



Financial Statements
June 30, 2024

DAP Health, Inc.

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Independent Auditor's Report

Board of Directors
DAP Health, Inc.
Palm Springs, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DAP Health, Inc. (Organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, 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 referred to above present fairly, in all material respects, the financial position of DAP Health, Inc. as of June 30, 2024, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 these 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.

Auditor's 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 auditor's 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 the Organization'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 the Organization'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.

Report on Summarized Comparative Information

We have previously audited the 2023 financial statements of the Organization, and we have expressed an unmodified opinion on those financial statements in our report dated August 14, 2024. In our opinion, the summarized comparative information presented herein for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2025, 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, grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Organization's 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.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
March 18, 2025

DAP Health, Inc.
Statement of Financial Position – Assets
June 30, 2024
(With Comparative Totals for June 30, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 9,642,458	\$ 155	\$ 9,642,613	\$ 7,205,513
Receivables				
Patients	21,577,675	-	21,577,675	7,982,559
Other	371,902	-	371,902	999,612
Pledges receivable, current	-	92,839	92,839	93,325
Inventory				
Pharmacy	1,074,925	-	1,074,925	-
Revivals	444,431	-	444,431	511,991
Prepaid expenses	1,581,627	-	1,581,627	1,170,870
Due to (due from) other funds	(4,916,823)	4,916,823	-	-
Total current assets	29,776,195	5,009,817	34,786,012	17,963,870
Property and Equipment, Net	41,311,935	-	41,311,935	23,211,423
Right of Use Assets	32,981,182	-	32,981,182	8,588,615
Other Assets				
Investments	6,876,719	4,848,486	11,725,205	30,608,571
Pledges receivable, net of current portion	-	1,583,744	1,583,744	103,142
Art collection	1,131,600	428,500	1,560,100	1,560,100
Deposits and other	411,879	-	411,879	2,240,423
Charitable remainder trust receivable	-	11,540	11,540	11,540
Investment - annuity/ insurance policy	353,759	-	353,759	346,823
Goodwill, net	22,455,196	-	22,455,196	-
Total other assets	31,229,153	6,872,270	38,101,423	34,870,599
Total assets	\$ 135,298,465	\$ 11,882,087	\$ 147,180,552	\$ 84,634,507

DAP Health, Inc.
Statement of Financial Position – Liabilities and Net Assets
June 30, 2024
(With Comparative Totals for June 30, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Liabilities and Net Assets				
Current Liabilities				
Current portion				
Long-term debt	\$ 12,603,970	\$ -	\$ 12,603,970	\$ 222,847
Lease liabilities	4,670,729	-	4,670,729	980,781
Accounts payable				
Trade	11,769,682	-	11,769,682	4,564,581
Accrued expenses				
Salaries and wages	3,250,776	-	3,250,776	768,448
Vacation	2,567,775	-	2,567,775	909,993
Payroll taxes and other	386,414	-	386,414	97,360
Interest	1,014,383	-	1,014,383	-
Deferred income	2,676,339	-	2,676,339	170,000
Total current liabilities	<u>38,940,068</u>	<u>-</u>	<u>38,940,068</u>	<u>7,714,010</u>
Long-Term Liabilities				
Long-term debt, less current portion	26,578,669	-	26,578,669	4,200,241
Lease liabilities, less current portion	<u>28,946,990</u>	<u>-</u>	<u>28,946,990</u>	<u>7,879,137</u>
Total long-term liabilities	<u>55,525,659</u>	<u>-</u>	<u>55,525,659</u>	<u>12,079,378</u>
Total liabilities	<u>94,465,727</u>	<u>-</u>	<u>94,465,727</u>	<u>19,793,388</u>
Net Assets				
Without donor restrictions	38,741,097	-	38,741,097	23,966,214
Without donor restrictions - board designated	2,091,641	-	2,091,641	31,473,441
With donor restrictions	<u>-</u>	<u>11,882,087</u>	<u>11,882,087</u>	<u>9,401,464</u>
Total net assets	<u>40,832,738</u>	<u>11,882,087</u>	<u>52,714,825</u>	<u>64,841,119</u>
Total liabilities and net assets	<u>\$ 135,298,465</u>	<u>\$ 11,882,087</u>	<u>\$ 147,180,552</u>	<u>\$ 84,634,507</u>

DAP Health, Inc.
Statement of Activities
Year Ended June 30, 2024
(With Comparative Totals for Year Ended June 30, 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and Revenues				
Support				
Contributions, net	\$ 3,905,919	\$ 3,022,616	\$ 6,928,535	\$ 3,275,894
Fundraising/special events	1,454,752	-	1,454,752	626,466
Fundraising/thrift stores, net	494,226	-	494,226	675,247
Contributed non- financial assets	7,056,856	-	7,056,856	6,819,710
Net assets released from restrictions	1,967,369	(1,967,369)	-	-
Total support	14,879,122	1,055,247	15,934,369	11,397,317
Revenue				
Program Revenue, net				
Grants	16,329,937	1,425,376	17,755,313	11,472,247
Fees for services	184,239,419	-	184,239,419	68,320,263
Interest and dividends	478,844	-	478,844	1,051,449
Realized gains (losses) on investments	1,421,292	-	1,421,292	(845,981)
Unrealized gains (losses) on investments	(394,926)	-	(394,926)	1,657,321
Loss on disposal of property and equipment	(492,650)	-	(492,650)	-
Other income	730,481	-	730,481	103,796
Total revenue	202,312,397	1,425,376	203,737,773	81,759,095
Total support and revenue	217,191,519	2,480,623	219,672,142	93,156,412

DAP Health, Inc.
Statement of Activities
Year Ended June 30, 2024
(With Comparative Totals for Year Ended June 30, 2023)

		2024		
	Without Donor Restrictions	With Donor Restrictions	Total	2023 Total
Expenses				
Program services:				
Clinic services	\$ 177,060,492	\$ -	\$ 177,060,492	\$ 47,537,049
Community health	3,611,507	-	3,611,507	7,121,059
Social services	4,759,286	-	4,759,286	13,152,782
Total program services	185,431,285	-	185,431,285	67,810,890
Supporting services:				
Fundraising/thrift stores	6,326,284	-	6,326,284	8,906,081
Fundraising/special events	2,943,052	-	2,943,052	99,498
Management and general	37,097,815	-	37,097,815	5,458,156
Total supporting services	46,367,151	-	46,367,151	14,463,735
Total expenses	231,798,436	-	231,798,436	82,274,625
Change in Net Assets	(14,606,917)	2,480,623	(12,126,294)	10,881,787
Net Assets, Beginning of Year	55,439,655	9,401,464	64,841,119	53,959,332
Net Assets, End of Year	\$ 40,832,738	\$ 11,882,087	\$ 52,714,825	\$ 64,841,119

DAP Health, Inc.
Statement of Functional Expenses
Year Ended June 30, 2024
(With Comparative Totals for the Year Ended June 30, 2023)

	2024									
	Programs				Supporting Services				Totals	2023 Total
	Clinic Services	Community Health	Social Services	Total Program Services	Fundraising/ Thrift Stores	Fundraising/ Special Events	Management and General	Total Support Services		
Salaries and Benefits	\$ 62,301,517	\$ 3,128,692	\$ 3,524,556	\$ 68,954,765	\$ 3,336,182	\$ 1,166,019	\$ 14,051,472	\$ 18,553,673	\$ 87,508,438	\$ 25,523,285
Professional Services	5,277,289	7,834	16,840	5,301,963	9,719	132,951	2,787,347	2,930,017	8,231,980	956,670
Advertising, Printing and Marketing	708,800	136,625	10,787	856,212	195,397	214,973	16,505	426,875	1,283,087	1,076,060
Facilities Costs	10,326,300	14,444	665	10,341,409	2,187,830	331,743	118,454	2,638,027	12,979,436	3,232,622
Medical Supplies	9,012,869	118,557	9,043	9,140,469	1,399	-	-	1,399	9,141,868	3,752,108
Office	535,534	22,383	34,688	592,605	70,306	17,304	69,531	157,141	749,746	355,413
Technology	2,029,875	31,352	37,908	2,099,135	37,579	66,992	2,232,352	2,336,923	4,436,058	1,187,077
Events and Outreach	35,705	8,330	8,830	52,865	13,422	827,425	28,237	869,084	921,949	1,014,865
Banking and Merchant Fees	83,074	-	-	83,074	210,058	58,055	106,012	374,125	457,199	345,021
Pharmaceuticals	82,491,198	6,991	-	82,498,189	-	-	-	-	82,498,189	41,461,362
Travel and Transportation	319,619	98,860	34,344	452,823	84,687	16,172	83,637	184,496	637,319	211,733
Client Assistance	1,504	22,684	1,079,769	1,103,957	75	-	4,298	4,373	1,108,330	1,003,373
Other Expenses	66,416	13,242	1,856	81,514	4,046	21,232	46,767	72,045	153,559	134,362
Depreciation and amortization	2,609,461	-	-	2,609,461	136,599	-	2,266,120	2,402,719	5,012,180	1,416,181
Insurance	1,087,457	1,513	-	1,088,970	38,985	90,186	2,045	131,216	1,220,186	422,794
Interest	173,874	-	-	173,874	-	-	1,285,038	1,285,038	1,458,912	181,699
Impairment of goodwill	-	-	-	-	-	-	14,000,000	14,000,000	14,000,000	-
Total	\$ 177,060,492	\$ 3,611,507	\$ 4,759,286	\$ 185,431,285	\$ 6,326,284	\$ 2,943,052	\$ 37,097,815	\$ 46,367,151	\$ 231,798,436	\$ 82,274,625

DAP Health, Inc.
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Activities		
Change in net assets	\$ (12,126,294)	\$ 10,881,787
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation	2,746,059	1,416,181
Amortization of goodwill	2,266,121	-
Impairment of goodwill	14,000,000	-
Realized gains and unrealized gains and losses on investments	(1,026,366)	(811,340)
Loss (gain) on sale of property and equipment	492,650	(3,000)
Donated artwork	-	(3,500)
Change in assets and liabilities		
Accounts receivable	(12,967,406)	(2,946,197)
Inventory	5,921	65,150
Prepaid expenses	(410,757)	(546,139)
Pledges and charitable remainder trusts receivable	(1,480,116)	37,013
Deposits and other assets	1,828,544	(2,069,141)
Investment - annuity/insurance policy	(6,936)	(6,800)
Operating leases	365,234	271,303
Accounts payable	7,205,101	(453,664)
Accrued expenses	5,443,547	14,775
Deferred income	2,506,339	44,195
Annuity payable	-	(356,556)
Net Cash From Operating Activities	<u>8,841,641</u>	<u>5,534,067</u>
Investing Activities		
Purchase of property and equipment	(9,215,972)	(4,293,717)
Proceeds from sale of property and equipment	298,379	3,000
Purchase of investments	(428,279)	(4,166,694)
Proceeds from sales of investments	20,338,011	-
Cash paid for asset purchase agreement acquisition	(21,323,944)	-
Proceeds from sale of art collection	-	244,936
Net Cash Used for Investing Activities	<u>(10,331,805)</u>	<u>(8,212,475)</u>
Financing Activities		
Proceeds from the issuance of long-term debt	5,230,979	-
Principal payments on long-term debt	(1,303,715)	(212,247)
Net Cash From (Used for) Financing Activities	<u>3,927,264</u>	<u>(212,247)</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	2,437,100	(2,890,655)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>7,205,513</u>	<u>10,096,168</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 9,642,613</u>	<u>\$ 7,205,513</u>

DAP Health, Inc.
Statement of Cash Flows
Years Ended June 30, 2024 and 2023

Supplemental Disclosures of Cash Flow Information

	<u>2024</u>	<u>2023</u>
Cash Paid During the Year for Interest	<u>\$ 444,529</u>	<u>\$ 181,699</u>
Lease Liabilities Arising From Obtaining Right of Use Assets	<u>\$ 28,521,594</u>	<u>\$ -</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
	<u>2024</u>	<u>2023</u>
Proceeds From Issuance of Notes Payable Used to Finance the Acquisition of Borrego Health	<u>\$ 30,832,287</u>	<u>\$ -</u>

Effective August 1, 2023, the Organization closed on the Asset Purchase Agreement with Borrego Health Community Foundation. The following assets were purchased and two notes payables to unrelated parties were incurred in connection with the purchase:

	<u>2024</u>
Pharmacy inventory	\$ 1,013,286
Property and equipment	12,421,628
Goodwill	38,721,317
Notes payable issued	<u>(30,832,287)</u>
Net cash paid	<u>\$ 21,323,944</u>

Note 1 - Principal Business Activity and Significant Accounting Policies

Organization

The mission of DAP Health, Inc. (Organization) is to provide comprehensive healthcare and support services where all people are seen, heard, and affirmed. The Organization was founded in 1984 as a nonprofit organization and is designated as a federally qualified health center. DAP Health System of Care serves as a medical home for expanding communities and populations in Riverside and San Diego counties in addition to the identified rural areas of both Riverside and San Bernardino counties. The Organization offers a broad continuum of clinical and social services designed to meet the health and wellness needs of low-income community members. The Organization's area of expertise is the provision of medical care and social services to marginalized populations.

Effective August 1, 2023, the Organization purchased certain assets of Borrego Health Community Foundation as identified in the Asset Purchase Agreement (see Note 22). The purchase included 21 clinics, a pharmacy, and various other assets. The two healthcare systems will operate as one integrated system with approximately 850 employees serving 100,000 patients at 25 clinics in southern California.

The accounting policies of the Organization reflect practices common to nonprofit organizations and conform to accounting principles generally accepted in the United States of America.

The Organization's principal programs and services are comprised of:

Health Care Services

As a Federally Qualified Organization (FQHC) 330 Grantee, the Organization provides primary outpatient medical care, women's health services, pediatric care, dental care, behavioral health, comprehensive HIV-Specialty care, gender affirming care, LHBTQ+ care, hepatitis care, sexual health services, social services, and urgent care services. In addition, the Organization provides pharmaceutical assistance and medical education to low-income, uninsured or under-insured community members. The Organization accepts clients with various insurance plans, including Medi-Cal (California's Medicaid Program), Medicare and County Indigent service plans. For the uninsured, services are provided on a sliding fee scale depending on individual client income eligibility. Insurance assistance is available at each of the health centers to expedite treatment adherence, and for the convenience of clients, on-site pharmacy and lab services are available.

Primary Outpatient Medical Center

Primary care services provide access to a wide range of health services, including preventative care such as regular health screenings. Primary care specializes in diagnosis and managing a wide range of health issues including: general health, injuries, immunizations, preventative health and wellness referrals to specialists, and routine check-ups and physicals. An assigned primary care physician assists in making the right health decisions for a medical condition.

Women's Health Services

Women's health and prenatal services are located throughout regional clinics serving Riverside and San Diego counties. Services include annual wellness examinations, family planning, care for healthy pregnancies, and staying healthy after giving birth. In addition, breast and cervical cancer screenings, mammograms, counseling, nutrition, testing, and educational resources for women are also available at all clinic locations.

Pediatric Care

The Organization's pediatric services provide preventative and management of all health concerns in infants, children, teenagers, and young adults. Pediatricians specialize in diagnosing and managing a child's healthcare needs including preventative health and wellness, injuries, immunizations, routine check-ups, annual school and sports physicals, newborn visits, and pediatric psychology and psychiatry services.

Dental Services

The Organization provides oral health care to low-income, uninsured or under-insured community members in five locations in Riverside and San Diego counties. The dental clinics provide a broad spectrum of preventative and restorative dental services to children and adults. Dental services are coordinated with medical providers to ensure that care is coordinated to meet the medical and dental needs of each patient. Preventative dental screenings are offered to elementary school children during the school year in the eastern Coachella Valley through the school-based dental services program (mobile). The Organization provides health education in combination with a broad spectrum of preventative and restorative oral healthcare. The Organization accepts clients with various insurance plans including Medi-Cal (California's Medicaid program) and for the uninsured, services are provided on a sliding fee scale depending on individual client income eligibility.

Behavioral Health Services

The Organization's comprehensive behavioral health services provide patient centered care that is dedicated to improving the mental health and well-being of the community. These services are offered to all patient populations including adult, adolescent, children, and LGBTQ+ clients. The Organization offers behavioral health services in-person or through telehealth connectivity. Adult and child behavioral needs can be assessed by one of the licensed clinicians (psychiatrists, psychologists, licensed clinical social workers and psychiatric nurse practitioners). Services include outpatient psychiatry, psychology, group therapy, harm reduction (substance abuse), and comprehensive perinatal services program (CPSP). Clients also benefit from substance abuse disorder counseling and other psychosocial support services offered through the social services department. The Organization accepts clients with various insurance plans including Medi-Cal (California's Medicaid Program), and Medicare. For the uninsured, services are provided on a sliding scale depending on individual client income eligibility.

Urgent Care Services

The Organization's urgent care centers are located in Riverside and San Diego counties and provide walk-in urgent care services for people with non-life threatening illnesses. Urgent care services are to reduce emergency room utilization and provide extensive access to urgent medical attention for minor illnesses, sprains, fevers, and minor infections outside of regular operating hours.

Sexual Wellness and Community Health and Sexual Wellness Services

The Organization's commitment to testing, education and prevention is continually exercised by its Community Health Department. Community health educators/testing counselors provide rapid HIV, sexually transmitted infection (STI), Hepatitis C (HCV) tests on-site in the sexual wellness clinic at the Palm Springs main campus; in the sexual wellness clinic in Indio, CA; at the Stonewall Medical Clinic in Cathedral City, CA; in the mobile testing van; and offsite at community partner's (medical and non-medical) locations or at special events.

Sexual wellness clinicians provide rapid access to HIV and HIV prevention education medication to prevent disease transmission. Education presentations about HIV, HCV, and other STI's are routinely offered to adults and youth throughout Riverside and San Bernardino counties. Early intervention services staff link individuals to medical care and treatment; provide needs assessments and referrals for services to promote entry into and retention in care; benefit navigation and enrollment assistance; and referrals to ongoing case management services. Department personnel are also fully trained to educate at-risk individuals about HIV prevention including HIV prevention medication, Pre-exposure prophylaxis (PREP) and post-exposure prophylaxis (PEP). Sexual wellness clinics provide specialized services for clients with HIV who are challenged by substance use disorder.

Through the department's mobile van, the department provides harm reduction services at a fixed location in Palm Springs twice per week, as well as at homeless encampments and other targeted Palm Springs locations. The Organization's harm reduction program provides syringe services and naloxone to counteract overdose. The program links substance users to the Organization's wrap-around services including HIV/HCV/STI testing; on-site case management, medical and dental care, behavioral healthcare and substance use disorder counseling, peer support relapse prevention group and individual counseling; and other supportive social services such as housing placement assistance, food distribution and medical transportation.

Gender Affirming Care

Under the primary care services, gender affirming care promotes health and well-being to the community providing transgender, intersex, and gender-diverse clients affirmation in the healthcare received. The wide spectrum of care addresses the health and wellness needs in a comprehensive manner that integrates behavioral health, community health, nutrition services, and social services, by providing the clients with compassionate care services that are provided by trained clinicians with specialized knowledge in the assessment and treatment of gender dysphoria. The Organization accepts clients with various insurance plans including Medi-Cal (California's Medicaid Program), and Medicare. For the uninsured, services are provided on a sliding scale depending on individual client income eligibility.

Support Services

The Organization provides a variety of support services that help with needs such as food, housing, transportation, and home health support. The Organization supports the full spectrum of living by connecting clients to available social services. Case management works collaboratively with clients to ensure their medical, personal, and social needs are met.

Case Management Services

Under the Social Services umbrella, the Organization provides case management to low-income, uninsured or under-insured community members. Services are provided at regional clinics. Case management consists of service coordination on behalf of adult and child clients to remove barriers to, avoid duplication of, and maintain engagement in medical care reduction of hospitalizations, substance use, and other needed services. In addition, the team of case managers assess needs, identify barriers and provide individuals with referrals and advocacy designed to facilitate linkage to services offered at the Organization or other community agencies. The case management model consists of basic care management, complex case management, and enhanced case management (ECM) lead by teams that include RN case managers, MFT/MSW, LVN, health educators, health navigators, community health specialists, and referrals specialists. The case management team provide assistance with medical insurance enrollment, offer guidance on budgeting, and monitor health outcomes. Services are offered at all clinics.

Social Wellness Services

The Organization maintains an extensive social services department providing many services to low-income, uninsured, or under-insured community members. The department offers psychological support services including: HIV and Aging, Stress Management, Substance Use Disorder Support Group, Building Healthy Relationships, Building a Positive Life, and Talking Circle. Peer run groups include: Sewing with a Purpose, Knitting Group, 12-Step Meetings, Book Club, and Clay Sculpting. Additional wellness services such as chair yoga, chair massage, Reiki Fitness classes, acupuncture, and gentle yoga are under the social services' umbrella. The department also includes support services through providing housing, food, medical transportation, and referral assistance.

Home Health Services

The Organization provides home healthcare to low-income, uninsured or under-insured community members. Their staff bring particular expertise to serving those living with HIV. The care team consists of nurse case managers, social workers who coordinate in-home mental health therapy and skilled health services provided by homemakers and certified home health aides. Clients served are those who are determined by a physician to have a chronic medical dependency due to physical or cognitive impairment from HIV infection. All services are provided in the home of the client.

Revivals – Re-Sale Stores

The Organization operates four resale stores in the service area as a fundraising endeavor. Most items for sale are donated by individuals and include clothing, furniture, home décor, artwork, jewelry and books. New furniture, carpets/rugs, mattresses and other new items are also available. Nearly 290 volunteers (many of whom are also clients) donated more than 76,000 hours of their time to staff the stores increasing net revenue available to be allocated to community health programs, clinical care and social services.

Income Taxes

The Organization is a nonprofit corporation that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and from California franchise taxes under related state tax regulations and classified by the Internal Revenue Service (IRS) as other than a private foundation. The Organization is required to file a Return of Organization Exempt from Income Tax (Form 990) with the Internal Revenue Service. The Organization may be subject to tax on income from any unrelated business operations. The Organization currently has unrelated business taxable income from the thrift store operations. The Organization's Form 990, Return of Organization Exempt from Income Tax are subject to examination by the IRS, generally for three years after they were filed.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets; net assets without donor restriction and net assets with donor restrictions, based upon the existence or absence of donor-imposed restrictions. Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Net Assets Without Donor Restrictions - These funds represent all resources over which the Board of Directors has discretionary control for use in operating the Organization, as well as all property and equipment of the Organization.

Net Assets Without Donor Restrictions - Board Designated - These funds represent all resources over which the Board of Directors has discretionary control for use in operating the Organization. The Board of Directors have designated funds for reserves for the Organization. The Board has designated reserve funding to support approximately four months of operations in anticipation of possible federal funding changes due to the Affordable Care Act.

Net Assets With Donor Restrictions - These funds represent those resources that are received with donor stipulations that limit the use of the donated assets. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a donor restriction expires, donor restricted net assets are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Comparative Data

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2023, from which the summarized information was derived.

Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. The Organization does not charge interest on unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The opening balance of patient accounts receivable was \$6,035,974 at July 1, 2022.

The Organization records credit losses for patient (and resident) receivables based on the current expected credit losses. Credit losses are recorded after consideration of any implicit or explicit price concessions. Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses at June 30, 2024 and 2023 because the composition of the patient and other receivables at those dates are consistent with that used in developing the historical credit loss percentages. Management considers historical write off and recovery information, its past history with similar cases, and current conditions and reasonable and supportable forecasts, to estimate the appropriate allowance for credit losses. The allowance for credit losses as of June 30, 2024 and 2023 was insignificant.

Pledges Receivable

Pledges receivable (i.e., unconditional promises to give) expected to be collected within one year are recorded at net realizable value. Pledges receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Organization determines the allowance for uncollectible pledges receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Pledges receivable are written off when deemed uncollectible.

Inventory

Inventory consists of pharmaceuticals and medical supplies and are stated at cost (first-in, first-out) or net realizable value.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is reflected in the statement of activities as either restricted or unrestricted depending on any donor restrictions on the underlying investments.

Property and Equipment

Property and equipment acquisitions in excess of \$5,000 are capitalized. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment range from 5 to 40 years. Expenditures for maintenance and repairs are charged to operations as incurred. The costs of betterments, which materially extend the useful lives of assets, are capitalized.

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to net assets without donor restrictions unless explicit donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long-those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

The Organization considers whether indicators or impairments are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairments were identified for the years ended June 30, 2024 and 2023.

Right of Use Leased Assets and Liabilities

Right of use leased assets and the related liabilities are recognized at the lease commencement date and represent the Organization's right to use an underlying asset and lease obligations for the lease term. Right of use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right of use leased assets are amortized over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The amortization period varies among the leases.

Art Collection

Fine art donated to the Organization is considered inexhaustible and recorded at the estimated fair value at the date of the gift. The art collection includes paintings and other similar objects with individual values ranging from \$2,500 to \$425,000. Certain art work is considered restricted as the Organization must retain art work for three years before it can be disposed of or sold.

During the years ended June 30, 2023, the Organization received art work valued at \$3,500.

The following table shows the amount of unrestricted and restricted balances in the Art Collection:

	2024	2023
Unrestricted	\$ 1,131,600	\$ 1,118,850
Restricted	428,500	441,250
Total Art Collection	<u>\$ 1,560,100</u>	<u>\$ 1,560,100</u>

Goodwill

Goodwill represents costs in excess of purchase price over the fair value of the assets of the business acquired, including other identifiable intangible assets. The Organization adopted the accounting alternative for goodwill amortization available to private companies. This accounting alternative allows management to elect to amortize goodwill over a 10-year life. In accordance with the adoption of this accounting elective for goodwill, the Organization evaluates goodwill for impairment at the entity level (or reporting unit level) when a triggering event occurs that indicates that the fair value of the entity (or the reporting unit) may be below its carrying amount.

As of June 30, 2024, the Organization recorded an impairment loss on goodwill of \$14,000,000.

Deferred Income

Deferred income consists of payments received from individuals and corporations for fiscal year 2025 programs and sponsorships. All deferred income as of June 30, 2024 is expected to be recognized as revenue in 2025. All deferred income as of June 30, 2023 has been recognized as revenue in 2024.

Program Service Revenue - Grant Revenue

Grants from federal, state and local governmental agencies included in program revenue are on a cost-reimbursement basis and, therefore, revenue is recorded as expenses are incurred, using the accrual basis of accounting.

Program Service Revenue - Fee for Services

Patient Service Revenue

Patient revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to the total expected (or actual) charge. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Organization views each patient encounter as a separate performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided. Any related subsequent encounter is recognized as revenue as the performance obligation is satisfied.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and/or implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to audits, reviews, and investigations.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

340B Program Revenue

The contract pharmacy agreements provide that the Organization as the covered entity, is entitled to negotiated amounts of income per prescription, less a dispensing fee which is paid to the retail pharmacy. 340B contract pharmacy revenue is recognized when a pharmaceutical is dispensed by a contract pharmacy, identified as 340B eligible, and replenished by the Organization. 340B contract pharmacy revenue is measured as the amount of consideration the Organization expects to receive under the agreement. Dispensing fees and purchases of 340B drugs for the contract pharmacies are recorded as operating expenses. Revenues from the 340B Program are recognized when obligations under the terms of the contract are satisfied and are recognized at a point in time.

Other Revenue

Other operating revenue includes income from rentals, ancillary services, and other operating transactions. Revenues for all other operating revenue is recognized when obligations under the contract are satisfied and are generally recognized at a point in time.

Donor-Restricted Gifts

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of changes in net assets as net assets released from restrictions.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services

A substantial number of unpaid volunteers have made significant contributions of their time. For the years ended June 30, 2024 and 2023, total hours were 88,152 and 80,617, respectively, to develop programs and assist with fundraising activities. The value of donated volunteer services is not reflected in the accompanying financial statements because they do not meet the recognition criteria prescribed by generally accepted accounting principles.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2024 and 2023, the Organization had approximately \$9,609,000 and \$4,390,000, respectively, in excess of FDIC-insured limits.

Fair Value of Instruments

The carrying values of the Organization's financial instruments are considered to approximate the fair value. Cash, accounts receivable, accounts payable and accrued expenses are settled so close to the statement of financial position date that the fair value does not differ significantly from the stated amount.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses, including volunteer and training services that are common to several functions, are allocated by various statistical bases.

Adoption of Accounting Standards Codification Topic 326

As of July 1, 2023, the Organization adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables, and held to maturity debt securities. CECL requires estimates to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The update also requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a write-down of the security. The standard provides financial statement users with more decision-useful information about the expected losses on financial instruments. There was no effect on the financial statements as a result of this adoption.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets or changes in net assets.

Subsequent Events

The Organization evaluated all potential subsequent events as of March 18, 2025, when the financial statements were authorized and available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2024	2023
Cash and cash equivalents	\$ 9,642,458	\$ 6,735,741
Receivables	21,949,577	8,982,171
Total financial assets	<u>\$ 31,592,035</u>	<u>\$ 15,717,912</u>

The Organization is committed to investing liquid assets conservatively which may be drawn upon in the event of an unanticipated liquidity need. Cash and investments from donor-restricted sources are restricted for specific purposes and therefore, are not available for general expenditure. Even though the Board has the ability to release Board designated funds for operating needs at any time, since the Board designated amounts were not available for operations as of June 30, 2024 and 2023, these amounts have been excluded from the amounts listed above. The Organization is in the beginning of a capital expansion project and included in these investments are donations towards this project as well as additional funds the Board has designated to pay for these capital expenditures.

As part of a liquidity management plan, cash in excess of daily requirements is maintained in checking and savings accounts.

Additionally, the Organization maintains a \$3 million line of credit as discussed in Note 12. As of June 30, 2024, \$3 million remained available on the Organization's line of credit.

Note 3 - Program Revenue - Fee for Services

Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. The Organization is licensed as a Federally Qualified Health Clinic (FQHC). The Organization is reimbursed for most services at cost up to a per visit cap with final settlement determined after submission of annual cost reports by the Organization subject to audits thereof by the Medicare fiscal intermediary. The Organization's cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2022.

Medi-Cal. Services rendered to Medicaid program beneficiaries under Medicaid's Prospective Payment System (PPS) are paid at a predetermined rate which encompasses reimbursement for all services during a single visit and is adjusted annually for inflation. Medicaid Fee for Service (FFS) claims are paid at rates which do not exceed the PPS rate. Capitation for Medicaid Managed Care is paid for each member of a plan on the assigned member roster at a contracted rate determined by cost reports and age of member. The per member per month (PMPM) payment is made for each member for each month on the assigned roster. Each visit is reported to the contracting plan as a zero claim. In addition, incentive payments can be earned for managing patient care.

Blue Cross. Services are reimbursed based on a set fee schedule. The prospectively determined rates are not subject to retroactive adjustment.

The Organization has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Organization's patient service revenues for the years ended June 30, 2024 and 2023:

	2024	2023
Medicare	7%	16%
Medi-Cal	58%	48%
Commercial insurance	30%	20%
Private pay and other	5%	16%
	<u>100%</u>	<u>100%</u>

Patient service revenue for the years ended June 30, 2024 and 2023 totaled \$64,797,455 and \$9,175,349.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients is contingent on the patient's ability or willingness to pay for the services provided. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2024 and 2023 was not significant.

The nature, amount, timing and uncertainty of revenue and cash flows are affected by several factors that the Organization considers in its recognition of revenue. Following are some of the factors considered:

- Payors
- Geography
- Type of service

For the years ended June 30, 2024 and 2023, the Organization recognized patient service revenue of \$64,797,455 and \$9,175,349 from services and goods provided over time.

340B Program Revenue

340B program revenue for the years ended June 30, 2024 and 2023 totaled \$119,441,964 and \$59,144,914. These revenues were recognized at a point in time. The 340B program revenue represents 54% and 63% of the Organization's total revenue for each of the years ended June 30, 2024 and 2023.

Note 4 - Accounts Receivable

Accounts receivable consist of amounts due from local government agencies under various contracts with the Organization which were earned, but not received, as of June 30, 2024 and 2023, and fees for services, net of allowances for uncollectible amounts.

The following summarizes accounts receivable as of June 30, 2024 and 2023:

	2024	2023
Fee for service, non-Clinic	\$ 14,391,470	\$ 6,093,535
Fee for service, Clinic	10,697,367	967,138
Grants and other contracts	21,941	1,430,522
Other receivables	371,902	999,612
	<u>25,482,680</u>	<u>9,490,807</u>
Less allowance for uncollectible amounts	<u>(3,533,103)</u>	<u>(508,636)</u>
	<u><u>\$ 21,949,577</u></u>	<u><u>\$ 8,982,171</u></u>

Fee for service, non-Clinic, receivables includes the following at June 30, 2024 and 2023:

	2024	2023
340B Program	9,471,672	\$ 5,064,293
Capitation	1,644,041	-
Grants	1,361,659	910,388
Other	1,914,098	118,854
	<u><u>\$ 14,391,470</u></u>	<u><u>\$ 6,093,535</u></u>

The Organization grants credit without collateral to its patients most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients (Fee for service, Clinic) at June 30, 2024 and 2023 was as follows:

	2024	2023
Medicare	14%	15%
Medi-Cal	76%	66%
Commercial insurance	6%	15%
Private pay and other	4%	4%
	<u><u>100%</u></u>	<u><u>100%</u></u>

Note 5 - Pledges Receivable

Pledges receivables have been pledged for future special events, memberships, and to support future expansion, net of allowance accounts. Pledges receivable consist of the following at June 30, 2024 and 2023:

	2024	2023
Pledges receivable	\$ 1,863,867	\$ 403,634
Less allowance for doubtful accounts	<u>(187,284)</u>	<u>(207,167)</u>
	<u>\$ 1,676,583</u>	<u>\$ 196,467</u>

Pledges receivable are included in the statements of financial position as follows at June 30, 2024 and 2023:

	2024	2023
Pledges receivable, current portion	\$ 92,839	\$ 93,325
Pledges receivable, noncurrent portion	<u>1,583,744</u>	<u>103,142</u>
Total pledges receivable	<u>\$ 1,676,583</u>	<u>\$ 196,467</u>

Pledges receivable collections are expected to occur through the year ending June 30, 2029.

Note 6 - Fair Value Measurements

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of investment assets are classified within Level 1 because they comprise U.S. Treasury obligations, exchange traded and close-end mutual funds, and equity securities, with readily determinable fair values based on daily redemption values. The corporate bonds and other government obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 2.

The following table summarizes assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2024:

	<u>Totals</u>	<u>(Level 1)</u>	<u>(Level2)</u>	<u>(Level 3)</u>
Assets				
U.S. Treasury obligations	\$ 1,330,738	\$ 1,330,738	\$ -	\$ -
Other government obligations	-	-	-	-
Exchange traded and close end funds	3,022,454	3,022,454	-	-
Equity securities	1,480,038	1,480,038	-	-
Corporate bonds	2,845,165		2,845,165	
Mutual funds	3,046,810	3,046,810	-	-
	<u>\$ 11,725,205</u>	<u>\$ 8,880,040</u>	<u>\$ 2,845,165</u>	<u>\$ -</u>

The following table summarizes assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30, 2023:

	<u>Totals</u>	<u>(Level 1)</u>	<u>(Level2)</u>	<u>(Level 3)</u>
Assets				
U.S. Treasury obligations	\$ 7,096,234	\$ 7,096,234	\$ -	\$ -
Other government obligations	1,397,440	-	1,397,440	-
Exchange traded and close end funds	16,633,385	16,633,385	-	-
Equity securities	3,142,257	3,142,257	-	-
Corporate bonds	1,132,556	-	1,132,556	-
Mutual funds	1,206,699	1,206,699	-	-
	<u>\$ 30,608,571</u>	<u>\$ 28,078,575</u>	<u>\$ 2,529,996</u>	<u>\$ -</u>

Note 7 - Charitable Remainder Trusts Receivable

The Organization is named in two irrevocable trusts. Total outstanding charitable remainder trusts receivable at June 30, 2024 and 2023 amounted to \$11,540.

Note 8 - Investment - Annuity/Insurance Policy

The Organization invested in an annuity and life insurance policy on the life of a donor who has executed a gift agreement. As of June 30, 2024 and 2023, the investment annuity had a value of \$353,759 and \$346,823, respectively.

Note 9 - Property and Equipment

Property and equipment consist of the following at June 30, 2024 and 2023:

	2024		2023	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 2,193,890	\$ -	\$ 1,236,890	\$ -
Buildings	36,490,189	11,225,986	26,076,925	9,257,850
Equipment	8,654,553	3,448,526	3,762,392	3,049,052
Leasehold improvements	6,980,523	4,208,951	1,565,029	1,253,451
Furniture and fixtures	188,920	188,858	188,920	188,835
Vehicles	1,786,014	747,127	522,322	476,975
Construction in progress	4,837,294	-	4,085,108	-
	<u>\$ 61,131,383</u>	<u>\$ 19,819,448</u>	<u>\$ 37,437,586</u>	<u>\$ 14,226,163</u>
Net property and equipment		<u>\$ 41,311,935</u>		<u>\$ 23,211,423</u>

Construction in progress at June 30, 2024 represents costs for numerous projects related to campus expansion of varying length and total estimated costs. The following schedule provide the information regarding the larger projects currently in process:

Project	CIP as of June 30, 2024	Estimated Cost Remaining	Estimated Completion Dates
Pavilion (1)	\$ 2,317,057	\$ -	12/2027
Driveway Relocations	1,454,829	125,000	10/2024
Various Clinic Minor Alterations & Remodels	983,353	484,845	9/2025
Other various (2)	82,055	90,000	Spring 2025
	<u>\$ 4,837,294</u>	<u>\$ 699,845</u>	

- (1) These projects are in the planning and development phase. At this time, no contracts for construction are signed.
- (2) There are minimal expected costs on these contracts or no contracts for construction are signed.

Note 10 - Goodwill

Goodwill as of June 30, 2024 and 2023, consists of the following:

	Cost	Accumulated Amortization	Accumulated Impairment Loss	Net
June 30, 2024	<u>\$ 38,721,317</u>	<u>\$ (2,266,121)</u>	<u>\$ (14,000,000)</u>	<u>\$ 22,455,196</u>
June 30, 2023	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Due to patient and visits numbers being significantly different for the acquired clinics than originally anticipated, the Organization recorded an impairment loss on goodwill of \$14,000,000 for the year ended June 30, 2024.

Amortization expense for the years ended June 30, 2024 and 2023, totaled \$2,266,121 and \$0, respectively. Goodwill relates to the acquisition of Borrego Health effective August 1, 2023, as noted in Note 1. As a result, there is only 11 months of amortization for the year ended June 30, 2024.

The weighted average amortization expense period is 10 years and is based on the value of goodwill after the impairment.

Note 11 - Leased Facilities

The Organization has entered into non-cancelable operating leases for various clinic, thrift store, and office locations. The monthly lease payments range from \$600 to \$113,783 per month through April 2037. The Organization included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. Also, the agreements generally require the Organization to pay real estate taxes, insurance, and repairs.

The weighted average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable, the Organization estimates an applicable borrowing rate. The incremental borrowing rate is estimated using the Organization's applicable borrowing rates and the contractual lease term.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

Total lease costs for the years ended June 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 6,762,516	\$ 1,333,173
Short-term lease cost	10,803	-

The following table summarizes the supplemental cash flow information for the years ended June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash Paid for Amounts Included in the Measurement of Lease Liabilities		
Operating cash flows from operating leases	\$ 6,474,298	\$ 1,238,915
Right of use assets obtained in exchange for operating lease liabilities	28,521,594	-

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

	<u>2024</u>	<u>2023</u>
Weighted-Average Remaining Lease Term		
Operating leases	6.64 years	7.43 years
Weighted-Average Discount Rate		
Operating leases	7.8%	4.9%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of June 30, 2024:

<u>Years Ending June 30,</u>	<u>Operating</u>
2025	\$ 6,789,521
2026	6,433,039
2027	6,380,549
2028	6,384,017
2029	5,304,924
Thereafter	<u>11,734,607</u>
Total lease payments	43,026,657
Less: Interest	<u>(9,408,938)</u>
Present value of lease liabilities	<u><u>\$ 33,617,719</u></u>

Note 12 - Line of Credit

The Organization has an available line of credit of \$3,000,000 with JPMorgan Chase Bank as of June 30, 2024. The line is secured by the Organization's accounts receivable, equipment, inventory and general intangibles. Advances under the line of credit accrue interest at the adjusted SOFR rate (Note Rate) and at the rate of 3% per annum above the Note Rate and matures May 2025. There was no outstanding balance on the line of credit as of June 30, 2024.

Note 13 - Long-Term Debt

Long-term debt at June 30, 2024 and 2023 consisted of the following:

	<u>2024</u>	<u>2023</u>
3.9% note payable to bank, due in monthly installments of \$32,439 including interest, to April 2038, secured by property	\$ 4,202,481	\$ 4,423,088
3.56% note payable to Inncare, due in semiannual installments of \$2,959,336 including interest, to August 2026, unsecured	13,792,712	-
3.56% note payable to Neighborhood Healthcare, due in semiannual installments of \$3,655,976 including interest, to August 2026, unsecured	17,039,574	-
6.65% equipment note payable to bank, due in monthly installments of \$64,373 including interest, to October 2030, secured by equipment	3,972,116	-
8.00% note payable for insurance premium funding, due in monthly installments of \$60,857 including interest, to August 2024	120,507	-
8.54% note payable for insurance premium funding, due in monthly installments of \$27,910 including interest, to August 2024	<u>55,249</u>	<u>-</u>
Total long-term debt	39,182,639	4,423,088
Less current maturities	<u>(12,603,970)</u>	<u>(222,847)</u>
Long-term debt, net of current maturities	<u><u>\$ 26,578,669</u></u>	<u><u>\$ 4,200,241</u></u>

Long-term debt principal payment requirements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 12,603,970
2026	13,459,029
2027	7,346,317
2028	897,594
2029	951,695
Thereafter	<u>3,924,034</u>
	<u><u>\$ 39,182,639</u></u>

Note 14 - Health Reimbursement Arrangement

The Organization has a health reimbursement arrangement (HRA) that is funded solely through Organization contributions. The HRA allows eligible participants to be reimbursed tax free for qualified medical expenses subject to a specified ceiling. Amounts remaining at the end of the year can generally be carried over to the next year. The Organization is not permitted to refund any part of the balance to the participants; the account cannot be used for anything other than reimbursements for qualified medical expenses; and remaining amounts are not portable upon termination once the participant leaves the Organization. The Organization provides \$5,000 per eligible employee. The Organization has accrued an estimated expense of \$0 and \$33,654 at June 30, 2024 and 2023 representing amounts likely to be utilized by employees for qualified medical expenses based on the history of use to date.

Note 15 - Employees' 401(k) Plan

Eligible employees who have attained age 21 and have completed three (3) consecutive months of service may participate in the Organization's 401(k) Profit Sharing plan (401(k) Plan). The funds in the 401(k) Plan all became 100% vested at date of rollover. Employees may contribute 1% to 100% of their compensation with a maximum allowed by the IRS. Employees are always 100% vested in their contributions to the plan.

The Organization will make Safe Harbor matching contributions up to 4% and may make additional discretionary matching contributions up to 7% of an employee's eligible pay for those who have completed 500 hours of service. The Safe Harbor matching contributions are 100% vested. The 401(k) Plan also allows for elective profit-sharing contributions by the Organization.

Additional discretionary contributions as approved by the Board are vested as follows:

<u>Years of Vesting Service</u>	<u>Vesting Percentage</u>
Less than 1	0%
1	20%
2	40%
3	60%
4	80%
5 or more	100%

Amounts contributed to employees' 401(k) and 457(B) plans by the Organization were \$2,625,891 and \$873,963 for the years ended June 30, 2024 and 2023, respectively. Plan forfeitures in the 401(k) Plan are used to pay administrative expenses of the 401(k) Plan and to reduce employer contributions.

The 401(K) Plan is intended to satisfy all of the requirements for a qualified retirement plan under the appropriate provisions of the Internal Revenue Code, ERISA and other applicable federal and state laws. The Organization is the Plan Administrator with the Board Treasurer acting as its agent for the 401(k) Plan. Participants exercise control over some or all of the investments in their 401(k) Plan accounts. This limits the liability of the fiduciaries for losses resulting from investment decisions made by the participants.

Note 16 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2024 and 2023:

	2024	2023
Building improvements	\$ 10,849,014	\$ 8,496,974
Charitable remainder trust services	11,540	11,540
Grants	580,283	451,700
Art collection	441,250	441,250
	<u>441,250</u>	<u>441,250</u>
Net assets with donor restrictions	<u>\$ 11,882,087</u>	<u>\$ 9,401,464</u>

During 2024 and 2023, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes and the expiration of time restrictions in the amounts of \$1,322,500 and \$1,404,613. These amounts are included in net assets released from restrictions in the accompanying statements of activities.

Note 17 - Revivals Thrift Shops Operations

The Organization has Revivals Thrift Shops operations as a component of fundraising activity. The amounts on the statements of activities are reported at net value. The following summarizes the gross revenues received and costs of goods sold for the years ending June 30, 2024 and 2023:

	2024	2023
Thrift store sales	8,204,518	\$ 8,167,688
Cost of goods sold	<u>(7,710,292)</u>	<u>(7,492,441)</u>
	494,226	675,247
Thrift store - merchandise donated	<u>6,959,762</u>	<u>6,699,570</u>
Fundraising/thrift stores - net	<u>\$ 7,453,988</u>	<u>\$ 7,374,817</u>

Note 18 - Contributed Non-Financial Assets

The Organization received the following contributions of non-financial assets for the years ending June 30, 2024 and 2023:

	2024	2023
Thrift store - merchandise donated	\$ 6,959,762	\$ 6,699,570
Medication	97,094	89,821
Art work, net	-	3,500
Sponsorships	-	15,000
Other	-	11,819
	<u>\$ 7,056,856</u>	<u>\$ 6,819,710</u>

The contributed thrift store merchandise are valued when sold. The contributed artwork, medication, sponsorship, and other items are valued using estimated prices of identical or similar products using pricing data under a *like-kind* methodology considering the goods' condition and utility for use at the time of the contribution. Contributed thrift store merchandise is used for fundraising and development. Contributed artwork, medication, sponsorships and other items are used primarily in program services. All contributed non-financial assets, except the art work, during the years ended June 30, 2024 and 2023 were unrestricted.

Note 19 - Concentration of Revenue

For the years ended June 30, 2024 and 2023, the Organization received 8% and 12%, respectively, of revenue from grants funded by governmental sources. A significant portion of government grant funding is provided by the federal Ryan White grant program and the HIV Prevention Activities Program. The Organization's strategic plan has anticipated decreased Ryan White funding and is in process of and has implemented programs to enable the continuation of services into the future.

Note 20 - Rental Income

The Organization has entered an exclusive lease agreement with Walgreen Co. for a pharmacy as a convenience and benefit to the Organization's clients in the Sunrise building. The lease has a twenty five-year term that expires November 2027 with monthly rental income of \$3,675. There are also leases with six other entities with monthly rentals between \$88 and \$8,938 in fiscal year 2024 which have various terms. Five of these leases expire in December 2029 and the remaining one expires in August 2026. One of leases increases 3% annually through December 2029.

Minimum future rental income to be received on these leases is as follows:

Year Ending June 30,	Amount
2025	\$ 257,740
2026	254,667
2027	246,846
2028	248,678
2029	250,565
	\$ 1,258,496

Note 21 - Related Party Balance and Transactions

The Organization is the sole member of Sunrise DAP, LLC, a California limited liability company. Sunrise DAP, LLC, is the Administrative General Partner of Vista Sunrise II, L.P. (Partnership), with other partners being CVHC Sunrise Vista LLC (Managing General Partner); Miles Avenue Housing, Inc. (Withdrawing Limited Partner); and Wells Fargo Affordable Housing Community Development Corporation (Investor Limited Partner). The purposes of the Partnership are to acquire, finance, own, construct, rehabilitate, maintain, improve, operate, lease and if appropriate or desirable, sell or otherwise dispose of the Vista Sunrise II Apartment Complex (Complex).

The Complex is being constructed on the Organization's campus and consists of studios and one-bedroom units for individuals and families who experience chronic illnesses, physical or mental disabilities, or those who are homeless. The project will be funded by federal and state tax credits along with additional funding through Riverside County and the City of Palm Springs. Title to the Complex will remain with the Partnership and no partner has any ownership interest in the Complex. The Managing General Partner will perform ongoing partnership management throughout the term of the fifteen-year tax credit compliance period and shall be paid an ongoing partnership management fee equal to 80% of any partnership management, and/or incentive management fees receive for the project. Sunrise DAP, LLC will provide CVHC Sunrise Vista LLC ongoing tenant concerns throughout the fifteen-year term, including recommending replacement of property manager. The Organization is deferring the developer fee over the fifteen-year term. The Organization shall have the Right of First Refusal (for the period of two years) and first option to Purchase the Project upon expiration of the fifteen-years (or earlier if permitted by the investor).

The Organization has a ground lease with the Partnership effective January 31, 2022 through January 31, 2121 unless terminated earlier in accordance with the lease. The rent of one dollar annually shall be paid in advance on or before January 1 of each year during the lease term. The Organization will be responsible for 75% of the costs for keeping and maintaining the park improvements, carports and the combined driveway. The Partnership will reimburse the Organization for 25% of the reasonable out-of-pocket costs incurred by the Organization for any repairs or replacements to the park improvements or the shared driveway.

The Organization has an amount due from Vista Sunrise II, L.P. in the amount of \$0 and \$4,772 as of June 30, 2024 and 2023 for reimbursement of property tax.

The Organization is the sole owner of Vista Sunrise Inc., a 501(c)(3) organization. Vista Sunrise Inc. was formed to be the Managing General Partner of Vista Sunrise Apartments, L.P. (A California Limited Partnership). Vista Sunrise Apartments, L.P. ("Partnership") is the owner and operator of an 80-unit low income housing project for people living with HIV/AIDS called Vista Sunrise Apartments, located adjacent to the Organization.

Vista Sunrise Inc. has delegated its substantial management duties of the Vista Sunrise Apartments to McCormack Baron Ragan Management Services, Inc. ("MBR"), a management company with extensive experience in the management of low-income projects. MBR is affiliated with MBS Urban Development Co., the development general partner of the Partnership. The Board of Vista Sunrise Inc. provides oversight to determine that the delegated management duties are being adequately performed by MBR. Vista Sunrise Inc. is operated by members of the Board of Directors of DAP. Vista Sunrise Inc. does not maintain an office or place of business separate from DAP, nor has it hired separate, paid staff members.

The Organization conducts various services with companies owned by members of the Board of Directors and relations of employees in the normal course of business. All transactions are at arm's length. The transactions relating to these Board of Directors related party transactions amounted to \$303,832 and \$275,800 at June 30, 2024 and 2023, respectively. Related party payables were \$9,480 and \$11,570, as of June 30, 2024 and 2023, respectively.

Note 22 - Business Combination

As discussed in Note 1, effective August 1, 2023, the Organization purchased the assets and assumed certain contracts of Borrego Health Community Foundation to help increase market share, provide synergies across the business, and potentially expand services that were not previously provided. In connection with this purchase, the Organization issued two notes payable with unrelated entities and entered into certain Administrative Service Agreements. The assets purchased were recorded at fair value at the date of purchase.

The following summarizes the assets purchased net of the debt issued:

	<u>Amount</u>
Pharmacy inventory	\$ 1,013,286
Property and equipment	12,421,628
Goodwill	38,721,317

As identified in Note 10, certain triggering events required that management complete a qualitative and quantitative assessment of goodwill which resulted in an impairment to goodwill of \$14,000,000 being recognized for the year ended June 30, 2024. This resulted in goodwill being written down to \$24,721,317.

Note 23 - Contingencies

Malpractice Insurance

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences occurring during its term, but reported subsequently, would be uninsured.

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis through the Federal Tort Claims Act (FTCA) and through additional liability insurance (gap insurance) for those situations not covered by the FTCA. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences occurring during its term, but reported subsequently, would be uninsured.

Litigation, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Organization.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.



Federal Awards Reports in Accordance with the Uniform
Guidance

June 30, 2024

DAP Health, Inc.



Independent Auditor's 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
DAP Health, Inc.
Palm Springs, California

We have audited 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 (*Government Auditing Standards*), the financial statements of DAP Health, Inc. (Organization) which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, 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 March 18, 2025.

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 item 2024-001 that we consider to be a material weakness.

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*.

The Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
March 18, 2025



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
DAP Health, Inc.
Palm Springs, California

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited DAP Health, Inc.'s (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 June 30, 2024. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on Housing Opportunities for Persons with AIDS (HOPWA)

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the *Housing Opportunities for Persons with AIDS (HOPWA)* program for the year ended June 30, 2024.

Unmodified Opinion on the Other Major Federal Program

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 its other major federal program identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2024.

Basis for Qualified and Unmodified Opinions

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 (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the 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 qualified and unmodified opinions 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.

Matter Giving Rise to Qualified Opinion on the Housing Opportunities for Persons with AIDS Program (HOPWA)

As described in the accompanying Schedule of Findings and Questioned Costs, the Organization did not comply with requirements regarding Federal Financial Assistance Listing #14.241, *Housing Opportunities for Persons with AIDS (HOPWA)*, as described in finding number 2024-002 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

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.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the 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 material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may 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 federal 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.

Other Matters

The results of other auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2024-004. Our opinion on the *Community Health Center Cluster* major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance 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 response.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 2024-002, 2024-003, and 2024-004 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.

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 response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2024, and have issued our report thereon dated March 18, 2025, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Fargo, North Dakota
March 18, 2025

DAP Health, Inc.
Schedule of Expenditures of Federal Awards
June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Number	Pass Through Award Number	Federal Expenditures
U.S. Department of Health and Human Services			
<i>Direct programs:</i>			
Community Health Centers, Migrant Health Centers, Health Care for Homeless and Public Housing Primary Care	93.224		\$ 7,066,758
Community Health Centers, American Rescue Act for New and Expanded Services under the Health Center Program	93.527		938,387
Subtotal Health Center Program Cluster			8,005,145
Ryan White Part C Outpatient EIS Program	93.918		345,347
Ryan White Title III HIV Capacity Development and Planning	93.918		31,731
Subtotal Federal Financial Assistance #93.918			377,078
Special Projects of National Significance	93.928	(1)	32,813
Health Center Infrastructure Support	93.526		1,185,732
<i>Pass-through from San Bernardino County Department of Public Health</i>			
Ryan White HIV/AIDS Program Part A	93.914	20-1181 A-2, A-3	2,534,188
Ending the HIV Epidemic: Ryan White HIV/AIDS Program Parts A and B	93.686	20-00 A-1 23-66 A-1 (2)	442,414
Ryan White HIV/AIDS Program Part B	93.917	21-09 A-2, A-4	42,944
<i>Pass-through from Riverside County Department of Public Health</i>			
Ending the HIV Epidemic: Ryan White HIV/AIDS Program Parts A and B	93.686	HSARC-23-056 (2)	92,565
HIV Prevention Activities Health Department Based	93.940	20-68	174,236
Viral Hepatitis Prevention and Control	93.270	22-048	52,191
<i>Pass-through from AIDS United</i>			
Special Projects of National Significance	93.928	3031018-AU (1)	168,286
<i>Pass-through from CSH - SURE Housing</i>			
Special Projects of National Significance	93.928	23050-C (1)	152,721

DAP Health, Inc.
Schedule of Expenditures of Federal Awards
June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Number	Pass Through Award Number	Federal Expenditures
<i>Pass-through from National Association of County & City Officials (NACCHO)</i>			
Strengthening Public Housing Systems and Services through National Partnerships to Improve and Protect the Nation	93.421	2023-072401	\$ 65,000
Total U.S. Department of Health and Human Services			13,325,313
U.S. Department of Housing and Urban Development			
<i>Pass-through from Housing Authority of the County of Riverside</i>			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	S221165A	410,615
Total U.S. Department of Housing and Urban Development			410,615
Total Federal Financial Assistance			\$ 13,735,928
(1) Subtotal Federal Financial Assistance #93.928			\$ 353,820
(2) Subtotal Federal Financial Assistance #93.686			\$ 534,979

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of DAP Health, Inc. (Organization) under programs of the federal government for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 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. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Organization has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified?	Yes
Significant deficiencies not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	
Health Center Program Cluster	Unmodified
Housing Opportunities for Persons with AIDS (HOPWA)	Qualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a):	Yes

Identification of Major Programs:

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Number</u>
Health Center Program Cluster	93.224/93.527
Housing Opportunities for Persons with AIDS (HOPWA)	14.241
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	Yes

Section II – Financial Statement Findings

2024-001	Material Audit Adjustments and Preparation of Financial Statements Material Weakness in Internal Control over Financial Reporting
<i>Criteria</i>	A complete system of internal control contemplates an adequate system for recording and processing journal entries that are significant to the financial statements. In addition, a properly designed system of internal control over financial reporting includes preparation of an entity's financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).
<i>Condition</i>	As part of our audit, we proposed a material audit adjustment to the financial statements related to grant accounting that was not identified by management. This proposed adjustment resulted in the interim financial statements being misstated as grant revenue was overstated by approximately \$2.56 million.
<i>Cause</i>	This deficiency is partially due to a relatively recent change in accounting guidance related to the treatment of grants with both a barrier and a right of return as defined by accounting standards.
<i>Effect</i>	This control deficiency resulted in grant revenue in the interim financial statements being overstated by approximately \$2.56 million.
<i>Recommendation</i>	We recommend that management continue to review new accounting pronouncements as they are issued to determine any potential impacts to the financial statements of the Organization.
<i>Management's Response And Corrective Plan</i>	Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

2024-002	Department of Housing and Urban Development Federal Financial Assistance Listing #14.241 Housing Opportunities for Persons with AIDS (HOPWA)
	Reporting Material Weakness in Internal Control Over Compliance and Material Noncompliance
<i>Criteria</i>	Grantees receiving funding through the HOPWA program must complete and submit the HUD-4155 <i>Consolidated Annual Performance Report (APR)</i> and Consolidated Annual Performance and Evaluation Report (CAPER) (Consolidated APR/CAPER) no later than 90 days after the close of their program or operating year. The Consolidate APR/CAPER provides information on program accomplishments that supports program evaluation and the ability to measure program beneficiary outcomes as related to maintaining housing stability, preventing homelessness, and improving access to care and support.
<i>Condition</i>	Certain information related to Short-Term Rent, Mortgage and Utility (STRMU) expenditures and Permanent Housing Placement (PHP) expenditures did not reconcile between the Consolidated APR/CAPER and the general ledger. In addition, the Consolidated APR/CAPER was not reviewed by someone other than the preparer prior to submission.
<i>Cause</i>	Internal controls in place did not ensure that the monthly expenditure information that was summarized and used to prepare the Consolidated APR/CAPER was reconciled to the general ledger. The monthly expenditure information did not take into account any reconciling or other entries recorded after the monthly information was generated which led to differences between the expenditures report in the Consolidated APR/CAPER and the actual STRMU and PHP expenditures as reflected in the general ledger. Internal controls were also not in place to ensure review of the supporting documentation and the Consolidated APR/CAPER prior to submission.
<i>Effect</i>	The lack of a reconciliation process from the expenditure information reported in the Consolidated APR/CAPER to the general ledger increases the risk that information contained in the Consolidated APR/CAPER and reported to the Department of Housing and Urban Development will contain errors that are not detected and corrected by employees. The Organization submitted a Consolidated APR/CAPER with incorrect information.
<i>Questioned Costs</i>	None reported.
<i>Context</i>	The STRMU expenditures and the PHP expenditures were both tested and both amounts reported in the Consolidated APR/CAPER did not agree to the general ledger.

*Repeat Finding
From Prior Years*

No

Recommendation

We recommend that the Organization enhance internal control policies to ensure all amounts reported and submitted to federal agencies are adequately documented and supported. We also recommend that the Organization enhance internal control policies to ensure that any required reports are properly reviewed prior to submission to ensure all key line items are correct and supported. This review should be documented.

*Views of Responsible
Officials*

Management agrees with the finding and has immediately initiated corrected reports with the grantor and implemented extra procedures to review program required reporting between Program and Finance Leadership prior to submission.

2024-003

**Department of Health and Human Services
Federal Financial Assistance Listing #93.224 and #93.527
Community Health Center Cluster**

**Reporting
Material Weakness in Internal Control Over Compliance**

Criteria

Health Center Program awardees and look-alikes are required to report a core set of information, including data on patient characteristics, services provided, clinical processes and health outcomes, patients' use of services, staffing, costs, and revenues as a part of a standardized reporting system known as the Universal Data System (UDS). There is very specific criteria on how the UDS is to be completed contained in the UDS Manual published by the Health Resources and Services Administration. The information needs to be reported annually on a calendar year basis regardless of a grantees' fiscal year-end.

Condition

Certain tables within the UDS Report did not reconcile to the information contained in the Organization's records. The tables that did not reconcile to the supporting information included Table 4, *Selected Patient Characteristics*, and Table 5, *Staffing and Utilization*. Table 4 reports the total number of patients. The number of patients reported in the UDS Report was 74,680 while the number of patients noted in the supporting documentation was 73,021.

Table 5 reports the number of clinic visits by both physicians and by Nurse Practitioners (NP), Physician Assistants (PA), and Certified Nurse Midwives (CNM). The number of clinic visits by physicians reported in the UDS Report was 102,677 (clinic and virtual) while the number of clinic visits by physicians noted in the supporting documentation was 115,177 (clinic and virtual). The number of clinic visits by NPs, PAs, and CNMs reported in the UDS Report was 62,915 (clinic and virtual) while the number of clinic visits by NPs, PAs and CNMs noted in the supporting documentation was 82,621 (clinic and virtual).

<i>Cause</i>	The Organization acquired Borrego Health on July 31, 2023. Borrego Health used a different medical record system than the Organization through late May 2024. This resulted in the UDS Report for the period ended December 31, 2023 needing to be prepared using two different databases for information. In addition, management did not retain the supporting detail used to prepare the UDS Report. When the supporting detail was recreated during the audit, differences were identified between the supporting detail and the UDS Report that was filed. Also, the review process of the UDS report does not appear to have been functioning properly.
<i>Effect</i>	The lack of internal control policies to require retention of supporting documentation as well as a lack of evidence of a review outside of the person preparing the report increases the risk that employees may not be able to detect and correct errors and issues in a timely manner. The Organization submitted a UDS Report that did not have supporting information and the information that was recreated does not reconcile to the amount shown in the UDS Report filed.
<i>Questioned Costs</i>	None reported.
<i>Context</i>	Seven key line items on the UDS Report are required to be reconciled to supporting documentation: 1. The total number of patients 2. Total Physician Clinic and Virtual Visits 3. Total NP, PA, and CNM Clinic and Virtual Visits 4. Total accrued costs before donations and after allocation of overhead 5. Total accrued medical staff and other medical costs after allocation of overhead excluding lab and x-ray costs 6. Total BPHC Health Center Program grants drawn down for the period from January 1 through December 31 of the calendar measurement year 7. Total accrued BPHC COVID-19 Supplemental grants drawn down for the period from January 1 through December 31 of the calendar measurement year. Two of the key line items (#1 and #2 above) did not agree to the supporting documentation.
<i>Repeat Finding From Prior Year</i>	No
<i>Recommendation</i>	We recommend that the Organization enhance internal control policies to ensure all amounts reported and submitted to the federal agency are adequately documented and supported. We also recommend that the Organization enhance internal control policies to ensure that all required reports are properly reviewed prior to submission and that all key line items are necessary, correct, meet the requirements of the federal program, and are properly reported in the reports required to be submitted to the federal agency. We also recommend that there is evidence retained of this review.

Views of Responsible Officials

Management agrees with the finding and has immediately implemented new procedures to memorialize the data used to compile and report the UDS report. This included adding all new acquired clinics to the Organization's Electronic Health Record System.

2024-004

**Department of Health and Human Services
Federal Financial Assistance Listing #93.224 and #93.527
Community Health Center Cluster**

**Special Tests and Provisions
Material Weakness in Internal Control Over Compliance and Noncompliance**

Criteria

Health centers must prepare and apply a sliding fee discount schedule (sliding fee discounts) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay. The sliding fee discount is based on an individual's or family's income in relation to the Federal Poverty Guideline (FPG). In order to support a patient's eligibility to receive a sliding fee discount, the health center is required to obtain certain documentation from the patient and/or family to support the patient's or family's income in relation to the FPG.

Condition

The Organization failed to obtain the required income verification from three patients; however, these patients were given the sliding fee discount.

Cause

Internal controls in place did not ensure that the sliding fee discount was not given until all income verification was obtained. Or in cases where the sliding fee discount was granted pending income verification, the income verification was not completed resulting in a sliding fee discount being given without adequate support.

Effect

The lack of adequate policies governing obtaining the income verification documentation resulted in a sliding fee discount being given without the proper support. In addition, there was not adequate follow up to ensure the income verification was completed for those individuals given the sliding fee discount pending income verification.

Questioned Costs

Projected to be \$25,387.

Context

A sample size of 65 with a total sample amount of \$7,595 was tested. The number of patients who received the sliding fee was 5,512 with a total value of \$625,943. Of the 65 tested, four selections, which totaled \$556, were given the sliding fee discount when appropriate eligibility documentation was not obtained.

Repeat Finding From Prior Year

No

Recommendation We recommend that the Organization enhance control policies to obtain the required income verification at the time the sliding fee discounts is granted and to enhance the internal control policies regarding follow up with patients for missing or incomplete income verifications.

Views of Responsible Officials Management agrees with the finding.