

EL RIO SANTA CRUZ NEIGHBORHOOD HEALTH CENTER, INC.  
CONSOLIDATED FINANCIAL STATEMENTS, OTHER FINANCIAL  
INFORMATION AND SINGLE AUDIT REPORTS

December 31, 2014 and 2013

El Rio Santa Cruz Neighborhood Health Center, Inc.  
Consolidated Financial Statements, Other Financial  
Information and Single Audit Reports

December 31, 2014 and 2013

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Independent Auditors' Report

The Board of Directors  
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, 2014 and 2013, 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 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 consolidated financial position of El Rio Santa Cruz Neighborhood Health Center, Inc. as of December 31, 2014 and 2013, 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 Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2015, 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.



May 12, 2015

El Rio Santa Cruz Neighborhood Health Center, Inc.

Consolidated Statements of Financial Position

December 31,

	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 18,196,561	\$ 15,956,363
Investments	6,591,808	7,087,762
Accounts receivable, net	4,247,541	3,435,107
Prospective Payment System (PPS) receivable, net	8,190,471	8,878,411
Grants and other receivables	849,424	1,488,254
Other current assets	1,604,883	1,555,056
Total current assets	39,680,688	38,400,953
Assets limited as to use	1,782,029	6,614,324
Deferred financing costs	123,081	138,534
Land, buildings and equipment:		
Land	3,412,659	3,402,659
Buildings and improvements	37,651,360	24,569,176
Construction in progress	115,080	3,683,957
Equipment	21,547,905	19,015,403
	62,727,004	50,671,195
Less accumulated depreciation	27,294,656	24,681,079
	35,432,348	25,990,116
Total assets	\$ 77,018,146	\$ 71,143,927
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accrued employee compensation	\$ 4,488,121	\$ 5,862,350
Accounts payable and accrued expenses	2,854,635	3,849,280
Contingency and risk pool reserves	2,840,542	2,079,145
Current portion of long-term debt	870,914	772,235
Other current liabilities	770,773	636,056
Total current liabilities	11,824,985	13,199,066
Long-term debt, less current portion	5,861,891	6,829,925
Other noncurrent liabilities	286,659	271,493
Total liabilities	17,973,535	20,300,484
Net assets:		
Unrestricted net assets:		
Undesignated	56,433,749	48,458,611
Board designated	236,931	236,931
	56,670,680	48,695,542
Temporarily restricted	2,350,013	2,123,983
Permanently restricted	23,918	23,918
Total net assets	59,044,611	50,843,443
Total liabilities and net assets	\$ 77,018,146	\$ 71,143,927

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>2014</u>	<u>2013</u>
Revenue and public support:		
Patient service fees	\$ 76,946,109	\$ 64,717,922
Capitation revenue	10,031,655	9,936,588
Public support - Department of Health and Human Services	8,929,809	9,177,278
Public support - Medicaid EHR Incentive Program	157,250	1,228,250
Public support - other	1,977,850	2,312,140
Other	6,568,685	6,258,454
In-kind contributions	<u>2,693,411</u>	<u>2,854,726</u>
Total revenue and public support	107,304,769	96,485,358
Expenses:		
Salaries and wages	55,688,738	50,200,098
Employee benefits	12,615,441	10,822,058
Medical services	4,292,826	4,141,775
Supplies	14,897,229	12,278,139
General and administrative	9,995,883	9,391,583
Depreciation	2,983,178	2,594,461
Interest	180,620	159,269
In-kind expenses	<u>2,693,411</u>	<u>2,854,726</u>
Total expenses	<u>103,347,326</u>	<u>92,442,109</u>
Excess of revenue and public support over expenses	3,957,443	4,043,249
Change in fair value of interest rate swap	(15,166)	50,211
Capital grants	<u>4,032,861</u>	<u>1,155,470</u>
Increase in unrestricted net assets	<u>\$ 7,975,138</u>	<u>\$ 5,248,930</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,

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Excess of revenue and public support over expenses	\$ 3,957,443	\$ 4,043,249
Change in fair value of interest rate swap	(15,166)	50,211
Capital grants	<u>4,032,861</u>	<u>1,155,470</u>
Increase in unrestricted net assets	7,975,138	5,248,930
Temporarily restricted net assets:		
Contributions	1,127,318	1,493,977
Net assets released from restrictions	<u>(901,288)</u>	<u>(1,196,910)</u>
Increase in temporarily restricted net assets	<u>226,030</u>	<u>297,067</u>
Increase in net assets	8,201,168	5,545,997
Net assets, beginning of the year	<u>50,843,443</u>	<u>45,297,446</u>
Net assets, end of the year	<u><u>\$ 59,044,611</u></u>	<u><u>\$ 50,843,443</u></u>

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,

	2014	2013
<b>Operating activities</b>		
Increase in net assets	\$ 8,201,168	\$ 5,545,997
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,983,178	2,594,461
Capital grants	(4,032,861)	(1,155,470)
Amortization of deferred financing costs	15,453	(8,742)
Realized and unrealized gains on investments	(240,279)	(666,437)
Change in fair value of interest rate swap	15,166	(50,211)
Change in operating assets and liabilities:		
Accounts receivable, net	(812,434)	(599,216)
PPS receivable, net	687,940	(3,901,820)
Grants and other receivables	638,830	(912,303)
Other current assets	(49,827)	(83,208)
Accrued employee compensation	(1,374,229)	707,872
Accounts payable and accrued expenses, excluding construction-related liabilities	911,024	(741,190)
Contingency and risk pool reserves	761,397	71,292
Other current liabilities, excluding retainage payable	<u>104,276</u>	<u>3,625</u>
Net cash provided by operating activities	7,808,802	804,650
<b>Investing activities</b>		
Purchases of land, buildings and improvements, equipment and construction in progress	(14,300,638)	(6,801,284)
Purchases of investments	(176,102)	(1,677)
Proceeds from sales of investments	912,335	
Proceeds from maturities of assets limited as to use	5,859,039	2,982,951
Purchases of assets limited as to use	<u>(1,026,744)</u>	<u>(5,830,081)</u>
Net cash used by investing activities	(8,732,110)	(9,650,091)
<b>Financing activities</b>		
Proceeds from debt issuance		5,000,000
Repayment of bonds and notes payable	(869,355)	(394,291)
Proceeds from capital grants	<u>4,032,861</u>	<u>1,155,470</u>
Net cash provided by financing activities	<u>3,163,506</u>	<u>5,761,179</u>
Increase (decrease) in cash and cash equivalents	2,240,198	(3,084,262)
Cash and cash equivalents, beginning of year	<u>15,956,363</u>	<u>19,040,625</u>
Cash and cash equivalents, end of year	<u>\$ 18,196,561</u>	<u>\$ 15,956,363</u>
<b>Supplemental Disclosures:</b>		
Cash paid during the year for interest	\$ 180,620	\$ 159,269

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, 2014 and 2013

**1. Summary of Significant Accounting Policies**

*Organization*

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.

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**1. Summary of Significant Accounting Policies (continued)**

*Prospective Payment Systems (PPS) Receivable*

The PPS receivable represents amounts due for quarterly payments from Arizona Health Care Cost Containment System (AHCCCS), negotiated among AHCCCS and Arizona-based Federally Qualified Health Centers (FQHCs). The payments are designed to compensate FQHCs for the unreimbursed cost of providing primary health care to AHCCCS members. The payments are made prospectively, based on the number of AHCCCS patients enrolled with the Center. The Center then completes its annual reconciliation between actual costs of providing healthcare services to AHCCCS members and the payments received for those encounters. The PPS receivable balance at December 31, 2014 and 2013 was comprised of the payments due from AHCCCS for the quarters then ended and the annual reconciliation amount due to or from AHCCCS.

*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. These investments are carried at fair value based on quoted market prices. Realized and unrealized gains and losses are accounted for as other income.

*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. Land, buildings, and equipment costing \$1,500 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.

*Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time period or purpose. Unconditional promises to give cash and other assets are reported at estimated fair value at the date the promise is received. The gifts are reported as temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and recognized as a component of other revenue. Donor-restricted contributions whose restrictions are met within the same year as received are considered unrestricted contributions and presented as other revenue in the consolidated statements of activities.

Permanently restricted net assets have been restricted by donors to be maintained by the Center in perpetuity.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**1. Summary of Significant Accounting Policies (continued)**

*Patient Service Fees*

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 settlement for the 2014 and 2013 cost reports have been recognized in the consolidated financial statements.

*Excess of Revenue and Public Support Over Expenses*

The statement of activities includes a measurement for excess of revenues and public support over expenses. Components of changes in net assets excluded from excess of revenues over expenses include capital grants and changes in the fair value of the interest rate swaps, consistent with industry practice.

*Capitation Revenue*

The Center 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.

*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 \$13,318,844 and \$20,478,693 in 2014 and 2013, respectively.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**1. Summary of Significant Accounting Policies (continued)**

*Derivative and Hedging Instruments*

The Center recognizes all derivatives in the statements of financial position at fair value. Derivatives that are not hedges must be adjusted to fair value through the 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 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's federal Forms 990 *Return of Organization Exempt From Income Tax* are generally subject to examination for three years after they were filed, and the related State of Arizona Forms 99 are generally subject to examination for four years from the later of the due date or the file date of the tax return.

*Expense Allocation*

The costs of providing various programs and other activities have been summarized on a functional basis in Note 11. 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 financial statements.

*Reclassifications*

Certain reclassifications were made to the 2013 financial statements in order to conform to the 2014 presentation.

*Subsequent Events*

The Center evaluated all events or transactions that occurred after December 31, 2014 through May 12, 2015, the date the Center issued these financial statements.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**2. Concentration of Risk**

The Center received payment 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>2014</u>	<u>2013</u>
	Percent (%)	Percent (%)
Department of Health and Human Services	10%	11%
Patient service fees:		
PPS revenue (AHCCCS)	30	30
Other patient service revenue	43	40
Capitation revenue	9	11
Other	8	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, 2014 and 2013, 29 and 33 percent, respectively, 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.

**3. 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 following is a summary at December 31:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 8,466,773	\$ 6,382,679
Allowance for doubtful accounts and contractual allowances	<u>4,219,232</u>	<u>2,947,572</u>
Net accounts receivable	4,247,541	3,435,107
PPS receivable, net	8,190,471	8,878,411
	<u>\$ 12,438,012</u>	<u>\$ 12,313,518</u>

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**4. Investments**

Investments were comprised of the following at December 31:

	<u>2014</u>	<u>2013</u>
Fixed income mutual funds	\$ 2,330,545	\$ 2,360,627
Equity securities and mutual funds	4,114,663	4,585,535
Other	<u>146,600</u>	<u>141,600</u>
	<u>\$ 6,591,808</u>	<u>\$ 7,087,762</u>

Investment income included the following for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Unrealized and realized gains	\$ 240,279	\$ 666,437
Dividends	77,300	89,108
Interest	<u>105,483</u>	<u>156,159</u>
	<u>\$ 423,062</u>	<u>\$ 911,704</u>

**5. Assets Limited as to Use**

Assets limited as to use was comprised of the following at December 31:

	<u>2014</u>	<u>2013</u>
Cash equivalents	\$ 4,664	\$ 706,195
Cash restricted for construction expenditures		4,848,022
Fixed income mutual funds	1,110,158	427,160
Equity securities	<u>667,207</u>	<u>632,947</u>
	<u>\$ 1,782,029</u>	<u>\$ 6,614,324</u>

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**6. Long-Term Debt**

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

	2014	2013
Series 2010 Healthcare Revenue Bonds (Pima County, Arizona - see below)	\$ 2,524,605	\$ 2,754,138
\$5,000,000 note payable to financial institution (see below)	4,208,200	4,848,022
	6,732,805	7,602,160
Less current portion	(870,914)	(772,235)
	\$ 5,861,891	\$ 6,829,925

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 7). 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 7). The note is secured by a deed of trust on real property and matures in August 2020.

Future principal payments on long-term debt are as follows at December 31, 2014:

2015	\$ 870,914
2016	907,417
2017	942,734
2018	980,144
2019	1,018,996
Thereafter	2,012,600
Total	\$ 6,732,805

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**7. 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 will terminate in August 2020.

Changes in the fair value of the interest rate swap agreements resulted in a decrease in net assets of \$15,166 and an increase in net assets \$50,211 during the years ended December 31, 2014 and 2013, respectively.

**8. 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,	
2015	\$ 1,863,568
2016	1,328,765
2017	1,154,739
2018	930,857
2019	677,899
Thereafter	<u>220,508</u>
Total minimum lease payments	<u>\$ 6,176,336</u>

Rental expense totaled \$2,479,518 and \$2,325,072 in 2014 and 2013, respectively.

**9. 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 \$1,840,624 and \$1,676,926 in 2014 and 2013, respectively.

**10. In-kind Contributions**

During the years ended December 31, 2014 and 2013, the Center recognized revenue and expenses of \$2,608,026 and \$2,787,801, respectively, for contributed immunizations and HIV pharmaceuticals received from the State of Arizona. The Center also recognized revenue and expenses of \$16,447 and \$51,337 for pharmaceuticals contributed by drug companies in 2014 and 2013, respectively. In addition, the Center recognized donated services and materials totaling \$68,938 and \$15,588 for fund raising events in 2014 and 2013, respectively. In-kind contributions are measured at estimated fair value at the date of donation.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**11. Functional Expense Classification**

General and administrative expenses exclusively supported primary healthcare activities. The following is a summary of the Center's expenses by function for the years ended December 31:

	2014	2013
Program activities - primary healthcare	\$ 92,864,132	\$ 81,982,542
General and administrative	9,299,021	9,062,237
Fundraising	1,184,173	1,397,330
	<u>\$ 103,347,326</u>	<u>\$ 92,442,109</u>

**12. 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.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

**13. 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 7 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 2014 and 2013, 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, 2014 was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Assets limited as to use	\$ 1,782,029	\$ 1,782,029	
Investments	6,591,808	6,591,808	
Interest rate swap hedge	(286,659)		\$ (286,659)
	<u>\$ 8,087,178</u>	<u>\$ 8,373,837</u>	<u>\$ (286,659)</u>

Fair value of assets measured on a recurring basis at December 31, 2013 was as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Assets limited as to use	\$ 6,614,324	\$ 6,614,324	
Investments	7,087,762	7,087,762	
Interest rate swap hedge	(271,493)		\$ (271,493)
	<u>\$ 13,430,593</u>	<u>\$ 13,702,086</u>	<u>\$ (271,493)</u>

## OTHER FINANCIAL INFORMATION



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Certified  
Public  
Accountants

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Independent Auditors' Report on Other Financial Information

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

Our audits were conducted for the purpose of forming an opinion on the 2014 and 2013 consolidated financial statements taken as a whole. The details of the 2014 and 2013 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 2014 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 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 financial statements as a whole.

May 12, 2015

El Rio Santa Cruz Neighborhood Health Center, Inc.  
Details of Consolidated Statement of Financial Position  
December 31, 2014

	The Center					Total
	General Fund	Homeless Fund	HIV Early Intervention Fund	Foundation	Eliminations	
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 13,314,715	\$ 814	\$ 391,931	\$ 4,489,101		\$ 18,196,561
Investments	6,591,808					6,591,808
Accounts receivable, net	4,247,541					4,247,541
PPS receivable, net	8,190,471					8,190,471
Grants and other receivables	567,053		4,800	294,007	\$ (16,436)	849,424
Due from other funds	246,943				(246,943)	
Other current assets	<u>1,602,883</u>			<u>2,000</u>		<u>1,604,883</u>
Total current assets	<u>34,761,414</u>	<u>814</u>	<u>396,731</u>	<u>4,785,108</u>	<u>(263,379)</u>	<u>39,680,688</u>
Assets limited as to use			3,657	1,778,372		1,782,029
Deferred financing costs	123,081					123,081
Land, buildings and equipment:						
Land	3,412,659					3,412,659
Building and improvements	37,651,360					37,651,360
Construction in progress	115,080					115,080
Equipment	<u>21,521,096</u>	<u>2,083</u>	<u>24,726</u>			<u>21,547,905</u>
	62,700,195	2,083	24,726			62,727,004
Less accumulated depreciation	<u>(27,267,847)</u>	<u>(2,083)</u>	<u>(24,726)</u>			<u>(27,294,656)</u>
	<u>35,432,348</u>					<u>35,432,348</u>
Total assets	<u>\$ 70,316,843</u>	<u>\$ 814</u>	<u>\$ 400,388</u>	<u>\$ 6,563,480</u>	<u>\$ (263,379)</u>	<u>\$ 77,018,146</u>
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Accrued employee compensation	\$ 4,488,121					\$ 4,488,121
Accounts payable and accrued expenses	2,854,337			\$ 298		2,854,635
Contingency and risk pool reserves	2,840,542					2,840,542
Current portion of long-term debt	870,914					870,914
Due to other funds	11,636	\$ 814	\$ 164,022	86,907	\$ (263,379)	
Other current liabilities	<u>534,407</u>		<u>236,366</u>			<u>770,773</u>
Total current liabilities	11,599,957	814	400,388	87,205	(263,379)	11,824,985
Long-term debt, less current portion	5,861,891					5,861,891
Other noncurrent liabilities	<u>286,659</u>					<u>286,659</u>
Total liabilities	17,748,507	814	400,388	87,205	(263,379)	17,973,535
Net assets:						
Unrestricted	52,568,336			4,102,344		56,670,680
Temporarily restricted				2,350,013		2,350,013
Permanently restricted				<u>23,918</u>		<u>23,918</u>
Total net assets	<u>52,568,336</u>			<u>6,476,275</u>		<u>59,044,611</u>
Total liabilities and net assets	<u>\$ 70,316,843</u>	<u>\$ 814</u>	<u>\$ 400,388</u>	<u>\$ 6,563,480</u>	<u>\$ (263,379)</u>	<u>\$ 77,018,146</u>

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.  
Details of Consolidated Statement of Financial Position  
December 31, 2013

	The Center					Total
	General Fund	Homeless Fund	HIV Early Intervention Fund	Foundation	Eliminations	
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 11,853,480	\$ 17,083	\$ 177,671	\$ 3,908,129		\$ 15,956,363
Investments	7,087,762					7,087,762
Accounts receivable, net	3,435,107					3,435,107
PPS receivable, net	8,878,411					8,878,411
Grants and other receivables	880,029			630,884	\$ (22,659)	1,488,254
Due from other funds	224,551				(224,551)	
Other current assets	<u>1,555,056</u>					<u>1,555,056</u>
Total current assets	<u>33,914,396</u>	<u>17,083</u>	<u>177,671</u>	<u>4,539,013</u>	<u>(247,210)</u>	<u>38,400,953</u>
Assets limited as to use	4,848,022		3,657	1,762,645		6,614,324
Deferred financing costs	138,534					138,534
Land, buildings and equipment:						
Land	3,402,659					3,402,659
Building and improvements	24,569,176					24,569,176
Construction in progress	3,683,957					3,683,957
Equipment	<u>18,988,594</u>	<u>2,083</u>	<u>24,726</u>			<u>19,015,403</u>
	50,644,386	2,083	24,726			50,671,195
Less accumulated depreciation	<u>(24,654,270)</u>	<u>(2,083)</u>	<u>(24,726)</u>			<u>(24,681,079)</u>
	<u>25,990,116</u>					<u>25,990,116</u>
Total assets	<u>\$ 64,891,068</u>	<u>\$ 17,083</u>	<u>\$ 181,328</u>	<u>\$ 6,301,658</u>	<u>\$ (247,210)</u>	<u>\$ 71,143,927</u>
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Accrued employee compensation	\$ 5,862,350					\$ 5,862,350
Accounts payable and accrued expenses	3,849,115			\$ 165		3,849,280
Contingency and risk pool reserves	2,079,145					2,079,145
Current portion of long-term debt	772,235					772,235
Due to other funds	22,660	\$ 17,083	\$ 90,766	116,701	\$ (247,210)	
Other current liabilities	<u>545,494</u>		<u>90,562</u>			<u>636,056</u>
Total current liabilities	<u>13,130,999</u>	<u>17,083</u>	<u>181,328</u>	<u>116,866</u>	<u>(247,210)</u>	<u>13,199,066</u>
Long-term debt, less current portion	6,829,925					6,829,925
Other noncurrent liabilities	<u>271,493</u>					<u>271,493</u>
Total liabilities	<u>20,232,417</u>	<u>17,083</u>	<u>181,328</u>	<u>116,866</u>	<u>(247,210)</u>	<u>20,300,484</u>
Net assets:						
Unrestricted	44,658,651			4,036,891		48,695,542
Temporarily restricted				2,123,983		2,123,983
Permanently restricted				23,918		23,918
Total net assets	<u>44,658,651</u>			<u>6,184,792</u>		<u>50,843,443</u>
Total liabilities and net assets	<u>\$ 64,891,068</u>	<u>\$ 17,083</u>	<u>\$ 181,328</u>	<u>\$ 6,301,658</u>	<u>\$ (247,210)</u>	<u>\$ 71,143,927</u>

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Details of Consolidated Statement of Activities and Changes in Net Assets

December 31, 2014

	The Center			Foundation	Eliminations	Total
	General Fund	Homeless Fund	HIV Early Intervention Fund			
Unrestricted net assets:						
Revenue and public support:						
Patient service fees	\$ 76,946,109	\$ 443,309	\$ 183,696		\$ (627,005)	\$ 76,946,109
Capitation revenue	10,031,655					10,031,655
Public support - Department of Health and Human Services	8,929,809	1,076,623	1,011,286		(2,087,909)	8,929,809
Public Support - Medicaid EHR Incentive Program	157,250					157,250
Public support - other	1,977,850					1,977,850
Other	5,146,452	351,160	707,761	\$ 1,180,688	(817,376)	6,568,685
In-kind contributions	<u>2,624,473</u>			<u>68,938</u>		<u>2,693,411</u>
Total revenue and public support	<u>105,813,598</u>	<u>1,871,092</u>	<u>1,902,743</u>	<u>1,249,626</u>	<u>(3,532,290)</u>	<u>107,304,769</u>
Expenses:						
Salaries and wages	54,562,301	1,167,609	1,100,922		(1,142,094)	55,688,738
Employee benefits	12,627,987	261,460	226,807		(500,813)	12,615,441
Medical services	4,226,781	75,051	153,897	66,044	(228,947)	4,292,826
Supplies	14,872,541	114,795	113,424	24,687	(228,218)	14,897,229
General and administrative	9,843,727	252,177	307,693	1,024,504	(1,432,218)	9,995,883
Depreciation	2,983,178					2,983,178
Interest	180,620					180,620
In-kind expenses	<u>2,624,473</u>			<u>68,938</u>		<u>2,693,411</u>
Total expenses	<u>101,921,608</u>	<u>1,871,092</u>	<u>1,902,743</u>	<u>1,184,173</u>	<u>(3,532,290)</u>	<u>103,347,326</u>
Excess of revenue and public support over expenses	3,891,990			65,453		3,957,443
Change in fair value of interest rate swap	(15,166)					(15,166)
Capital grants	<u>4,032,861</u>					<u>4,032,861</u>
Increase in unrestricted net assets	<u>7,909,685</u>			<u>65,453</u>		<u>7,975,138</u>
Temporarily restricted net assets:						
Contributions				1,127,318		1,127,318
Net assets released from restrictions				(901,288)		(901,288)
Increase in temporarily restricted net assets				<u>226,030</u>		<u>226,030</u>
Increase in net assets	<u>\$ 7,909,685</u>	<u>\$</u>	<u>\$</u>	<u>\$ 291,483</u>	<u>\$</u>	<u>\$ 8,201,168</u>

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Details of Consolidated Statement of Activities and Changes in Net Assets

December 31, 2013

	The Center			Foundation	Eliminations	Total
	General Fund	Homeless Fund	HIV Early Intervention Fund			
Unrestricted net assets:						
Revenue and public support:						
Patient service fees	\$ 64,717,921	\$ 257,689	\$ 306,956		\$ (564,644)	\$ 64,717,922
Capitation revenue	9,936,588					9,936,588
Public support - Department of Health and Human Services	9,126,028	896,570	1,035,392		(1,880,712)	9,177,278
Public support - Medicaid EHR Incentive Program	1,228,250					1,228,250
Public support - other	1,947,084		365,056			2,312,140
Other	5,341,588	519,818	360,522	\$ 1,747,816	(1,711,290)	6,258,454
In-kind contributions	<u>2,839,138</u>			<u>15,588</u>		<u>2,854,726</u>
Total revenue and public support	95,136,597	1,674,077	2,067,926	1,763,404	(4,156,646)	96,485,358
Expenses:						
Salaries and wages	49,429,682	1,039,610	1,246,203		(1,515,397)	50,200,098
Employee benefits	10,822,059	233,160	214,432		(447,593)	10,822,058
Medical services	4,102,630	74,908	219,479	39,146	(294,388)	4,141,775
Supplies	12,257,928	100,473	151,333	20,210	(251,805)	12,278,139
General and administrative	9,254,255	225,926	236,479	1,322,386	(1,647,463)	9,391,583
Depreciation	2,594,461					2,594,461
Interest	159,269					159,269
In-kind expenses	<u>2,839,138</u>			<u>15,588</u>		<u>2,854,726</u>
Total expenses	91,459,422	1,674,077	2,067,926	1,397,330	(4,156,646)	92,442,109
Excess of revenue and public support over expenses	3,677,175			366,074		4,043,249
Change in fair value of interest rate swap	50,211					50,211
Capital grant	<u>1,155,470</u>					<u>1,155,470</u>
Increase in unrestricted net assets	4,882,856			366,074		5,248,930
Temporarily restricted net assets:						
Contributions				1,493,977		1,493,977
Net assets released from restrictions				<u>(1,196,910)</u>		<u>(1,196,910)</u>
Increase in temporarily restricted net assets				<u>297,067</u>		<u>297,067</u>
Increase in net assets	<u>\$ 4,882,856</u>	<u>\$</u>	<u>\$</u>	<u>\$ 663,141</u>	<u>\$</u>	<u>\$ 5,545,997</u>

See accompanying note.

El Rio Santa Cruz Neighborhood Health Center, Inc.

Note to Other Financial Information

December 31, 2014 and 2013

**1. Summary of Significant Accounting Policies**

**Fund Accounting**

The following funds are maintained by the Center:

- *General Fund* - represents funds used for program activities allowed by the Department of Health and Human Services (DHHS) under a Section 330 grant and for activities related to the provision of health care and related services to patients.
- *Homeless Fund* - represents funds under a DHHS grant to be used to provide general care for the homeless population.
- *HIV Early Intervention Fund* - represents funds under a DHHS grant to be used in prevention and delivery of primary healthcare services to persons with the HIV infection and/or AIDS.

El Rio Foundation, Inc.  
Statement of Financial Position  
December 31, 2014

<b>Assets</b>	
Cash and cash equivalents	\$ 4,489,101
Contributions and other receivables:	
Unrestricted	10,187
Temporarily restricted	283,820
Other assets	2,000
Assets limited as to use:	
Unrestricted	1,754,454
Permanently restricted	<u>23,918</u>
	<u>1,778,372</u>
Total assets	<u><u>\$ 6,563,480</u></u>
 <b>Liabilities and Net Assets</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 298
Due to the Center	<u>86,907</u>
Total liabilities	87,205
 Net assets:	
Unrestricted net assets:	
Undesignated	3,865,413
Board designated	<u>236,931</u>
	4,102,344
Temporarily restricted net assets	2,350,013
Permanently restricted net assets	<u>23,918</u>
Total net assets	<u>6,476,275</u>
Total liabilities and net assets	<u><u>\$ 6,563,480</u></u>

El Rio Foundation, Inc.  
Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2014

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total</u>
Revenues and support:				
Grants and contributions	\$ 101,965	\$ 643,637		\$ 745,602
Special events revenue		483,681		483,681
Net investment income	175,936			175,936
In-kind contributions	<u>68,938</u>			<u>68,938</u>
	346,839	1,127,318		1,474,157
Net assets released from restrictions	<u>901,288</u>	<u>(901,288)</u>		
Total revenues and support	1,248,127	226,030		1,474,157
Expenses:				
Program services	901,288			901,288
Management and general	46,708			46,708
Special events and fundraising	165,740			165,740
In-kind expenses	<u>68,938</u>			<u>68,938</u>
Total expenses	<u>1,182,674</u>			<u>1,182,674</u>
Increase in net assets	65,453	226,030		291,483
Net assets, beginning of year	<u>4,036,891</u>	<u>2,123,983</u>	\$ 23,918	<u>6,184,792</u>
Net assets, end of year	<u>\$ 4,102,344</u>	<u>\$ 2,350,013</u>	<u>\$ 23,918</u>	<u>\$ 6,476,275</u>

SINGLE AUDIT SECTION

El Rio Santa Cruz Neighborhood Health Center, Inc.  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2014

Federal Grantor/Program Title/Pass-Through Grantor	Pass-Through Grantor's Number	CFDA Number	Expenditures
<b>U.S. Department of Health and Human Services</b>			
Direct programs:			
<i>Health Centers Cluster:</i>			
Consolidated Health Centers	N/A	93.224	\$ 3,498,589
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	N/A	93.527	<u>4,449,489</u>
<i>Total Health Centers Cluster</i>			7,948,078
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	N/A	93.526	4,032,861
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	N/A	93.918	984,142
Passed through the Arizona Department of Health Services:			
Centers for Disease Control and Prevention_ Investigations and Technical Assistance (Colorectal Cancer Fit at Fifty Health Check Program)	ADHS15-083140	93.283	51,430
National Bioterrorism Hospital Preparedness Program	ADHS14-060135	93.889	35,000
HIV Care Formula Grants (Ryan White Part B)	ADHS13-050871	93.917	<u>1,245,321</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>14,296,832</u>
<b>U.S. Department of Agriculture</b>			
Passed through the Arizona Department of Agriculture:			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	ADHS14-053685:1	10.557	436,433
WIC Farmers' Market Nutritional Program (FMNP)	ADHS14-053685:1	10.572	<u>406</u>
<b>Total U.S. Department of Agriculture</b>			<u>436,839</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 14,733,671</u></u>

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

El Rio Santa Cruz Neighborhood Health Center, Inc.  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2014

**NOTE 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center) recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers**

The program titles and CFDA numbers were obtained from the federal or pass-through grantors or the 2014 *Catalog of Federal Domestic Assistance*.

**NOTE 3 - Subrecipients**

The Center passed through \$83,332 in federal funding from the Health Centers Cluster to St. Elizabeth's Health Center during the year ended December 31, 2014.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center), which comprise the statements of financial position as of December 31, 2014, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Fester & Chapman P.C.".

May 12, 2015

Independent Auditors' Report on Compliance For Each Major Program  
and on Internal Control Over Compliance Required by OMB Circular A-133

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

**Report on Compliance for Each Major Federal Program**

We have audited El Rio Santa Cruz Neighborhood Health Center, Inc. (the Center)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2014. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

### **Report on Internal Control Over Compliance**

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



May 12, 2015

El Rio Santa Cruz Neighborhood Health Center, Inc.  
 Schedule of Findings and Questioned Costs  
 Year Ended December 31, 2014

**Section I - Summary of Auditors' Results**

**Financial Statements:**

Type of auditors' report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness identified?	_____	yes	<u>  X  </u> no
Significant deficiencies identified?	_____	yes	<u>  X  </u> none reported
Noncompliance material to financial statements noted?	_____	yes	<u>  X  </u> no

**Federal Awards:**

Internal control over major programs:			
Material weakness identified?	_____	yes	<u>  X  </u> no
Significant deficiencies identified?	_____	yes	<u>  X  </u> none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	_____	yes	<u>  X  </u> no
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Programs or Cluster</u>
	<i>Health Centers Cluster:</i>
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Dollar threshold used to distinguish between Type A and Type B programs:

\$442,010

Auditee qualified as low-risk auditee?	<u>  X  </u>	yes	_____	no
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**Other Matters:** Auditee's Summary Schedule of Prior Audit

Findings required to be reported in accordance with Circular A-133 (Section .315[b])?	_____	yes	<u>  X  </u>	no
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**Section II - Financial Statement Findings**

None noted

**Section III - Federal Award Findings and Questioned Costs**

None noted