# SOUTHWEST CENTER FOR HIV/AIDS, INC.

## FINANCIAL STATEMENTS AND
## UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

Year Ended December 31, 2022

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Year Ended December 31, 2022

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**INDEPENDENT AUDITORS' REPORT**

The Board of Directors of

**SOUTHWEST CENTER FOR HIV/AIDS, INC.**

**Opinion**

We have audited the financial statements of ***Southwest Center for HIV/AIDS, Inc.*** (the "Organization"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in G*overnment Auditing Standards*, issued by the Comptroller General of the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

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

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they would influence the judgement made by a reasonable user of the financial statements:

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In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ***Southwest Center for HIV/AIDS, Inc.'s*** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ***Southwest Center for HIV/AIDS, Inc.'s*** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the 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 April 25, 2024 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Organization's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

April 25, 2024

# SOUTHWEST CENTER FOR HIV/AIDS, INC.

## STATEMENT OF FINANCIAL POSITION

December 31, 2022

### ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ | 259,797 |
| Contributions and grants receivable | | 499,327 |
| Accounts receivable | | 793,831 |
| Inventory | | 46,098 |
| Prepaid expenses and other current assets | | 80,913 |
| TOTAL CURRENT ASSETS | | 1,679,966 |
| Property and equipment, net | | 4,778,236 |
| Right of use operating lease asset | | 45,188 |
| TOTAL ASSETS | $ | 6,503,390 |

### LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable | | 118,336 |
| Accrued expenses | | 381,424 |
| Right of use operating lease liability, current portion | | 16,560 |
| TOTAL CURRENT LIABILITIES | | 516,320 |
| Tenant security deposit | | 4,187 |
| Right of use operating lease liability, net of current portion | | 28,268 |
| TOTAL LIABILITIES | | 548,775 |
| NET ASSETS | | |
| Net assets without donor restrictions | | 5,515,780 |
| Net assets with donor restrictions | | 438,835 |
| TOTAL NET ASSETS | | 5,954,615 |
| TOTAL LIABILITIES AND NET ASSETS | $ | 6,503,390 |

## SOUTHWEST CENTER FOR HIV/AIDS, INC.

### STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended December 31, 2022

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| SUPPORT AND REVENUE | | | |
| Contributions | | | |
| Individuals | $ 52,096 | $ 334,940 | $ 387,036 |
| Foundations | 236,934 | - | 236,934 |
| Total contributions | 289,030 | 334,940 | 623,970 |
| Government contracts and grants | 3,467,480 | - | 3,467,480 |
| 340B drug discount pricing | 5,379,729 | - | 5,379,729 |
| Third-party insurance payments | 812,659 | - | 812,659 |
| Tenant use fees | 582,629 | - | 582,629 |
| Other | 4,889 | - | 4,889 |
| Net assets released from restrictions | 511,217 | (511,217) | - |
| Total support and revenue | 11,047,633 | (176,277) | 10,871,356 |
| EXPENSES | | | |
| Salaries and wages | 3,664,296 | - | 3,664,296 |
| Employee related expenses | 758,918 | - | 758,918 |
| Outsourced services | 481,201 | - | 481,201 |
| Materials and supplies | 4,282,509 | - | 4,282,509 |
| Occupancy and rent | 389,318 | - | 389,318 |
| Food supplements and vitamins | 423,244 | - | 423,244 |
| Mileage, travel and training | 64,839 | - | 64,839 |
| Other operating expenses | 576,732 | - | 576,732 |
| Depreciation and amortization | 295,196 | - | 295,196 |
| Total expenses | 10,936,253 | - | 10,936,253 |
| CHANGE IN NET ASSETS | 111,380 | (176,277) | (64,897) |
| NET ASSETS, BEGINNING OF YEAR | 5,404,400 | 615,112 | 6,019,512 |
| NET ASSETS, END OF YEAR | $ 5,515,780 | $ 438,835 | $ 5,954,615 |

## SOUTHWEST CENTER FOR HIV/AIDS, INC.

### STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

| | Program Services | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|
| | Wellness | Community Service | Total | Management & General | Fundraising | Total | Total |
| Salaries and wages | $ 944,798 | $ 1,691,697 | $ 2,636,495 | $ 739,076 | $ 288,725 | $ 1,027,801 | $ 3,664,296 |
| Employee related expenses | 168,645 | 356,693 | 525,338 | 183,298 | 50,282 | 233,580 | 758,918 |
| Outsourced services | 79,559 | 200,910 | 280,469 | 198,284 | 2,448 | 200,732 | 481,201 |
| Materials and supplies | 984,977 | 2,697,981 | 3,682,958 | 556,726 | 42,825 | 599,551 | 4,282,509 |
| Occupancy and rent | 89,543 | 245,271 | 334,814 | 50,611 | 3,893 | 54,504 | 389,318 |
| Food supplements and vitamins | - | 423,244 | 423,244 | - | - | - | 423,244 |
| Mileage, travel and training | 14,407 | 25,563 | 39,970 | 17,307 | 7,562 | 24,869 | 64,839 |
| Other operating expenses | 133,380 | 362,162 | 495,542 | 75,390 | 5,800 | 81,190 | 576,732 |
| Depreciation and amortization | 67,895 | 185,974 | 253,869 | 38,375 | 2,952 | 41,327 | 295,196 |
| TOTAL EXPENSES | $ 2,483,204 | $ 6,189,495 | $ 8,672,699 | $ 1,859,067 | $ 404,487 | $ 2,263,554 | $ 10,936,253 |

# SOUTHWEST CENTER FOR HIV/AIDS, INC.

## STATEMENT OF CASH FLOWS
Year Ended December 31, 2022

| | | |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ | (64,897) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | | 295,196 |
| Non-cash lease expense | | 11,622 |
| Changes in assets and liabilities: | | |
| Contributions and grants receivables | | 455,017 |
| Accounts receivable | | (365,277) |
| Inventory | | (5,656) |
| Prepaid expenses and other current assets | | (57,298) |
| Accounts payable | | 30,889 |
| Accrued expenses | | 211,814 |
| Deferred rental income | | 1,383 |
| Tenant security deposit | | 22 |
| Deferred rent | | - |
| Lease liabilities | | (16,022) |
| Net cash provided by operating activities | | 496,793 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | | (801,053) |
| Net cash used in investing activities | | (801,053) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | | (304,260) |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR | | 564,057 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ | 259,797 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Right of use operating lease asset and liability recognized upon adoption of Topic 842 | $ | 60,850 |

## (1) Organization operations and summary of significant accounting policies

**Nature of operations** – ***Southwest Center for HIV/AIDS, Inc.*** ("the Organization") was established to provide its clients with the knowledge, resources, and care necessary to live long and well with HIV. As an organization created by and for people living with HIV, the Organization provides increased access to timely cutting edge medical support services, alternative therapies, peer-based education, emotional support, advocacy and social services. The Organization was founded as the primary provider of early intervention services and serves as the first point of contact for HIV/STI testing, those seeking pre-exposure prophylaxis ("PrEP") navigation and services, the newly diagnosed, or those further along on the disease spectrum who have delayed in accessing services.

The Organization provides services to individuals eligible under government and insurance programs. In addition, services are offered to the community through education and prevention programs funded by foundations, government agencies, and other organizations. Other funding for the Organization's operations is provided by individuals and corporations at special events and in response to fundraising campaigns.

In June 2011, the City of Phoenix ("the City") purchased a 54,000 square foot facility with a portion of a 2006 voter-approved $3.6 million bond which set aside funds to help nonprofit organizations provide services not offered by the City. In 2012, the City and the Organization entered into an operating agreement expiring in 2038 that requires the Organization to occupy and use the premises as a community health education center to provide prevention, treatment, social services, wellness promotion, research services and other health related services to the City's population affected by, or at risk of HIV/AIDS. The Organization may enter into sub-operating agreements with other organizations to occupy the facility if those organizations provide similar or ancillary services to the Organization.

During 2012 and 2013, the Organization developed the site into a new community health and education center. This community-based, collaborative health center is a one-stop resource for chronic disease prevention, education, mental health, nutrition, health services and wellness, helping those who are at risk for and impacted by HIV/AIDS. The facility was completed in the fall of 2013 and is home to several partner organizations and companies. These partner organizations occupy space within the facility in accordance with sub-operating agreements with the Organization.

The Financial Accounting Standards Board ("FASB") sets generally accepted accounting principles in the United States of America ("GAAP") to ensure consistent reporting. References to GAAP are to the FASB Accounting Standards Codification ("ASC").

**Basis of presentation** – The accompanying financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Organization maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

<u>Net assets without donor restrictions</u>
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization represent net assets without donor restrictions. These net assets may be used at the discretion of the Organization's management.

## (1) Organization operations and summary of significant accounting policies (continued)

Net assets with donor restrictions
Net assets subject to stipulations imposed by donors and grantors represent net assets with donor restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and change in net assets. Restricted support where restrictions are met in the same period as the donation is made is shown as additions to contributions without donor restrictions. The Organization does not have any net assets restricted in perpetuity at December 31, 2022.

**Management's use of estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** – Cash includes cash and, at times, cash equivalents that consist of highly liquid financial instruments purchased with original maturities of three months or less. Cash deposits in each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

**Grants receivables** – The Organization bills Maricopa County, the State of Arizona, and other governmental agencies for its performance under various contracts. All billings unpaid as of year-end are recorded as grants receivable.

Grants receivables are stated at the amount management expects to collect under the terms of the grant and contract agreements. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance, if needed, based on its assessment of the current status of individual contracts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants receivable.

**Contributions receivable** – Contributions receivable ("pledges") that are to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, pledges receivable are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition.

The discount rate determined at the initial recognition of the pledge receivable is based upon management's assessment of many factors, including when the pledge receivable is expected to be collected, the creditworthiness of the other parties, the organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the pledge receivable's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges receivable are included in contributions and grants receivable in the accompanying statement of financial position.

**(1) Organization operations and summary of significant accounting policies (continued)**

**Accounts receivable** – The Organization's accounts receivable consist primarily of amounts due from third party insurance payors and amounts due from the 340B drug discount program. Accounts receivable are stated at the amount management expects to collect under the terms of the contract agreements. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance, if needed, based on its assessment of the current status of individual contracts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable consists of the following:

| | Decmber 31, 2022 | January 1, 2022 |
|---|---|---|
| 340B drug discount receivable | $ 568,923 | $ 297,062 |
| Third party insurance receivable | 173,648 | 74,954 |
| Tenant use fees receivable | 3,000 | 3,000 |
| Other receivables | 48,260 | 53,538 |
| Accounts receivable | $ 793,831 | $ 428,554 |

**Inventory** – Inventory consists of vitamin and herb inventory maintained as part of the Organization's obligation for services provided under government contracts. These inventories are stated at the lower of cost, determined using the FIFO ("first-in, first-out") method, or net realizable value. Revenue from the sale of vitamin and herb inventory is recognized when the products are delivered to the customer, which is typically at the point of sale.

**Property and equipment** – Property and equipment is valued at cost. Donated property and equipment is recorded at the estimated fair value at the date of donation. Generally, property and equipment in excess of $500 is capitalized. Maintenance and repairs are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. For purposes of computing depreciation, the general range of estimated useful lives is as follows:

| | |
|---|---|
| Furniture, equipment and software | 3 - 7 years |
| Leasehold improvements | Lower of the estimated useful life or the remaining term of the applicable lease |

**Contributions** – The Organization evaluates grants and contributions for evidence of the transfer of commensurate value from the Organization to the grantor or resource provider. The transfer of commensurate value from the Organization to the grantor or resource provider may include instances when a) the goods or services provided by the Organization directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Organization. When such factors exist, the Organization accounts for the grants or contributions as exchange transactions under ASC 958-606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Organization accounts for the award under the contribution accounting model.

**(1) Organization operations and summary of significant accounting policies (continued)**

In the absence of the transfer of commensurate value from the Organization to the resource provider, the Organization evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Organization or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Organization and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Organization to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

The Organization recognizes amounts received from unconditional contributions at the time the Organization receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Organization.

The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions.

**Government contracts and grants revenue recognition** – The Organization has contracts with state and federal agencies to provide services to the public including education, case management support, testing, and PrEP navigation services. As part of the underlying agreements, the Organization must adhere to the rules and regulations established by the Federal Office of Management and Budget (“OMB”) and/or incur qualifying costs as stipulated in the grant agreements and submit a summary of program outcomes to the granting agency. The Organization must refund any disallowed cost that it draws down and, based on the type of award, may be required to forfeit any unused resources. Under the contributions guidance in ASC 958-605, the Organization’s government grants qualify as non-exchange transactions. The Organization has determined its awards to be conditional because of the OMB requirements and federal agency restrictions on how the award is used. As such, the Organization recognizes revenue from the awards when the conditions of the agreement are met, which is consistent with the timing of the Organization’s revenue recognition under legacy guidance. Amounts for billed unpaid services are included in grants and contributions receivable in the accompanying statement of financial position. Advances are recorded as deferred revenue upon receipt.

Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants or contracts. Additionally, if the Organization terminates its activities, all unearned amounts are to be returned to the funding sources.

## (1) Organization operations and summary of significant accounting policies (continued)

**In-kind contributions** – Donated materials and services are reflected in the accompanying financial statements at their estimated fair value at the date of donation. Donated services are recognized as contributions in accordance with FASB ASC 958-605, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. In addition, the Organization utilizes and depends on the services of a substantial number of volunteers to perform a variety of tasks that assist the Organization with specific programs, administrative functions, and fundraising activities. The value of this contributed time is not reflected in these financial statements since the services did not require specialized skills and it was not susceptible to objective measurement or valuation.

**Revenue from contracts with customers** – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers ("ASC 606")*. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

The Organization has multiple revenue streams that are accounted for as exchange transactions described below.

*Vitamin and Herb Shop sales* – The Organization has a retail store that is open to the public and includes vitamins and herbal supplements. Retail sales revenue is reported at an amount that reflects the consideration to which the Organization expects to be entitled in exchange for the goods. Amounts received for retail store sales are recorded as revenue at the point in time the goods are transferred to the customer. Payment is due at the time of the sale and this transaction may result in accounts receivable.

*Third-party insurance payments* – The Organization's third-party insurance revenue is related to patient service fees received from various payers and patients themselves under contracts in which the Organization's sole performance obligation is to provide professional services to the patients. The Organization recognizes third-party insurance revenue in the period in which the services are performed, on the date of service. The Organization's performance obligations to patients are typically satisfied at a point in time as the services are generally completed in one day.

The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by Medicare or negotiated with managed care health plans and commercial insurance companies the third-party payers. The payment arrangements with third-party payers for the services provided by the Organization to the related patients typically specify payments at amounts less than standard charges and generally provides for payments based upon predetermined rates per diagnostic services or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

## (1) Organization operations and summary of significant accounting policies (continued)

The Organization's third-party insurance revenues are based upon the estimated amounts management expects to be entitled to receive from patients and third-party payers. Estimates of explicit price concessions under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Retroactively calculated explicit price concessions arising under reimbursement agreements with third-party payers are recognized on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). The Organization also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts expected to be collected. Implicit price concessions for uninsured accounts represent the sole component of variable consideration in the Organization's contracts with customers.

The Organization's estimation of the implicit price concessions is based primarily upon the type of claim and the effectiveness of past collection efforts. The Organization monitors historical collection results and the effectiveness of reserve policies on a periodic basis and reviewed various analytics to support the basis for its estimates. Those efforts primarily consist of reviewing the following:

- Historical write-off and collection experience using a hindsight or look-back approach;
- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of patient service receivables, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Cash collections as a percentage of net patient revenue less implicit price concessions;
- Trending of days revenue in patient service receivables

*340B drug discount program revenue recognition* – The Organization participates and is an eligible health care organization/covered entity under the Health Resources and Services Administration ("HRSA"). The intent of the program is to allow the covered entities to stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services with 340B generated revenue. The program requires drug manufacturers to provide outpatient drugs to the Organization's eligible clients at a significantly reduced/discounted price. Revenue from the 340B drug discount pricing is recognized when the prescription is filled by the third-party contracted pharmacy. At the time of payment, the Organization has an arrangement with a third-party contracted pharmacy to receive payment. Therefore, upon settlement of payment, the pharmacy is contractually obligated to pay the Organization and the Organization records a contract asset for the amount it expects to receive. The amounts due from the contracted pharmacy at December 31, 2022 are included in accounts receivable in the accompanying statements of financial position.

Substantially all of the Organization's contracts with customers include a single performance obligation to transfer the promised good or service. The Organization does not have any significant financing components as payment is generally received in a customary time frame from the customers. The contracts do not contain material amounts of variable consideration. At contract inception, the Organization evaluates the probability of collecting the transaction price based on the history of payment by the customer.

**(1) Organization operations and summary of significant accounting policies (continued)**

**Tenant use fees** – Tenant use fees are recognized as revenue on a straight-line basis over the term of the tenant use agreement. The Organization has recognized a deferred rent asset totaling $12,940 at December 31, 2022, as a result of the straight-line income exceeding the payments received. The asset is included within prepaid expenses and other current assets in the accompanying statement of financial position.

**Functional allocation of expenses** – The cost of providing the Organization's various programs and other activities is presented on a natural basis in the accompanying statement of activities and change in net assets. The statement of functional expenses presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel activity and other appropriate allocation methods. Such allocations are determined by management on an equitable basis.

The departmental expenses that are allocated by natural classification include the following:

| | |
|---|---|
| Salaries and employee related expenses, mileage/travel | Time and effort |
| Occupancy, depreciation and amortization, materials and supplies, and other operating expenses | Square footage used |

**Advertising** – The Organization uses advertising to promote their programs among the constituencies they serve. Advertising and promotional costs are expensed as incurred. Advertising and promotional expense was $108,040 for the year ended December 31, 2022.

**Income taxes** – The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions, and accordingly, there is no provision for income taxes. Income determined to be unrelated business taxable income would be taxable.

The Organization accounts for their uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes* by applying a more-likely-than-not threshold to the recognition and de-recognition of uncertain tax positions in earnings in the year of such change. The Organization evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. The Organization’s federal Returns of Organizations Exempt from Income Tax (Form 990) for calendar years 2020, 2021 and 2022 are subject to examination by the Internal Revenue Service, generally for the three years after they were filed.

**Concentration of credit risk** – The Organization maintains its cash with various financial institutions, which are insured by the FDIC. At times, such cash may be in excess of FDIC insurance limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risks related to cash.

## (1) Organization operations and summary of significant accounting policies (continued)

**Recent accounting pronouncements** – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and change in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The Organization adopted the standard effective January 1, 2022. The impact upon adoption was not material to the financial statements and resulted in the recognition of a right of use asset and right of use liability totaling approximately $61,000 on adoption date.

**Subsequent events** – Subsequent events have been evaluated through April 25, 2024 which is the date the financial statements were available to be issued.

## (2) Property and equipment, net

The following is a summary of property and equipment at December 31:

| | |
|---|---|
| Cost and donated value: | |
| Furniture, equipment and software | $ 544,721 |
| Leasehold improvements | 6,674,389 |
| Total cost and donated value | 7,219,110 |
| Less accumulated depreciation and amortization | (2,440,874) |
| Property and equipment, net | $ 4,778,236 |

Depreciation and amortization expense charged to operations was $295,196 for the year ended December 31, 2022.

In December 2021, the Organization entered into a commitment for office renovations for total estimated costs of $300,000. Construction was completed during 2022.

## (3) Line of credit

The Organization has a $100,000 line of credit with a financial institution, which bears interest at the prime rate plus 3.25% (10.75% at December 31, 2022). The line of credit is uncollateralized and does not have a stated maturity date but can be cancelled at any time by the Organization or by the financial institution if the account is mishandled. There was no outstanding balance under the line of credit as of December 31, 2022.

In November 2021, the Organization entered a new line of credit agreement with a financial institution, which allowed for total draws of $500,000 and had a stated maturity date of November 12, 2022. The line of credit was extended in 2022 for a new maturity date of February 2023. In 2023, the line of credit was modified to increase the borrowing capacity to $750,000 and extend the maturity date to March 2024. In March 2024, the line of credit extended to a maturity date of June 2024. The line of credit bears interest at the prime rate plus 0.25% (7.75% at December 31, 2022). There was no outstanding balance under the line of credit as of December 31, 2022.

**(4) Leasing activities**

The Organization has a non-cancelable rental agreement for copier equipment maturing through 2025. The rents are included in other operating expenses on the statement of functional expenses. Copier leases are generally renewed upon maturity. The following table represents the maturity of the operating lease liability:

| Years Ending December 31: | |
|---|---|
| 2023 | $ 16,560 |
| 2024 | 16,560 |
| 2025 | 12,420 |
| Total lease payments | 45,540 |
| Less interest | (712) |
| Present value of lease liability | $ 44,828 |

Other information related to the operating lease as of and for the year ended December 31, 2022 is as follows:

| | |
|---|---|
| Weighted average lease term | 2.71 |
| Weighted average discount rate | 1.12% |
| Operating cash flows from operating leases | $16,560 |
| Operating lease costs | $21,923 |

**(5) Net assets with donor restrictions**

Net assets with donor restrictions are all restricted for purposes as follows at December 31, 2022:

| | |
|---|---|
| Nutrition and meals | $ 26,448 |
| Education | 105,914 |
| Support groups | 13,286 |
| Testing for HIV/AIDS and other diseases | 16,818 |
| Youth and families programs | 28,200 |
| Other | 248,169 |
| Total net assets with donor restrictions | $ 438,835 |

**(6) Net assets released from donor restrictions**

Net assets released from donor restrictions consist of the following for the year ended December 31,2022:

| | |
|---|---|
| Nutrition and meals | $ 250 |
| Education | 94,086 |
| Support groups | 691 |
| Testing for HIV/AIDS and other diseases | 28,958 |
| Youth and families programs | 2,900 |
| Time restriction | 300,000 |
| Other | 84,332 |
| Total net assets with donor restrictions released from restrictions | $ 511,217 |

## (7) Revenue concentrations

Revenue from Maricopa County through the Ryan White programs represents 30% of the Organization's total government contracts and grants revenue during the year ended December 31, 2022 and 26% of contributions and grants receivable as of December 31, 2022.

Revenue from the Arizona Department of Health Services represents 35% of the Organization's total government contracts and grants revenue during the year ended December 31, 2022, and 37% of contributions and grants receivable as of December 31, 2022.

If the Organization were unable to maintain current or future contracts, the Organization's operations could be substantially affected.

## (8) Conditional promises to give

The Organization has various governmental grants that are conditional in nature and the revenue can only be recognized once funds have been spent on qualified costs. As of December 31, 2022, the remaining amount of conditional promises to give under these governmental grants is approximately $1,038,000.

## (9) Operating agreement

The Organization occupies a building owned by the City of Phoenix under the terms of an operating agreement expiring in 2038. Under the terms of the agreement, the Organization is required to pay occupancy and maintenance costs of the facility. Additionally, the Organization is required to ensure that the aggregate value of services provided to the community from all tenants services from all tenants in the facility are provided to the community with a total value of at least $144,200 per year. The Organization was in compliance with this requirement for the year ended December 31, 2022.

## (10) Tenant use fees

The Organization maintains various non-cancelable sub-operating agreements expiring through August 2024, with unaffiliated organizations for part of the community health education center. Minimum future tenant use fees under the sub-operating agreements are as follows:

| **Years Ending December 31:** | | |
|---|---|---|
| 2023 | $ | 320,889 |
| 2024 | | 66,400 |
| Total minimum lease payments | $ | 387,289 |

The Organization earned tenant use fees of approximately $583,000 under these agreements during the year ended December 31, 2022.

## (11) Liquidity and availability of resources

Financial assets available for general expenditure as of December 31, 2022 are as follows:

| | |
|---|---|
| Cash, cash equivalents, and restricted cash | $ 259,797 |
| Contributions and grants receivables | 499,327 |
| Accounts receivable | 793,831 |
| Total financial assets available within one year | 1,552,955 |
| Less: Amounts unavailable for general expenditures within one year, due to: | |
| Tenant security deposits | (4,187) |
| Net assets with donor restrictions | (438,835) |
| Total amounts unavailable for general expenditures within one year | (443,022) |
| Total financial assets available for general expenditure within one year | $ 1,109,933 |

The Organization monitors its cash flows to ensure the fulfillment of all obligations. The Organization's policy is to maintain larger balances of cash to have readily liquid assets available as needed. The Organization also maintains lines of credit as disclosed above.

## UNIFORM GUIDANCE
## SUPPLEMENTARY REPORTS

# SOUTHWEST CENTER FOR HIV/AIDS, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2022

| Federal Grantor/Pass-Through Agency/ Program or Cluster Title | Federal Assistance Listing Number | Contract Number | Passed Through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | | |
| Passed through Maricopa County Department of Public Health Services | | | | |
| HIV Emergency Relief Project Grants - Title 1, | | 2020MHSSWC | $ - | $ 3,991 |
| Behavioral Health | 93.914 | 2021MHSSWC | - | 6,130 |
| HIV Emergency Relief Project Grants - Title 1, | | 2020MNSSWC | - | 70,552 |
| Nutrition | 93.914 | 2021MNSSWC | - | 382,293 |
| HIV Emergency Relief Project Grants - Title 1, | | 2020MCMSWC | - | 25,978 |
| Medical Case Management | 93.914 | 2021MCMSWC | - | 134,523 |
| HIV Emergency Relief Project Grants - Title 1, | | 2020NMCSWC | - | 13,223 |
| Supportive Case Management | 93.914 | 2021NMCSWC | - | 104,134 |
| HIV Emergency Relief Project Grants - Title 1, | | 2020FBSWC | - | 101,640 |
| Food Vouchers/Meals | 93.914 | 2021FBSWC | - | 212,575 |
| Subtotal 93.914 | | | - | 1,055,039 |
| Passed through Arizona Department of Health Services | | | | |
| HIV Prevention Condom Distribution | 93.940 | 252026/152034 | - | 305,032 |
| HIV Behavioral Intervention | 93.940 | 252026/152034 | - | 161,287 |
| PrEP Navigation Services | 93.940 | 252026/152034 | - | 336,085 |
| HIV Emergency Relief Project Grants - Title 1, | | | | |
| Testing Services B | 93.940 | 252026/152035 | - | 401,615 |
| Subtotal 93.940 | | | - | 1,204,019 |
| Passed through Centers for Disease Control and Prevention | | | | |
| HIV Prevention Activities Non-Governmental | | | | |
| Organization based | 93.939 | 9-17NU65PS923664 | - | 636,828 |
| Passed through Arizona Family Health Partnership | | | | |
| Family Planning Services | 93.217 | 5 FPHPA006468-02-00 | - | 572,718 |
| **Total U.S. Department of Health and Human Services** | | | - | 3,468,604 |
| **Total Expenditures of Federal Awards** | | | $ - | $ 3,468,604 |

## (1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the ***Southwest Center for HIV/AIDS, Inc.*** under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of ***Southwest Center for HIV/AIDS, Inc.***, it is not intended and does not present the financial position, change in net assets or cash flows of ***Southwest Center for HIV/AIDS, Inc.***

## (2) Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance for Assistance Listing (“AL”) #93.914 HIV Emergency Relief Project Grants and AL #93.940 HIV Prevention Activities – Health Department Based.

## INDEPENDENT AUDITORS’ REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors of

**SOUTHWEST CENTER FOR HIV/AIDS, INC.**

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 financial statements of ***Southwest Center for HIV/AIDS, Inc.*** (the “Organization”), which comprise the statement of financial position as of December 31, 2022 and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2024.

***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

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### *Report on Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Organization's Response to the Findings*

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

### *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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

April 25, 2024

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors of

**SOUTHWEST CENTER FOR HIV/AIDS, INC.**

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

***Opinion on Each Major Federal Program***

We have audited ***Southwest Center for HIV/AIDS, Inc***'s (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2022. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

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***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether to do with fraud or error, and express an opinion on the Organization's compliance based on our audit.  Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect a material noncompliance when it exists.  The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks.  Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance.  Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003 and 2022-004 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

***Organization's Response to the Findings***

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

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

Mayer Hoffman McCann P.C.

April 25, 2024

# SOUTHWEST CENTER FOR HIV/AIDS, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

### Section I – Summary of Auditors' Results

***Financial Statements***

| | |
|---|---|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiency(ies) identified? | None reported |
| 3. Noncompliance material to the financial statements noted? | No |

***Federal Awards***

| | |
|---|---|
| 1. Internal control over major federal program: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiency(ies) identified? | None reported |
| 2. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 4. Identification of major federal program: | |

| Assistance Listing Number | Name of Federal Program or Cluster |
|---|---|
| 93.914 | HIV Emergency Relief Project Grants |
| 93.940 | HIV Prevention Activities – Healthcare Department Based |

| | |
|---|---|
| 5. Dollar threshold used to distinguish between type A and type B programs: | $ 750,000 |
| 6. Auditee qualified as low-risk auditee? | No |

# SOUTHWEST CENTER FOR HIV/AIDS, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2022

### Section II – Financial Statement Findings

| | |
|---|---|
| ***Item:*** | 2022-001 |
| ***Subject:*** | Timeliness in Reporting and Adequacy of Staffing |
| ***Criteria or Specific Requirement:*** | Organizations receiving single audits are required to submit their financial and federal award information to the Federal Audit Clearinghouse within 9 months after their fiscal year end. |
| ***Condition:*** | The financial statements and data collection form were not submitted to the Clearinghouse until after September 30, 2023, at which time, the submission became delinquent. |
| ***Cause:*** | Delays in ***Southwest Center for HIV/AIDS, Inc.'s*** financial reporting process were primarily caused from reduced staffing from employee turnover within those overseeing the major programs tested. |
| ***Effect:*** | ***Southwest Center for HIV/AIDS, Inc.*** was not able to meet its financial and federal award reporting deadline, which was due on September 30, 2023. This could result in actions being taken by federal grantors on various federal awards. This is deemed to be a material weakness in internal control over financial reporting. |
| ***Recommendation:*** | We recommend that management of the Organization enhance its current policies, procedures, staffing and systems to ensure timely and accurate reporting on a prospective basis. |
| ***Views of Responsible Officials:*** | Management of the Organization concurs with the finding. See Corrective Action Plan. |
| ***Item:*** | 2022-002 |
| ***Subject:*** | Third party insurance revenue |
| ***Criteria or Specific Requirement:*** | Accounting principles generally accepted in the United States of America require revenues be recorded net of implicit and explicit price concessions at the time of recognition of the revenue. |
| ***Condition:*** | ***Southwest Center of HIV/AIDS, Inc.'s*** process for recognizing revenues associated with third party insurance arrangements included the use of an estimated price concession of 15%, resulting in an overstatement of revenues and receivables. |
| ***Cause:*** | The Organization did not have controls designed and implemented to monitor and revise the implicit and explicit price concession estimates on a timely basis. |
| ***Effect:*** | ***Southwest Center for HIV/AIDS, Inc.'s*** financial statements required an audit adjustment to reduce revenue and receivables by approximately $634,000. This is deemed to be a material weakness in internal control over financial reporting. |
| ***Recommendation:*** | ***Southwest Center for HIV/AIDS, Inc.'s*** should implement a process that monitors current and historical implicit and explicit price concession trends and incorporates those trends into the price concession estimation process on a timely basis. |

| | |
|---|---|
| ***Views of Responsible Officials:*** | Management of ***Southwest Center for HIV/AIDS, Inc.*** concurs with the finding. See Corrective Action Plan. |
| ***Item:*** | 2022-003 |
| ***Assistance Listing Number:*** | 93.940 |
| ***Programs:*** | HIV Prevention Activities |
| ***Federal Agency:*** | U.S. Department of Health and Human Services |
| ***Pass-Through Agencies:*** | Arizona Department of Health Services |
| ***Pass-Through Grantor Identifying Number:*** | 252026/152034/152035 |
| ***Award Year:*** | January 1, 2022 to December 31, 2022; April 1, 2021 to July 15, 2022; August 1, 2022 to July 31, 2023 |
| ***Compliance Requirement:*** | Allowable Activities and Costs |
| ***Criteria:*** | In accordance with 2 CFR § 200.430 – Compensation – charges to federal programs for salaries and wages should be supported by a system of internal controls which provides reasonable assurance the amounts charged are accurate, allowable and properly allocated. |
| ***Condition:*** | The entity's system of internal controls did not retain contemporaneous documentation of supervisory review over payroll allocations charged to the federal programs. |
| ***Questioned Costs:*** | n/a |
| ***Context:*** | In a population of over 250 payroll costs charged to the program, we conducted a non-statistical sample of 40 payroll costs charged to the program. In our sample of 40, we noted that 23 selections were charged to the program based on an allocation process. Payroll records and the nature of the Organization's programs evidenced that allowable cost and activities occurred. Recordkeeping regarding the supervisory review of the allocations was inadequate. As such, this is deemed to be a material weakness in internal control over compliance. |
| ***Effect:*** | The system of internal controls was not properly implemented. |
| ***Cause:*** | Turnover within key positions of the organization resulted in insufficient documentation and/or inadequate implementation of the control procedures. |
| ***Identification as a Repeat Finding:*** | Repeat finding |
| ***Recommendation:*** | The Organization should enhance it processes and controls to ensure that supervisory review of the payroll allocations is evidenced within the Organization's books and records. |

| | |
|---|---|
| ***Views of Responsible Officials:*** | Management of the Organization concurs with the finding. See Corrective Action Plan. |
| ***Item:*** | 2022-004 |
| ***Assistance Listing Number:*** | 93.940 |
| ***Programs:*** | HIV Prevention Activities |
| ***Federal Agency:*** | U.S. Department of Health and Human Services |
| ***Pass-Through Agencies:*** | Arizona Department of Health Services |
| ***Pass-Through Grantor Identifying Number:*** | 252026/152034/152035 |
| ***Award Year:*** | January 1, 2022 to December 31, 2022; April 1, 2021 to July 15, 2022; August 1, 2022 to July 31, 2023 |
| ***Compliance Requirement:*** | Allowable Activities and Costs |
| ***Criteria:*** | In accordance with 2 CFR § 200.430 – Compensation – charges to federal programs for salaries and wages should be supported by a system of internal controls which provides reasonable assurance the amounts charged are accurate, allowable and properly allocated. |
| ***Condition:*** | The entity's system of internal controls did detect, or document the rationale for, instances in which the amounts charged to a federal program did not agree to the underlying supporting documentation maintained by the Organization. |
| ***Questioned Costs:*** | n/a |
| ***Context:*** | In a population of over 250 payroll costs charged to the program, we conducted a non-statistical sample of 40 payroll costs charged to the program. In our sample of 40, we noted that 2 selections were charged to the program for amounts that did not agree to the underlying supporting documentation maintained by the Organization. The variances between the amounts charged and the amounts supported, as well as the projected impact to the entire population, were trivial in nature. However, the deviation rate in the control objective resulted in the conclusion that this is deemed to be a material weakness in internal control over compliance. |
| ***Effect:*** | The system of internal controls was not properly implemented. |
| ***Cause:*** | Turnover within key positions of the organization resulted in insufficient documentation and/or inadequate implementation of the control procedures. |
| ***Identification as a Repeat Finding:*** | Not a repeat finding |

| | |
|---|---|
| ***Recommendation:*** | The Organization should enhance its processes and controls to ensure that differences between the amounts billed to federal awards and the underlying supporting documentation are thoroughly investigated. If the differences are justifiable, the justification should be documented and retained. If the differences are in error, the billing should be corrected prior to submission. |
| ***Views of Responsible Officials:*** | Management of the Organization concurs with the finding. See Corrective Action Plan. |

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## CORRECTIVE ACTION PLAN

| | |
|---|---|
| ***Item:*** | 2022-001 |
| ***Subject:*** | Timeliness in Reporting and Adequacy of Staffing |
| ***Criteria or Specific Requirement:*** | Organizations receiving single audits are required to submit their financial and federal award information to the Federal Audit Clearinghouse within 9 months after their fiscal year end. |
| ***Condition:*** | The financial statements and data collection form were not submitted to the Clearinghouse until after September 30, 2023, at which time, the submission became delinquent. |
| ***Name of Contact Person:*** | Rosalie Johnson, Chief Financial Officer |
| ***Phone Number:*** | (602) 595-8109 |
| ***Anticipated Completion Date:*** | September 30, 2024 |
| ***Views of Responsible Officials and Corrective Actions:*** | Management agrees with the finding. Beginning in 2023 and continuing in 2024, the Organization has been activity engaged in enhancing its policies, procedures, staffing and systems to ensure timely and accurate reporting on a prospective basis. |
| ***Item:*** | 2022-002 |
| ***Subject:*** | Third party insurance revenue |
| ***Criteria or Specific Requirement:*** | Accounting principles generally accepted in the United States of America require revenues be recorded net of implicit and explicit price concessions at the time of recognition of the revenue. |
| ***Condition:*** | ***Southwest Center of HIV/AIDS, Inc.'s*** process for recognizing revenues associated with third party insurance arrangements included the use of an estimated price concession of 15%, resulting in an overstatement of revenues and receivables |
| ***Name of Contact Person:*** | Rosalie Johnson, Chief Financial Officer |
| ***Phone Number:*** | (602) 595-8109 |
| ***Anticipated Completion Date:*** | December 31, 2023 |
| ***Views of Responsible Officials and Corrective Actions:*** | Management agrees with the finding. Beginning in 2023 and continuing in 2024, the Organization has been activity engaged in enhancing its policies, procedures, staffing and systems to ensure timely and accurate reporting on a prospective basis. |

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| ***Item:*** | 2022-003 |
| ***Assistance Listing Number:*** | 93.940 |
| ***Programs:*** | HIV Prevention Activities – Health Department Based |
| ***Federal Agency:*** | U.S. Department of Health and Human Services |
| ***Pass-Through Agency:*** | Arizona Department of Health Services<br>Centers for Disease Control and Prevention |
| ***Compliance Requirement:*** | Allowable Activities and Costs |
| ***Criteria or Specific Requirement:*** | In accordance with 2 CFR § 200.430 – Compensation – charges to federal programs for salaries and wages should be supported by a system of internal controls which provides reasonable assurance the amounts charged are accurate, allowable and properly allocated. |
| ***Condition:*** | The entity's system of internal controls did not retain contemporaneous documentation of supervisory review over payroll allocations charged to the federal programs. |
| ***Name of Contact Person:*** | Rosalie Johnson, Chief Financial Officer |
| ***Phone Number:*** | (602) 595-8109 |
| ***Anticipated Completion Date:*** | January 1, 2023 |
| ***Views of Responsible Officials and Corrective Actions:*** | Management agrees with the finding. Payroll allocations are monitored on a routine basis to ensure they are reasonable and accurate. Additional training and record retention practices will be added and/or enhanced to ensure there is evidence of supervisory review. |

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| ***Item:*** | 2022-004 |
| ***Assistance Listing Number:*** | 93.940 |
| ***Programs:*** | HIV Prevention Activities – Health Department Based |
| ***Federal Agency:*** | U.S. Department of Health and Human Services |
| ***Pass-Through Agency:*** | Arizona Department of Health Services<br>Centers for Disease Control and Prevention |
| ***Compliance Requirement:*** | Allowable Activities and Costs |
| ***Criteria or Specific Requirement:*** | The entity's system of internal controls did detect, or document the rationale for, instances in which the amounts charged to a federal program did not agree to the underlying supporting documentation maintained by the Organization. |
| ***Condition:*** | The entity's system of internal controls did detect, or document the rationale for, instances in which the amounts charged to a federal program did not agree to the underlying supporting documentation maintained by the Organization. |
| ***Name of Contact Person:*** | Rosalie Johnson, Chief Financial Officer |
| ***Phone Number:*** | (602) 595-8109 |
| ***Anticipated Completion Date:*** | January 1, 2023 |
| ***Views of Responsible Officials and Corrective Actions:*** | Management agrees with the finding. Billings are reviewed by supervisors, including a review of the underlying supporting documentation, prior to submission of the billing. Additional training and record retention practices will be added and/or enhanced to ensure there is evidence of supervisory review of the underlying supporting documentation. Such review and record retention processes will include documentation of noted discrepancies and rationale for such discrepancies if not corrected. |

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## Summary Schedule of Prior Year Audit Findings

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| ***Item:*** | 2021-001 |
| ***Type of finding:*** | Material weakness in internal control over financial reporting |
| ***Condition:*** | The Chief Financial Officer identified that insurance billings from the internal billing system occur without notification to the accounting department to record revenue. As a result, when cash is received from insurance providers, the cash cannot be applied against a receivable and is instead recorded as revenue, resulting in cash basis revenue recognition. |
| ***Current Status:*** | Partial corrective action taken. See 2022-001. |

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| ***Item:*** | 2021-002 |
| ***Assistance Listing Number:*** | 93.914 |
| ***Programs:*** | HIV Emergency Relief Project Grant |
| ***Federal Agency:*** | U.S. Department of Health and Human Services |
| ***Pass-Through Agency:*** | Maricopa County Ryan White Program |
| ***Compliance Requirement:*** | Allowable Activities and costs |
| ***Criteria or Specific Requirement:*** | In accordance with 2 CFR §200.430 Compensation—personal services, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, be supported by a system of internal control which provides reasonable assurance that the charges were accurate, allowable, and properly allocated and budget estimates must produce reasonable approximation of the activity performed. |
| ***Condition:*** | In 2021, the Organization did not have an adequate process document review and approval of an employee's allocation of payroll costs to federal awards. Due to the pervasiveness of the matter, this is considered a material weakness in internal control over compliance. |
| ***Current Status:*** | Corrective action taken. |

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| ***Item:*** | 2021-003 |
| ***Assistance Listing Number:*** | 93.940 |
| ***Programs:*** | HIV Prevention Activities – Health Department Based |

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| ***Federal Agency:*** | U.S. Department of Health and Human Services |
| ***Pass-Through Agency:*** | Arizona Department of Health Services<br>Centers for Disease Control and Prevention |
| ***Compliance Requirement:*** | Allowable Activities and Costs |
| ***Criteria or Specific Requirement:*** | In accordance with 2 CFR §200.430 Compensation—personal services, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, be supported by a system of internal control which provides reasonable assurance that the charges were accurate, allowable, and properly allocated and budget estimates must produce reasonable approximation of the activity performed. |
| ***Condition:*** | In 2021, the Organization did not have an adequate process document review and approval of an employee's allocation of payroll costs to federal awards. Due to the pervasiveness of the matter, this is considered a material weakness in internal control over compliance. |
| ***Current Status:*** | Not corrected. See 2022-003. |