Rio Foundation, Inc. Statement of Financial Position.....	29
El Rio Foundation, Inc. Statement of Activities and Changes in Net Assets.....	30



Independent Auditors' Report

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

Report on the Financial Statements

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, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will issue 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 at a future date. 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

May 25, 2021

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Statements of Financial Position

December 31,

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 39,729,246	\$ 28,663,782
Investments	7,912,362	6,068,560
Accounts receivable, net	15,159,953	21,417,467
Grants and other receivables	1,619,117	2,718,273
Other current assets	3,351,097	2,036,936
Total current assets	67,771,775	60,905,018
Assets limited as to use	20,637,094	6,663,978
Restricted cash	816,661	888,106
Notes receivable	14,674,600	14,674,600
Land, buildings and equipment:		
Land	6,788,826	4,658,213
Buildings and improvements	81,786,168	76,039,088
Equipment	32,171,551	33,130,182
	120,746,545	113,827,483
Less accumulated depreciation	(49,966,965)	(44,665,207)
	70,779,580	69,162,276
Total assets	\$ 174,679,710	\$ 152,293,978
Liabilities and Net Assets		
Current liabilities:		
Accrued employee compensation and benefits	\$ 21,006,904	\$ 15,608,207
Accounts payable and accrued expenses	4,580,144	4,312,364
Contingency and risk pool reserves	4,000,000	4,000,000
Current portion of long-term debt	906,068	1,432,916
Other current liabilities	649,789	1,026,124
Total current liabilities	31,142,905	26,379,611
Long-term debt, less current portion, net	30,827,280	31,727,784
Other noncurrent liabilities	3,197,857	1,526,592
Total liabilities	65,168,042	59,633,987
Net assets:		
Without donor restrictions:		
Undesignated	92,464,294	88,786,557
Board designated	12,236,931	236,931
	104,701,225	89,023,488
With donor restrictions:		
Purpose restrictions	4,786,525	3,612,585
Perpetual in nature	23,918	23,918
	4,810,443	3,636,503
Total net assets	109,511,668	92,659,991
Total liabilities and net assets	\$ 174,679,710	\$ 152,293,978

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,

	<u>2020</u>	<u>2019</u>
Revenue and public support:		
Patient service fees, net	\$ 154,151,862	\$ 143,452,589
Public support - Department of Health and Human Services	19,733,444	12,048,156
Public support - Medicaid EHR Incentive Program		1,062,500
Public support - other	4,433,960	3,171,309
Other	9,722,635	4,650,927
In-kind contributions	<u>2,244,137</u>	<u>2,558,853</u>
Total revenue and public support	190,286,038	166,944,334
Expenses:		
Salaries and wages	96,200,431	87,769,910
Employee benefits	20,717,514	18,320,110
Medical services	9,316,547	7,849,890
Supplies	28,118,722	24,009,714
Other operating expenses	15,017,170	12,813,533
Depreciation	5,533,898	4,949,093
Interest	783,798	681,524
In-kind expenses	<u>2,244,137</u>	<u>2,558,853</u>
Total expenses	<u>177,932,217</u>	<u>158,952,627</u>
Changes in net assets from operations	12,353,821	7,991,707
Changes in fair value of interest rate swaps	(613,999)	(481,167)
Investment income	2,104,088	2,331,096
Capital grants		218,028
Excess of assets acquired over liabilities assumed in acquisition	<u>1,833,827</u>	
Increase in net assets without donor restrictions	<u>\$ 15,677,737</u>	<u>\$ 10,059,664</u>

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,

	2020	2019
Net assets without donor restrictions:		
Changes in net assets from operations	\$ 12,353,821	\$ 7,991,707
Changes in fair value of interest rate swaps	(613,999)	(481,167)
Investment income	2,104,088	2,331,096
Capital grants		218,028
Excess of assets acquired over liabilities assumed in acquisition	1,833,827	
Increase in net assets without donor restrictions	15,677,737	10,059,664
Net assets with donor restrictions:		
Contributions and special events	2,585,772	1,394,970
Net assets released from restrictions	(1,411,832)	(1,079,456)
Increase in net assets with donor restrictions	1,173,940	315,514
Increase in net assets	16,851,677	10,375,178
Net assets, beginning of the year	92,659,991	82,284,813
Net assets, end of the year	\$ 109,511,668	\$ 92,659,991

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,

	<u>2020</u>	<u>2019</u>
Operating activities		
Increase in net assets	\$ 16,851,677	\$ 10,375,178
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	5,533,898	4,949,093
Capital grants		(218,028)
Excess of assets acquired over liabilities assumed in acquisition	(1,833,827)	
Amortization of deferred financing costs	43,945	41,892
Realized and unrealized gains on investments and assets limited as to use	(1,412,871)	(1,604,015)
Changes in fair value of interest rate swaps	613,999	481,167
Changes in operating assets and liabilities:		
Accounts receivable, net	6,257,514	(2,327,105)
Grants and other receivables	1,099,156	1,800,705
Other current assets	(1,314,161)	329,020
Accrued employee compensation and benefits	5,398,697	2,194,161
Accounts payable and accrued expenses, excluding construction-related liabilities	267,780	(2,501,629)
Contingency and risk pool reserves		1,000,000
Other current liabilities	(376,335)	(7,231)
Other non-current liabilities	<u>1,671,265</u>	<u>694,237</u>
Net cash provided by operating activities	<u>32,800,737</u>	<u>15,207,445</u>
Investing activities		
Purchases of land, buildings and improvements and equipment	(7,290,815)	(11,300,658)
Net sales of investments	86,245	(785,790)
Proceeds from maturities of assets limited as to use	1,041,440	3,958,133
Purchases of assets limited as to use	<u>(14,216,236)</u>	<u>(3,625,347)</u>
Net cash used by investing activities	<u>(20,379,366)</u>	<u>(11,753,662)</u>
Financing activities		
Repayment of bonds and notes payable	(1,427,352)	(1,565,079)
Proceeds from capital grants		<u>218,028</u>
Net cash used by financing activities	<u>(1,427,352)</u>	<u>(1,347,051)</u>
Increase in cash and cash equivalents and restricted cash	10,994,019	2,106,732
Cash and cash equivalents and restricted cash, beginning of the year	<u>29,551,888</u>	<u>27,445,156</u>
Cash and cash equivalents and restricted cash, end of the year	<u>\$ 40,545,907</u>	<u>\$ 29,551,888</u>
<u>Cash and cash equivalents and restricted cash:</u>		
Cash and cash equivalents	\$ 39,729,246	\$ 28,663,782
Restricted cash	<u>816,661</u>	<u>888,106</u>
	<u>\$ 40,545,907</u>	<u>\$ 29,551,888</u>
<u>Supplemental Disclosures:</u>		
Cash paid during the year for interest	\$ 783,798	\$ 681,524
Noncash investing and financing activity in acquisition		
Investments	\$ 1,057,100	
Property and equipment	\$ 86,582	

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

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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 8).

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 8).

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.

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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

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.

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.

Restricted Cash

Restricted cash represents the required maintenance reserve funds for Cherrybell Holdings, Inc. and Southeast 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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

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 2020 and 2019 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.

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 \$25,838,132 and \$13,348,314 in 2020 and 2019, respectively.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

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 and SEH 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 13. 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.

Reclassifications

Certain reclassifications were made to the 2019 financial statements in order to conform to the 2020 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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (continued)

Subsequent Events

The Center evaluated all events or transactions that occurred after December 31, 2020 through May 25, 2021, the date the Center issued these financial statements.

In March, 2021, the Center was awarded \$18.7 million in one-time funding under the American Rescue Plan Act to prevent, mitigate, and respond to coronavirus disease 2019 (COVID-19) and to enhance health care services and infrastructure.

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:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash, cash equivalents and restricted cash	\$ 40,545,907	\$ 29,551,888
Investments	7,912,362	6,068,560
Accounts receivable, net	15,159,953	21,417,467
Grants and other receivables	1,619,117	2,718,273
Assets limited to use	<u>20,637,094</u>	<u>6,663,978</u>
Total financial assets	85,874,433	66,420,166
Less amounts unavailable for general expenditure within one year:		
Board-designated operating reserves	(12,236,931)	(236,931)
Donor restricted for purpose	(4,786,525)	(3,612,585)
Donor restricted in perpetuity	(23,918)	(23,918)
Assets limited to use	(20,637,094)	(6,663,978)
Restricted cash	<u>(816,661)</u>	<u>(888,106)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 47,373,304</u>	<u>\$ 54,994,648</u>

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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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:

	<u>2020</u>	<u>2019</u>
	<u>Percent (%)</u>	<u>Percent (%)</u>
Department of Health and Human Services	10%	8%
Patient service fees:		
AHCCCS insurance plans	43	46
Other fee-for-service insurance plans	36	38
Other	11	8
	<u>100%</u>	<u>100%</u>

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, 2020 and 2019, 18.7 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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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 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:

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 17,826,750	\$ 13,683,099
Allowance for doubtful accounts and contractual allowances	<u>4,317,493</u>	<u>3,110,749</u>
Net accounts receivable	13,509,257	10,572,350
Due from AHCCCS	<u>1,650,696</u>	<u>10,845,117</u>
	<u>\$ 15,159,953</u>	<u>\$ 21,417,467</u>

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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.

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 9 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 2020 and 2019, 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.

Fair value of assets measured on a recurring basis at December 31, 2020 was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Assets limited as to use:			
Cash equivalents	\$ 12,013,608	\$ 12,013,608	
Fixed income mutual funds	727,015	727,015	
Equity securities	<u>7,896,471</u>	<u>7,896,471</u>	
Total assets limited as to use	20,637,094	20,637,094	
Investments:			
Fixed income mutual funds	2,562,236	2,562,236	
Equity securities and mutual funds	5,026,336	5,026,336	
Other	<u>323,790</u>	<u>323,790</u>	
Total investments	7,912,362	7,912,362	
Interest rate swap hedges	<u>(1,927,521)</u>		<u>\$ (1,927,521)</u>
	<u>\$ 26,621,935</u>	<u>\$ 28,549,456</u>	<u>\$ (1,927,521)</u>

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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

Fair value of assets measured on a recurring basis at December 31, 2019 was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Assets limited as to use:			
Cash equivalents	\$ 23,740	\$ 23,740	
Fixed income mutual funds	411,086	411,086	
Equity securities	<u>6,229,152</u>	<u>6,229,152</u>	
Total assets limited as to use	6,663,978	6,663,978	
Investments:			
Fixed income mutual funds	2,471,444	2,471,444	
Equity securities and mutual funds	3,302,562	3,302,562	
Other	<u>294,554</u>	<u>294,554</u>	
Total investments	6,068,560	6,068,560	
Interest rate swap hedge	<u>(1,313,522)</u>		<u>\$ (1,313,522)</u>
	<u>\$ 11,419,016</u>	<u>\$ 12,732,538</u>	<u>\$ (1,313,522)</u>

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

	<u>2020</u>	<u>2019</u>
Unrealized and realized gains (losses)	\$ 1,412,871	\$ 1,604,015
Dividends	363,849	334,979
Interest	<u>379,066</u>	<u>438,104</u>
	2,155,786	2,377,098
Investment fees	<u>(51,698)</u>	<u>(46,002)</u>
	<u>\$ 2,104,088</u>	<u>\$ 2,331,096</u>

6. Notes Receivable

In conjunction with the 2018 New Market Tax Credit transaction (Note 8), the Center issued unsecured notes receivable. The balance of the notes receivable at December 31, 2020 and 2019 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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

7. Long-Term Debt

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

	2020	2019
Series 2010 Healthcare Revenue Bonds	\$ 949,347	\$ 1,238,829
\$5,000,000 note payable to financial institution		608,378
\$11,750,000 note payable to financial institution	10,625,566	11,199,003
\$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
Less unamortized debt issuance costs	<u>(1,121,565)</u>	<u>(1,165,510)</u>
	31,733,348	33,160,700
Less current portion	<u>(906,068)</u>	<u>(1,432,916)</u>
	<u>\$ 30,827,280</u>	<u>\$ 31,727,784</u>

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 9). The bonds are secured by a deed of trust on the constructed building and mature in June 2025.

In August 2013, the Center signed a \$5,000,000 note payable to a financial institution. Repayment on the note is due in monthly installments of approximately \$68,000, including principal and interest at 3.84 percent according to the terms of an interest rate swap agreement (Note 9). The note is secured by a deed of trust on real property and matured in August 2020.

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 9). 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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

7. Long-Term Debt (continued)

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.

Future principal payments on long-term debt are as follows at December 31, 2020:

2021	\$	906,068
2022		908,316
2023		948,557
2024		868,267
2025		731,905
Thereafter		<u>28,491,800</u>
		32,854,913
Unamortized issuance costs		<u>(1,121,565)</u>
Total	\$	<u><u>31,733,348</u></u>

8. 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 7). 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.

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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

8. New Market Tax Credits Transactions (continued)

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 \$6,000,000 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 7). 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.

9. 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.

Changes in the fair value of the interest rate swap agreements resulted in a decrease in net assets of \$613,999 and \$481,167 during the years ended December 31, 2020 and 2019, respectively.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

10. Operating Leases

The Center rents certain facilities and telephone, medical and other equipment under noncancelable operating leases. Future minimum rents under these leases are as follows:

Year ending December 31,		
2021	\$	819,920
2022		676,160
2023		464,974
2024		476,738
2025		488,811
Thereafter		<u>1,379,151</u>
Total minimum lease payments	\$	<u><u>4,305,754</u></u>

Rental expense totaled \$2,120,885 and \$1,551,046 in 2020 and 2019, respectively.

11. 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 \$3,683,810 and \$3,123,865 in 2020 and 2019, respectively.

12. 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:

	<u>2020</u>	<u>2019</u>
Immunizations and HIV pharmaceuticals received from the State of Arizona	\$ 2,199,158	\$ 2,461,325
Other	<u>44,979</u>	<u>97,528</u>
	<u>\$ 2,244,137</u>	<u>\$ 2,558,853</u>

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

13. 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, 2020:

	<u>Program Services Primary healthcare</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and wages	\$ 88,100,161	\$ 8,100,270		\$ 96,200,431
Employee benefits	18,973,058	1,744,456		20,717,514
Medical services and supplies	36,372,646	1,026,658	\$ 35,965	37,435,269
Other operating expenses	12,086,774	1,520,356	1,410,040	15,017,170
Depreciation	3,423,652	2,110,246		5,533,898
Interest	780,630		3,168	783,798
In-kind expenses	<u>2,199,158</u>		<u>44,979</u>	<u>2,244,137</u>
Total	<u>\$ 161,936,079</u>	<u>\$ 14,501,986</u>	<u>\$ 1,494,152</u>	<u>\$ 177,932,217</u>

The following summarizes the Center's expenses by function for the for the year ended December 31, 2019:

	<u>Program Services Primary healthcare</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and wages	\$ 79,947,259	\$ 7,822,651		\$ 87,769,910
Employee benefits	16,669,065	1,651,045		18,320,110
Medical services and supplies	29,879,316	1,773,314	\$ 206,974	31,859,604
Other operating expenses	10,231,484	1,427,135	1,154,914	12,813,533
Depreciation	3,153,414	1,795,679		4,949,093
Interest	681,524			681,524
In-kind expenses	<u>2,461,325</u>		<u>97,528</u>	<u>2,558,853</u>
Total	<u>\$ 143,023,387</u>	<u>\$ 14,469,824</u>	<u>\$ 1,459,416</u>	<u>\$ 158,952,627</u>

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

14. Net Assets with Donor Restrictions

Net asset activity with donor restrictions for the year ended December 31, 2020 is as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Medical Programs	\$ 2,191,731	\$ 777,940	\$ (978,145)	\$ 1,991,526
El Rio Central Project	52,000	768,207	(17,139)	803,068
St. Elizabeth	800	820,434	(103,678)	717,556
Medical Equipment	367,759		(10,000)	357,759
Workforce Programs	274,464	192,596	(153,736)	313,324
Other	749,749	26,595	(149,134)	627,210
	<u>\$ 3,636,503</u>	<u>\$ 2,585,772</u>	<u>\$ (1,411,832)</u>	<u>\$ 4,810,443</u>

Net asset activity with donor restrictions for the year ended December 31, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Releases</u>	<u>Ending Balance</u>
Medical Programs	\$ 1,728,166	\$ 894,657	\$ (431,092)	\$ 2,191,731
El Rio Central Project		52,000		52,000
St. Elizabeth		800		800
Medical Equipment	651,143	26,616	(310,000)	367,759
Workforce Programs	262,043	48,493	(36,072)	274,464
Other	679,637	372,404	(302,292)	749,749
	<u>\$ 3,320,989</u>	<u>\$ 1,394,970</u>	<u>\$ (1,079,456)</u>	<u>\$ 3,636,503</u>

15. 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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

15. Commitments and Contingencies (continued)

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.

16. Conditional Contributions and Grants

The Center received conditional contributions and grants during the fiscal year ending December 31, 2020. 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. As of December 31, 2020, amounts awarded but not yet earned totaled \$2,183,255. While management believes that the Center will meet these conditions, they had not been met as of the year ended December 31, 2020. Accordingly, no amount has been recorded for these conditional contributions and grants as a receivable in these financial statements.

OTHER FINANCIAL INFORMATION



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 2020 and 2019 consolidated financial statements taken as a whole. The details of the 2020 and 2019 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 2020 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

May 25, 2021

El Rio Santa Cruz Neighborhood Health Center, Inc.
Details of Consolidated Statements of Financial Position
December 31, 2020

The Center							
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Foundation	Eliminations	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 37,272,050				\$ 2,457,196		\$ 39,729,246
Investments	7,912,362						7,912,362
Accounts receivable, net	15,063,128			\$ 50,784	46,041		15,159,953
Grants and other receivables	1,520,011				99,106		1,619,117
Due from other funds	741,660	\$ 623,940			33,731	\$ (1,399,331)	
Other current assets	3,351,097						3,351,097
Total current assets	<u>65,860,308</u>	<u>623,940</u>		<u>50,784</u>	<u>2,636,074</u>	<u>(1,399,331)</u>	<u>67,771,775</u>
Assets limited as to use	12,000,000				8,637,094		20,637,094
Restricted cash			\$ 485,729	330,932			816,661
Notes receivable	14,674,600						14,674,600
Land, buildings and equipment:							
Land	6,788,826						6,788,826
Building and improvements	55,183,594	1,834,278	14,048,080	10,720,216			81,786,168
Equipment	31,590,422	284,421	1,386,408	1,028,999		(2,118,699)	32,171,551
	<u>93,562,842</u>	<u>2,118,699</u>	<u>15,434,488</u>	<u>11,749,215</u>		<u>(2,118,699)</u>	<u>120,746,545</u>
Less accumulated depreciation	(48,523,301)	(551,238)	(1,046,647)	(397,017)		551,238	(49,966,965)
	<u>45,039,541</u>	<u>1,567,461</u>	<u>14,387,841</u>	<u>11,352,198</u>		<u>(1,567,461)</u>	<u>70,779,580</u>
Total assets	<u>\$ 137,574,449</u>	<u>\$ 2,191,401</u>	<u>\$ 14,873,570</u>	<u>\$ 11,733,914</u>	<u>\$ 11,273,168</u>	<u>\$ (2,966,792)</u>	<u>\$ 174,679,710</u>
Liabilities and Net Assets							
Current liabilities:							
Accrued employee compensation and benefits	\$ 21,006,903	\$ 64,994				\$ (64,993)	\$ 21,006,904
Accounts payable and accrued expenses	4,574,832				\$ 5,312		4,580,144
Contingency and risk pool reserves	4,000,000						4,000,000
Current portion of long-term debt	906,068						906,068
Due to other funds	657,670	386,314			355,347	(1,399,331)	
Other current liabilities	1,035,745					(385,956)	649,789
Total current liabilities	<u>32,181,218</u>	<u>451,308</u>			<u>360,659</u>	<u>(1,850,280)</u>	<u>31,142,905</u>
Long-term debt, less current portion, net	10,548,233		\$ 14,790,070	\$ 5,488,977			30,827,280
Other noncurrent liabilities	2,811,901	385,956					3,197,857
Total liabilities	<u>45,541,352</u>	<u>837,264</u>	<u>14,790,070</u>	<u>5,488,977</u>	<u>360,659</u>	<u>(1,850,280)</u>	<u>65,168,042</u>
Net assets:							
Without donor restrictions	92,033,097	1,354,137	83,500	6,244,937	6,102,066	(1,116,512)	104,701,225
With donor restrictions					4,810,443		4,810,443
Total net assets	<u>92,033,097</u>	<u>1,354,137</u>	<u>83,500</u>	<u>6,244,937</u>	<u>10,912,509</u>	<u>(1,116,512)</u>	<u>109,511,668</u>
Total liabilities and net assets	<u>\$ 137,574,449</u>	<u>\$ 2,191,401</u>	<u>\$ 14,873,570</u>	<u>\$ 11,733,914</u>	<u>\$ 11,273,168</u>	<u>\$ (2,966,792)</u>	<u>\$ 174,679,710</u>

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.
 Details of Consolidated Statements of Financial Position
 December 31, 2019

	The Center						
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Foundation	Eliminations	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 26,845,660				\$ 1,818,122		\$ 28,663,782
Investments	6,068,560						6,068,560
Accounts receivable, net	21,366,683			\$ 50,784			21,417,467
Grants and other receivables	2,552,149				166,124		2,718,273
Due from other funds	1,340,652	\$ 757,799	\$ 405,083		82,784	\$ (2,586,318)	
Other current assets	2,036,936						2,036,936
Total current assets	<u>60,210,640</u>	<u>757,799</u>	<u>405,083</u>	<u>50,784</u>	<u>2,067,030</u>	<u>(2,586,318)</u>	<u>60,905,018</u>
Assets limited as to use					6,663,978		6,663,978
Restricted cash			559,476	328,630			888,106
Notes receivable	14,674,600						14,674,600
Land, buildings and equipment:							
Land	4,658,213						4,658,213
Building and improvements	52,527,052	1,789,809	13,023,855	10,488,182		(1,789,810)	76,039,088
Equipment	29,781,705	204,054	2,004,831	1,343,646		(204,054)	33,130,182
	<u>86,966,970</u>	<u>1,993,863</u>	<u>15,028,686</u>	<u>11,831,828</u>		<u>(1,993,864)</u>	<u>113,827,483</u>
Less accumulated depreciation	<u>(44,042,600)</u>	<u>(288,075)</u>	<u>(523,325)</u>	<u>(99,281)</u>		<u>288,074</u>	<u>(44,665,207)</u>
	<u>42,924,370</u>	<u>1,705,788</u>	<u>14,505,361</u>	<u>11,732,547</u>		<u>(1,705,790)</u>	<u>69,162,276</u>
Total assets	<u>\$ 117,809,610</u>	<u>\$ 2,463,587</u>	<u>\$ 15,469,920</u>	<u>\$ 12,111,961</u>	<u>\$ 8,731,008</u>	<u>\$ (4,292,108)</u>	<u>\$ 152,293,978</u>
Liabilities and Net Assets							
Current liabilities:							
Accrued employee compensation and benefits	\$ 15,608,207	\$ 186,512				\$ (186,512)	\$ 15,608,207
Accounts payable and accrued expenses	4,312,364						4,312,364
Contingency and risk pool reserves	4,000,000						4,000,000
Current portion of long-term debt	1,432,916						1,432,916
Due to other funds	854,007	1,500,512		\$ 82,612	\$ 135,506	(2,572,637)	
Other current liabilities	1,026,124						1,026,124
Total current liabilities	<u>27,233,618</u>	<u>1,687,024</u>		<u>82,612</u>	<u>135,506</u>	<u>(2,759,149)</u>	<u>26,379,611</u>
Long-term debt, less current portion, net	11,484,362		\$ 14,768,260	5,475,162			31,727,784
Other noncurrent liabilities	1,526,592	213,070				(213,070)	1,526,592
Total liabilities	<u>40,244,572</u>	<u>1,900,094</u>	<u>14,768,260</u>	<u>5,557,774</u>	<u>135,506</u>	<u>(2,972,219)</u>	<u>59,633,987</u>
Net assets:							
Without donor restrictions	77,565,038	563,493	701,660	6,554,187	4,958,999	(1,319,889)	89,023,488
With donor restrictions					3,636,503		3,636,503
Total net assets	<u>77,565,038</u>	<u>563,493</u>	<u>701,660</u>	<u>6,554,187</u>	<u>8,595,502</u>	<u>(1,319,889)</u>	<u>92,659,991</u>
Total liabilities and net assets	<u>\$ 117,809,610</u>	<u>\$ 2,463,587</u>	<u>\$ 15,469,920</u>	<u>\$ 12,111,961</u>	<u>\$ 8,731,008</u>	<u>\$ (4,292,108)</u>	<u>\$ 152,293,978</u>

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, 2020

	The Center						Total
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Foundation	Eliminations	
Net assets without donor restrictions:							
Revenue and public support:							
Patient service fees, net	\$ 154,151,862	\$ 1,485,719				\$ (1,485,719)	\$ 154,151,862
Public support - Department of Health and Human Services	19,731,076	113,012				(110,644)	19,733,444
Public support - other	4,436,328					(2,368)	4,433,960
Other	10,786,091	1,500,539	\$ 124,352	\$ 105,000	\$ 1,626,575	(4,419,922)	9,722,635
In-kind contributions	<u>2,199,158</u>				<u>44,979</u>		<u>2,244,137</u>
Total revenue and public support	<u>191,304,515</u>	<u>3,099,270</u>	<u>124,352</u>	<u>105,000</u>	<u>1,671,554</u>	<u>(6,018,653)</u>	<u>190,286,038</u>
Expenses:							
Salaries and wages	96,200,431	823,395				(823,395)	96,200,431
Employee benefits	20,717,515	192,581				(192,582)	20,717,514
Medical services	9,297,765	236,884			18,782	(236,884)	9,316,547
Supplies	28,101,536	125,736			17,183	(125,733)	28,118,722
Other operating expenses	15,945,593	666,867	34,090	40,853	1,410,040	(3,080,273)	15,017,170
Depreciation	4,712,839	263,163	523,324	297,735		(263,163)	5,533,898
Interest	519,870		185,098	75,662		3,168	783,798
In-kind expenses	<u>2,199,158</u>				<u>44,979</u>		<u>2,244,137</u>
Total expenses	<u>177,694,707</u>	<u>2,308,626</u>	<u>742,512</u>	<u>414,250</u>	<u>1,494,152</u>	<u>(4,722,030)</u>	<u>177,932,217</u>
Changes in net assets from operations	13,609,808	790,644	(618,160)	(309,250)	177,402	(1,296,623)	12,353,821
Change in fair value of interest rate swaps	(613,999)						(613,999)
Investment income	1,138,423				965,665		2,104,088
Contribution Expense	(1,500,000)					1,500,000	
Excess of assets acquired over liabilities assumed in acquisition	<u>1,833,827</u>						<u>1,833,827</u>
Increase (decrease) in net assets without donor restrictions	14,468,059	790,644	(618,160)	(309,250)	1,143,067	203,377	15,677,737
Net assets with donor restrictions:							
Contributions and special events					2,585,772		2,585,772
Net assets released from restrictions					<u>(1,411,832)</u>		<u>(1,411,832)</u>
Increase in net assets with donor restrictions					<u>1,173,940</u>		<u>1,173,940</u>
Increase (decrease) in net assets	<u>\$ 14,468,059</u>	<u>\$ 790,644</u>	<u>\$ (618,160)</u>	<u>\$ (309,250)</u>	<u>\$ 2,317,007</u>	<u>\$ 203,377</u>	<u>\$ 16,851,677</u>

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, 2019

	The Center						Total
	El Rio	Health on Tucson LLC	Cherrybell Holdings, Inc.	Southeast Holdings, Inc.	Foundation	Eliminations	
Unrestricted net assets:							
Revenue and public support:							
Patient service fees, net	\$ 145,277,721	\$ 2,874,191				\$ (4,699,323)	\$ 143,452,589
Public support - Department of Health and Human Services	14,424,131	164,050				(2,540,025)	12,048,156
Public support - Medicaid EHR Incentive Program	1,062,500						1,062,500
Public support - other	5,408,287					(2,236,978)	3,171,309
Other	5,791,523			\$ 2,010,621	\$ 1,328,506	(4,479,723)	4,650,927
In-kind contributions	<u>2,461,325</u>				<u>97,528</u>		<u>2,558,853</u>
Total revenue and public support	<u>174,425,487</u>	<u>3,038,241</u>		<u>2,010,621</u>	<u>1,426,034</u>	<u>(13,956,049)</u>	<u>166,944,334</u>
Expenses:							
Salaries and wages	91,569,974	1,592,192				(5,392,256)	87,769,910
Employee benefits	19,385,582	327,835				(1,393,307)	18,320,110
Medical services	7,921,660	338,052			206,974	(616,796)	7,849,890
Supplies	24,719,376	290,652			27,328	(1,027,642)	24,009,714
Other operating expenses	15,970,586	383,616	\$ 93,002	78,371	1,127,586	(4,839,628)	12,813,533
Depreciation	4,326,487	109,981	523,325	99,281		(109,981)	4,949,093
Interest	521,863		126,940	32,721			681,524
In-kind expenses	<u>2,461,325</u>				<u>97,528</u>		<u>2,558,853</u>
Total expenses	<u>166,876,853</u>	<u>3,042,328</u>	<u>743,267</u>	<u>210,373</u>	<u>1,459,416</u>	<u>(13,379,610)</u>	<u>158,952,627</u>
Changes in net assets from operations	7,548,634	(4,087)	(743,267)	1,800,248	(33,382)	(576,439)	7,991,707
Change in fair value of interest rate swaps	(481,167)						(481,167)
Investment (loss) income	1,295,354		15,270		1,020,472		2,331,096
Capital grants	<u>218,028</u>						<u>218,028</u>
Increase (decrease) in net assets without donor restrictions	8,580,849	(4,087)	(727,997)	1,800,248	987,090	(576,439)	10,059,664
Net assets with donor restrictions:							
Contributions and special events					1,394,970		1,394,970
Net assets released from restrictions					<u>(1,079,456)</u>		<u>(1,079,456)</u>
Increase in net assets with donor restrictions					<u>315,514</u>		<u>315,514</u>
Increase (decrease) in net assets	<u>\$ 8,580,849</u>	<u>\$ (4,087)</u>	<u>\$ (727,997)</u>	<u>\$ 1,800,248</u>	<u>\$ 1,302,604</u>	<u>\$ (576,439)</u>	<u>\$ 10,375,178</u>

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.
Note to Other Financial Information
December 31, 2020 and 2019

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.

El Rio Foundation, Inc.
Statement of Financial Position
December 31, 2020

Assets	
Cash and cash equivalents	\$ 2,457,196
Contributions and other receivables:	
Without donor restrictions	46,041
With donor restrictions	99,106
Assets limited as to use:	
Without donor restrictions	8,613,176
With donor restrictions	<u>23,918</u>
	<u>8,637,094</u>
Total assets	<u><u>\$ 11,239,437</u></u>
 Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 5,312
Due to the Center	<u>321,616</u>
Total liabilities	326,928
 Net assets:	
Without donor restrictions:	
Undesignated	5,865,135
Board designated	<u>236,931</u>
	6,102,066
 With donor restrictions:	
Purpose restrictions	4,786,525
Perpetual in nature	<u>23,918</u>
Total net assets	<u>10,912,509</u>
Total liabilities and net assets	<u><u>\$ 11,239,437</u></u>

El Rio Foundation, Inc.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and support:			
Grants and contributions	\$ 214,743	\$ 2,585,772	\$ 2,800,515
Net investment income	965,665		965,665
In-kind contributions	44,979		44,979
	1,225,387	2,585,772	3,811,159
Net assets released from restrictions	1,411,832	(1,411,832)	
Total revenues and support	2,637,219	1,173,940	3,811,159
Expenses:			
Program services	1,389,954		1,389,954
Management and general	39,472		39,472
Special events and fundraising	19,747		19,747
In-kind expenses	44,979		44,979
Total expenses	1,494,152		1,494,152
Increase in net assets	1,143,067	1,173,940	2,317,007
Net assets, beginning of year	4,958,999	3,636,503	8,595,502
Net assets, end of year	\$ 6,102,066	\$ 4,810,443	\$ 10,912,509