SOUTHWEST CENTER FOR HIV/AIDS, INC.

FINANCIAL STATEMENTS AND
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

Year Ended December 31, 2021
(with comparative totals for the year ended December 31, 2020)

SOUTHWEST CENTER FOR HIV/AIDS, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of

SOUTHWEST CENTER FOR HIV/AIDS, INC.

Qualified Opinion

We have audited the financial statements of ***Southwest Center for HIV/AIDS, Inc.*** (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The Organization recognizes revenue associated with services provided to individuals with third-party insurance coverage prior to January 1, 2021 when payments were received. Effective January 1, 2021, the Organization began recording this revenue as of the date of service. In our opinion, all such revenues should be recorded when the contract with the customer is identified, the performance obligations are identified, the transaction price has been determined and allocated to the performance obligations, and the performance obligation has been satisfied to conform to accounting principles general accepted in the United States of America. Quantification of the effects of that departure from accounting principles general accepted in the United States of America on the financial statements of the Organization is not practicable.

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Summarized Comparative Information

We have previously audited the ***Southwest Center for HIV/AIDS, Inc.'s*** 2020 financial statements, and we expressed a modified audit opinion on those audited financial statements in our report dated September 3, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

July 13, 2022

SOUTHWEST CENTER FOR HIV/AIDS, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2021
(with comparative totals as of December 31, 2020)

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	$ 264,057	$ 1,095,218
Contributions and grants receivable	954,344	442,324
Accounts receivable, net	428,554	135,052
Inventory	40,442	15,074
Prepaid expenses and other current assets	23,615	68,244
TOTAL CURRENT ASSETS	1,711,012	1,755,912
Restricted cash	300,000	300,000
Property and equipment	4,272,379	4,013,564
TOTAL ASSETS	$ 6,283,391	$ 6,069,476

LIABILITIES AND NET ASSETS

	2021	2020
CURRENT LIABILITIES		
Paycheck Protection Program ("PPP") loan, current portion	$ -	$ 129,758
Accounts payable	87,447	139,205
Accrued expenses	168,227	74,213
Deferred rental income	-	5,886
TOTAL CURRENT LIABILITIES	255,674	349,062
Paycheck Protection Program loan, net of current portion	-	224,942
Tenant security deposit	4,165	4,165
Deferred rent	4,040	16,161
TOTAL LIABILITIES	263,879	594,330
NET ASSETS		
Net assets without donor restrictions	5,404,400	5,027,008
Net assets with donor restrictions	615,112	448,138
TOTAL NET ASSETS	6,019,512	5,475,146
TOTAL LIABILITIES AND NET ASSETS	$ 6,283,391	$ 6,069,476

SOUTHWEST CENTER FOR HIV/AIDS, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended December 31, 2021

(with comparative financial information for the year ended December 31, 2020)

	Without donor restrictions	With donor restrictions	Total 2021	Total 2020
SUPPORT AND REVENUE				
Contributions				
Individuals	$ 77,907	$ 211,283	$ 289,190	$ 153,949
Foundations	130,560	-	130,560	50,000
Total contributions	208,467	211,283	419,750	203,949
Government contracts and grants	3,601,992	-	3,601,992	2,068,197
340B drug discount pricing	3,397,700	-	3,397,700	3,172,652
Third-party insurance payments	499,628	-	499,628	259,809
Tenant use fees	563,174	-	563,174	577,878
Vitamin and Herb Shop sales	-	-	-	2,775
Other	3,725	-	3,725	2,691
Net assets released from restrictions	44,309	(44,309)	-	-
Total support and revenue	8,318,995	166,974	8,485,969	6,287,951
EXPENSES				
Salaries and wages	3,008,747	-	3,008,747	1,834,938
Employee related expenses	781,571	-	781,571	364,953
Outsourced services	560,084	-	560,084	616,117
Materials and supplies	2,172,907	-	2,172,907	1,619,787
Occupancy and rent	304,409	-	304,409	308,130
Food supplements and vitamins	704,959	-	704,959	396,560
Mileage, travel and training	11,935	-	11,935	1,202
Other operating expenses	486,018	-	486,018	291,059
Depreciation and amortization	265,673	-	265,673	274,988
Total expenses	8,296,303	-	8,296,303	5,707,734
FORGIVENESS OF PPP LOAN	354,700	-	354,700	-
CHANGE IN NET ASSETS	377,392	166,974	544,366	580,217
NET ASSETS, BEGINNING OF YEAR	5,027,008	448,138	5,475,146	4,894,929
NET ASSETS, END OF YEAR	$ 5,404,400	$ 615,112	$ 6,019,512	$ 5,475,146

SOUTHWEST CENTER FOR HIV/AIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

(with comparative financial information for the year ended December 31, 2020)

	Program Services			Supporting Services				
	Wellness	Grant Funded	Total	Management & General	Fundraising	Total	Total 2021	Total 2020
Salaries and wages	$ 984,061	$ 1,304,571	$ 2,288,632	$ 586,990	$ 133,125	$ 720,115	$ 3,008,747	$ 1,834,938
Employee related expenses	188,065	326,837	514,902	244,026	22,643	266,669	781,571	364,953
Outsourced services	212,502	247,579	460,081	88,203	11,800	100,003	560,084	616,117
Materials and supplies	638,265	1,511,245	2,149,510	23,347	50	23,397	2,172,907	1,619,787
Occupancy and rent	10,378	30,448	40,826	263,583	-	263,583	304,409	308,130
Food supplements and vitamins	-	704,959	704,959	-	-	-	704,959	396,560
Mileage, travel and training	2,374	1,210	3,584	6,806	1,545	8,351	11,935	1,202
Other operating expenses	88,883	224,986	313,869	147,184	24,965	172,149	486,018	291,059
Depreciation and amortization	61,968	166,539	228,507	37,166	-	37,166	265,673	274,988
TOTAL EXPENSES	$ 2,186,496	$ 4,518,374	$ 6,704,870	$ 1,397,305	$ 194,128	$ 1,591,433	$ 8,296,303	$ 5,707,734

SOUTHWEST CENTER FOR HIV/AIDS, INC.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2021
(with comparative financial information for the year ended December 31, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 544,366	$ 580,217
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	265,673	274,988
Forgiveness of PPP loan	(354,700)	-
Changes in assets and liabilities:		
Contributions and grants receivables	(512,020)	159,198
Accounts receivable	(293,502)	91,259
Inventory	(25,368)	(478)
Prepaid expenses and other current assets	44,629	(50,479)
Accounts payable	(51,758)	(39,849)
Accrued expenses	94,014	(22,956)
Deferred rental income	(5,886)	469
Deferred rent	(12,121)	4,040
Net cash provided by (used in) operating activities	(306,673)	996,409
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(524,488)	(90,882)
Net cash used in investing activities	(524,488)	(90,882)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	79,000
Payments made on line of credit	-	(79,000)
Proceeds from Paycheck Protection Program loan	-	354,700
Net cash provided by financing activities	-	354,700
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(831,161)	1,260,227
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR	1,395,218	134,991
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR	$ 564,057	$ 1,395,218
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ -	$ 1,797

(1) Organization operations and summary of significant accounting policies

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

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

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

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

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

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

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

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

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

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and change in net assets. Restricted support where restrictions are met in the same period as the donation is made is shown as additions to contributions without donor restrictions. The Organization does not have any net assets restricted in perpetuity at December 31, 2021 or 2020.

Prior year summarized information – 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 accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020 from which the summarized information was derived.

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

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

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

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

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

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

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

Accounts receivable – The Organization's accounts receivable consist primarily of amounts due from third party insurance payors and amounts due from the 340B drug discount program. Accounts receivable are written off when deemed uncollectible. Accounts receivable consists of the following at December 31:

	2021	2020
340B drug discount receivable	$ 297,062	$ 105,834
Third party insurance receivable	74,954	-
Tenant use fees receivable	3,000	33,051
Other receivables	53,538	4,590
Total accounts receivable	428,554	143,475
Less: allowance for doubtful accounts	-	(8,423)
Accounts receivable, net	$ 428,554	$ 135,052

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For services rendered prior to January 1, 2021, the Organization recognized revenue from third-party insurance revenues at the time payment was received. For services rendered after January 1, 2021, the Organization’s third-party insurance revenues are based upon the estimated amounts management expects to be entitled to receive from patients and third-party payers. Estimates of explicit price concessions under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Retroactively calculated explicit price concessions arising under reimbursement agreements with third-party payers are recognized on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). The Organization also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts expected to be collected. Implicit price concessions for uninsured accounts represent the sole component of variable consideration in the Organization’s contracts with customers.

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

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

340B drug discount program revenue recognition – The Organization participates and is an eligible health care organization/covered entity under the Health Resources and Services Administration (HRSA). The intent of the program is to allow the covered entities to stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services with 340B generated revenue. The program requires drug manufacturers to provide outpatient drugs to the Organization’s eligible clients at a significantly reduced/discounted price. Revenue from the 340B drug discount pricing is recognized when the prescription is filled by the third-party contracted pharmacy. At the time of payment, the Organization has an arrangement with a third-party contracted pharmacy to receive payment. Therefore, upon settlement of payment, the pharmacy is contractually obligated to pay the Organization and the Organization records a contract asset for the amount it expects to receive. The amount due from the customer at December 31, 2021 and 2020 are included in accounts receivable in the accompanying statements of financial position.

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

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

Tenant use fees – Tenant use fees are recognized as revenue on a straight-line basis over the term of the tenant use agreement. The Organization has recognized a deferred rent asset totaling $17,070 and $14,488 at December 31, 2021 and 2020, respectively, as a result of the straight-line income exceeding the payments received. The asset is included within prepaid expenses and other current assets in the accompanying statements of financial position.

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

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

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

Advertising – The Organization uses advertising to promote their programs among the constituencies they serve. Advertising and promotional costs are expensed as incurred. Advertising and promotional expense was $51,498 and $15,355 for the years ended December 31, 2021 and 2020, respectively.

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

The Organization accounts for their uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes* by applying a more-likely-than-not threshold to the recognition and de-recognition of uncertain tax positions in earnings in the year of such change. The Organization evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. The Organization’s federal Returns of Organizations Exempt from Income Tax (Form 990) for calendar years 2018, 2019 and 2020 are subject to examination by the Internal Revenue Service, generally for the three years after they were filed. As of the date the financial statements were available to be issued, the Organization’s 2021 federal returns have not been filed.

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

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

Recent accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and change in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2022, with the adoption of ASU 2020-05. Early adoption is permitted. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07*, Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires the entity to present contributed nonfinancial assets in a separate line item in the statement of activities and change in net assets and disclose qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. Additionally, the entity must disclose a description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition. The ASU is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact adoption would have on the financial statements.

Subsequent events – Subsequent events have been evaluated through July 13, 2022 which is the date the financial statements were available to be issued.

(2) Property and equipment, net

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

Cost and donated value:	2021	2020
Furniture, equipment and software	$ 432,225	$ 781,155
Leasehold improvements	5,985,805	5,449,993
Total cost and donated value	6,418,030	6,231,148
Less accumulated depreciation and amortization	(2,145,651)	(2,217,584)
Property and equipment, net	$ 4,272,379	$ 4,013,564

Depreciation and amortization expense charged to operations was $265,673 and $274,988 for the years ended December 31, 2021 and 2020, respectively.

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

(3) Line of credit

The Organization has a $100,000 line of credit with a financial institution, which bears interest at the prime rate plus 3.25% (6.50% at December 31, 2021 and 2020). The line of credit is uncollateralized and does not have a stated maturity date but can be cancelled at any time by the Organization or by the financial institution if the account is mishandled. There was no outstanding balance under the line of credit as of December 31, 2021 or 2020.

(3) Line of credit (continued)

In November 2021, the Organization entered a new line of credit agreement with a financial institution, which allows for total draws of $500,000 and has a stated maturity date of November 12, 2022. There was no outstanding balance under the line of credit as of December 31, 2021.

(4) Operating lease obligations

The Organization has a non-cancelable rental agreement for copier equipment maturing through 2025. The rents are included in other operating expenses on the statement of functional expenses. Copier leases are generally renewed upon maturity. The future minimum payments under the non-cancelable rental agreement are as follows:

Years Ending December 31:		
2022	$	27,241
2023		16,560
2024		16,560
2025		11,040
Total future minimum lease payments	$	71,401

Total rent expense under non-cancelable rental agreements totaled $14,722 and $17,509 for the years ended December 31, 2021 and 2020, respectively.

(5) Net assets with donor restrictions

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

	2021	2020
Nutrition and meals	$ 26,698	$ 26,698
Education	200,000	-
Support groups	8,441	8,000
Testing for HIV/AIDS and other diseases	15,776	46,748
Youth and families programs	41,100	41,100
Time restriction	300,000	300,000
Other	23,097	25,592
Total net assets with donor restrictions	$ 615,112	$ 448,138

During the year ended December 31, 2019, the Organization received a gift from a Foundation of $300,000 for the Organization to establish a Reserve Fund. The Board of Directors manages the fund in accordance with the agreed upon investment and spending policy with a targeted minimum fund amount calculated each year as part of the annual budgeting process. Use of funds for unauthorized purposes could result in repayment to the donor. The donor requires the gift to be held within the account for a period of 3 years, through December 31, 2022, at a minimum of $300,000. The funds are held in cash and included in restricted cash in the accompanying statement of financial position.

(6) Net assets released from donor restrictions

Net assets released from donor restrictions consist of the following for the years ended December 31:

	2021	2020
Prevention/Intervention	$ 30,532	$ 12,482
Testing for HIV/AIDS and other diseases	-	1,425
Other	13,777	12,650
Total net assets with donor restrictions released from restrictions	$ 44,309	$ 26,557

(7) Revenue concentrations

Revenue from Maricopa County through the Ryan White programs represents 40% and 45% of the Organization's total government contracts and grants revenue during the years ended December 31, 2021 and 2020, respectively, and 25% and 45% of grants and other receivables as of December 31, 2021 and 2020, respectively.

Revenue from the Arizona Department of Health Services represents 36% and 36% of the Organization's total government contracts and grants revenue during the years ended December 31, 2021 and 2020, respectively, and 41% and 30% of grants and other receivables as of December 31, 2021 and 2020, respectively.

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

(8) Conditional promises to give

The Organization has various governmental grants that are conditional in nature and the revenue can only be recognized once funds have been spent on qualified costs. As of December 31, 2021 and 2020 the remaining amount of conditional promises to give under these governmental grants is approximately $1,309,000 and $444,000, respectively.

(9) Operating agreement

The Organization occupies a building owned by the City of Phoenix under the terms of an operating agreement expiring in 2038. Under the terms of the agreement, the Organization is required to pay occupancy and maintenance costs of the facility. Additionally, the Organization is required to ensure the aggregated value of services provided to the community from all tenants services from all tenants in the facility are provided to the community with a total value of at least $144,200 per year. The Organization was in compliance with this requirement for the years ended December 31, 2021 and 2020.

(10) Tenant use fees

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

(10) Tenant use fees (continued)

Years Ending December 31:	
2022	$ 547,200
2023	398,100
2024	66,400
Total minimum lease payments	$ 1,011,700

The Organization earned tenant use fees of $563,174 and $577,878, under these agreements during the years ended December 31, 2021 and 2020, respectively.

(11) Liquidity and availability of resources

Financial asset available for general expenditure as of December 31 are as follows:

	2021	2020
Cash, cash equivalents, and restricted cash	$ 564,057	$ 1,395,218
Contributions and grants receivables	954,344	442,324
Accounts receivable, net	428,554	135,052
Total financial assets available within one year	1,946,955	1,972,594
Less: Amounts unavailable for general expenditures within one year, due to:		
Tenant security deposits	(4,165)	(4,165)
Net assets with donor restrictions	(615,112)	(448,138)
Total amounts unavailable for general expenditures within one year	(619,277)	(452,303)
Total financial assets available for general expenditure within one year	$ 1,327,678	$ 1,520,291

The Organization monitors its cash flows to ensure the fulfillment of all obligations. The Organization's policy is to maintain larger balances of cash as to have readily liquid assets available as needed. The Organization also maintains a total of $600,000 under lines of credit, of which the full balance was available for use by the Organization as of December 31, 2021.

(12) Risks and uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. The COVID-19 outbreak is also disrupting supply chains of personal protective equipment and other medical supplies. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on clients, donors, employees, volunteers, and vendors, all of which are uncertain and cannot be predicted. Additionally, the outbreak could impact the Organization's ability to receive contributions and collect receivables.

(12) Risks and uncertainties (continued)

As a result of the pandemic, the Organization was required to cancel certain group oriented programs that take place in person as well as restrict access to the building in accordance with public safety guidelines. In response, the Organization converted many programs to allow for limited group settings or telehealth and is committed to supporting employee safety while providing services to clients. As the primary source of revenue for the Organization is through existing federal contracts, the Organization has not been significantly negatively impacted. In April 2020, the Organization applied for and received a forgivable Paycheck Protection Program loan in the amount of approximately $355,000, as provided under the Federal Coronavirus Aid, Relief and Economic Security Act. The loan contains forgiveness provisions based on the use of the proceeds for qualifying costs within a 24-week period, through September 2020. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount bears interest at 1% and matures 2 years after receipt of the proceeds in April 2022. Monthly principal and interest payments are due beginning ten months after the end of the covered period. The Organization used all of the proceeds for eligible costs and legal release from obligation was received in February 2021. During the year ended December 31, 2021, approximately $355,000 is included as forgiveness of Paycheck Protection Program loan in the accompanying statement of activities and change in net assets.

As of the date the financial statements were available to be issued, the Organization’s operations have not been significantly negatively impacted. The Organization continues to monitor and manage the situation closely. Depending on the severity and duration of the pandemic, the Organization could experience a material negative impact to operations, cash flows and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS

SOUTHWEST CENTER FOR HIV/AIDS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

Federal Grantor/Pass-Through Agency/ Program or Cluster Title	Assistance Listing Number	Contract Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Maricopa County Department of Public Health Services				
HIV Emergency Relief Project Grants - Title 1,		2020MHSSWC	$ -	$ 816
Behavioral Health	93.914	2021MHSSWC	-	12,990
HIV Emergency Relief Project Grants - Title 1,				
Early Intervention Services	93.914	2020EISSWC	-	74,549
HIV Emergency Relief Project Grants - Title 1,		2020MNSSWC	-	64,939
Nutrition	93.914	2021MNSSWC	-	343,799
HIV Emergency Relief Project Grants - Title 1,		2020MCMSWC	-	23,754
Medical Case Management	93.914	2021MCMSWC	-	126,004
HIV Emergency Relief Project Grants - Title 1,		2020NMCSWC	-	12,996
Supportive Case Management	93.914	2021NMCSWC	-	66,863
HIV Emergency Relief Project Grants - Title 1,		2020FBSWC	-	111,710
Food Vouchers/Meals	93.914	2021FBSWC	-	558,938
RWPA-COVID-FV				
Food Vouchers/Meals	93.914	C20EISSWC	-	28,002
Total CFDA 93.914			-	1,425,360
Passed through Maricopa Integrated Health System:				
Grants to Provide Outpatient Early Intervention Services				
with respect to HIV Diseases	93.918	C-90-16-183-1	-	43,273
Passed through Arizona Department of Health Services				
HIV Prevention Condom Distribution	93.940	252026/152034	-	273,833
HIV Behavioral Intervention	93.940	252026/152034	-	150,147
PrEP Navigation Services	93.940	252026/152034	-	157,277
HIV Emergency Relief Project Grants - Title 1,				
Testing Services B	93.940	252026/152035	-	514,229
STI at Home Testing	93.940	BPM03152	-	29,312
Total passed through Arizona Department of Health Services			-	1,124,798
Passed through Centers for Disease Control and Prevention				
PrEP Navigation Services	93.940	252026/152034	-	157,462
Total CFDA 93.940			-	1,282,260
Passed through Centers for Disease Control and Prevention				
HIV Prevention Activities Non-Governmental				
Organization based	93.939	9-17NU65PS923664	71,057	429,340
Passed through Arizona Family Health Partnership				
Family Planning Services	93.217	5 FPHPA006468-02-00	-	249,719
Total U.S. Department of Health and Human Services			71,057	3,429,952
U.S. DEPARTMENT OF TREASURY				
Passed through City of Phoenix				
Coronavirus Relief Fund	21.019	153024--0	-	9,150
Total U.S. Department of Treasury			-	9,150
Total Expenditures of Federal Awards			$ 71,057	$ 3,439,102

See Independent Auditors' Report
See Notes to Schedule of Expenditures of Federal Awards

SOUTHWEST CENTER FOR HIV/AIDS, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2021

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the ***Southwest Center for HIV/AIDS, Inc.*** under programs of the federal government for the year ended December 31, 2021. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of ***Southwest Center for HIV/AIDS, Inc.***, it is not intended and does not present the financial position, change in net assets or cash flows of ***Southwest Center for HIV/AIDS, Inc.***

(2) Summary of significant accounting policies

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

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

The Board of Directors of

SOUTHWEST CENTER FOR HIV/AIDS, INC.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ***Southwest Center for HIV/AIDS, Inc.*** (the "Organization"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 13, 2022.

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 have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ***Southwest Center for HIV/AIDS, Inc.'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-002 and 2021-003.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying corrective action plan. 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 it.

Purpose of this Report

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

Mayer Hoffman McCann P.C.

July 13, 2022

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

The Board of Directors of

SOUTHWEST CENTER FOR HIV/AIDS, INC.

Report on Compliance for Each Major Federal Program

Qualified Opinions

We have audited ***Southwest Center for HIV/AIDS, Inc.*** (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Qualified Opinions on HIV Emergency Relief Project Grants (AL# 93.914) and HIV Prevention Activities Health Department Based (AL# 93.940)

In our opinion, except for the noncompliance described in the Basis for Qualified 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 HIV Emergency Relief Project Grants and HIV Prevention Activities Health Department Based for the year ended December 31, 2021.

Basis for Qualified Opinions on HIV Emergency Relief Project Grants (AL# 93.914) and HIV Prevention Activities Health Department Based (AL# 93.940)

We conducted our audit of compliance in accordance with the 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 Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinions on HIV Emergency Relief Project Grants (AL# 93.914) and HIV Prevention Activities Health Department Based (AL# 93.940)

As described in findings 2021-001 and 2021-002 in the accompanying schedule of findings and questioned costs, the Organization did not comply with the requirements regarding the following:

Finding #	***Assistance Listing #***	***Program Name***	***Compliance Requirement***
2021-001	93.914	HIV Emergency Relief Project Grants	Allowable Costs and Activities
2021-002	93.940	HIV Prevention Activities Health Department Based	Allowable Costs and Activities

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to this 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.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether 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.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-002 and 2021-003 to be material weaknesses.

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.

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 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.

Mayer Hoffman McCann P.C.

July 13, 2022

SOUTHWEST CENTER FOR HIV/AIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2021

Section I – Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Qualified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified?	None reported
3. Noncompliance material to the financial statements noted?	Yes

Federal Awards

1. Internal control over major federal program:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified?	None reported
2. Type of auditors' report issued on compliance for major programs:	Qualified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
4. Identification of major federal program:	

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

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

SOUTHWEST CENTER FOR HIV/AIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2021

Section II – Financial Statement Findings

Item:	2021-001
Subject:	Third party insurance payments
Criteria or Specific Requirement:	Accounting principles generally accepted in the United States of America require that revenues be recorded in the period earned.
Condition:	The Chief Financial Officer identified that insurance billings from the internal billing system occur without notification to the accounting department to record revenue. As a result, prior to January 1, 2021, when cash is received from insurance providers, the cash could not be applied against a receivable and was instead recorded as revenue. As a result, certain revenue recorded during 2021 is from prior periods.
Context:	Revenues from services billed under insurance arrangements were not recorded when services are provided for the full year.
Effect:	***Southwest Center for HIV/AIDS, Inc.'s*** financial statements may be materially misstated and not presented in accordance with accounting principles generally accepted in the United States of America. This could result in conflicting information for management and outside users. This is deemed to be a material weakness in internal control over financial reporting.
Cause:	The Organization did not have controls designed and implemented to communicate billings sent to the financial reporting function sufficient to timely accrue for services provided and billed to third party insurance at the beginning balance sheet date.
Identification as a Repeat Finding:	2020-001
Recommendation:	***Southwest Center for HIV/AIDS, Inc.'s*** should have a formal policy in place to reconcile insurance billings to financial statements.
Views of Responsible Officials:	Management of ***Southwest Center for HIV/AIDS, Inc.*** concurs with the finding. See Corrective Action Plan.

SOUTHWEST CENTER FOR HIV/AIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2021

Section III – Federal Awards Findings and Questioned Costs

Item:	2021-002
Assistance Listing Number:	93.914
Programs:	HIV Emergency Relief Project Grant
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agencies:	Maricopa County Ryan White Program
Compliance Requirement:	Allowable Activities and Costs
Criteria:	In accordance with 2 CFR §200.430 Compensation—personal services, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, be supported by a system of internal control which provides reasonable assurance that the charges were accurate, allowable, and properly allocated and budget estimates must produce reasonable approximation of the activity performed.
Condition:	In 2021, the Organization did not have an adequate process to document review and approval of an employee's allocation of payroll costs to federal awards. Due to the pervasiveness of the matter, this is considered a material weakness in internal control over compliance.
Questioned Costs:	Unknown
Effect:	As a result of noncompliance with the grant agreement, ***Southwest Center for HIV/AIDS, Inc.*** can be charging the incorrect amount to the program.
Cause:	The Organization did not controls implemented to properly measure and record the time and effort incurred by employees related to the grant agreement. These errors are a result of omitted controls over direct costs.
Identification as a Repeat Finding:	No
Recommendation:	The Organization should implement controls to adequately monitor employees charged with reporting to ensure there are personnel records to support the payroll costs charged to the program in accordance with the contract.
Views of Responsible Officials:	Management of ***Southwest Center for HIV/AIDS, Inc.*** concurs with the finding. See Corrective Action Plan.

SOUTHWEST CENTER FOR HIV/AIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2021

Item:	2021-003
Assistance Listing Number:	93.940
Programs:	HIV Prevention Activities – Health Department Based
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agency:	Arizona Department of Health Services Centers for Disease Control and Prevention
Compliance Requirement:	Allowable Activities and Costs
Criteria:	In accordance with 2 CFR §200.430 Compensation—personal services, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, be supported by a system of internal control which provides reasonable assurance that the charges were accurate, allowable, and properly allocated and budget estimates must produce reasonable approximation of the activity performed.
Condition:	In 2021, the Organization did not have an adequate process to document review and approval of an employee's allocation of payroll costs to federal awards. Due to the pervasiveness of the matter, this is considered a material weakness in internal control over compliance.
Questioned Costs:	Unknown
Effect:	As a result of noncompliance with the grant agreement, ***Southwest Center for HIV/AIDS, Inc.*** can be charging the incorrect amount to the program.
Cause:	The Organization did not controls implemented to properly measure and record the time and effort incurred by employees related to the grant agreement. These errors are a result of omitted controls over direct costs.
Identification as a Repeat Finding:	Not a repeat finding
Recommendation:	The Organization should implement controls to adequately monitor employees charged with reporting to ensure there are personnel records to support the payroll costs charged to the program in accordance with the contract.
Views of Responsible Officials:	Management of ***Southwest Center for HIV/AIDS, Inc.*** concurs with the finding. See Corrective Action Plan.

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CORRECTIVE ACTION PLAN

Item:	2021-001
Subject:	Third party insurance payments
Criteria or Specific Requirement:	Accounting principles generally accepted in the United States of America require that revenues be recorded in the period earned.
Condition:	The Chief Financial Officer identified that insurance billings from the internal billing system occur without notification to the accounting department to record revenue. As a result, prior to January 1, 2021, when cash is received from insurance providers, the cash could not be applied against a receivable and was instead recorded as revenue. As a result, certain revenue recorded during 2021 is from prior periods.
Name of Contact Person:	Ian Quick, Director of Accounting
Phone Number:	(602) 595-8109
Anticipated Completion Date:	January 1, 2022
Views of Responsible Officials and Corrective Actions:	Beginning in January 2021, insurance billings from the internal billing system (eCW) were booked as A/R at month-end, and payments received from patients and insurance providers were applied against open A/R in accounting software after being reconciled with internal billing system.

Item:	2021-002
Assistance Listing Number:	93.914
Programs:	HIV Emergency Relief Project Grant
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agency:	Maricopa County Ryan White Program
Compliance Requirement:	Allowable Activities and costs
Criteria or Specific Requirement:	In accordance with 2 CFR §200.430 Compensation—personal services, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, be supported by a system of internal control which provides reasonable assurance that the charges were accurate, allowable, and properly allocated and budget estimates must produce reasonable approximation of the activity performed.

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Condition:	In 2021, the Organization did not have an adequate process document review and approval of an employee's allocation of payroll costs to federal awards. Due to the pervasiveness of the matter, this is considered a material weakness in internal control over compliance.
Name of Contact Person:	Ian Quick, Director of Accounting
Phone Number:	(602) 595-8109
Anticipated Completion Date:	January 1, 2022
Views of Responsible Officials and Corrective Actions:	Staff are required to enter and approve their time in the payroll system in a timely manner, which managers are then required to review and approve on a biweekly basis prior to the periodic processing of payroll. Beginning January 1, 2022, the Director of Accounting began generating monthly reports from the payroll software for all managers with direct timecard approval of grant-funded staff (allocated or in-total) listing, on a per-pay-period basis, how many hours were being allocated to the grant(s) during the pay period. Each manager reviews, signs, and returns these reports to the Director of Accounting for archival and retention.

Item:	2021-003
Assistance Listing Number:	93.940
Programs:	HIV Prevention Activities – Health Department Based
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agency:	Arizona Department of Health Services Centers for Disease Control and Prevention
Compliance Requirement:	Allowable Activities and Costs
Criteria or Specific Requirement:	In accordance with 2 CFR §200.430 Compensation—personal services, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, be supported by a system of internal control which provides reasonable assurance that the charges were accurate, allowable, and properly allocated and budget estimates must produce reasonable approximation of the activity performed.
Condition:	In 2021, the Organization did not have an adequate process document review and approval of an employee's allocation of payroll costs to federal awards. Due to the pervasiveness of the matter, this is considered a material weakness in internal control over compliance.
Name of Contact Person:	Ian Quick, Director of Accounting

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Phone Number:	(602) 595-8109
Anticipated Completion Date:	January 1, 2022
Views of Responsible Officials and Corrective Actions:	Staff are required to enter and approve their time in the payroll system in a timely manner, which managers are then required to review and approve on a biweekly basis prior to the periodic processing of payroll. Beginning January 1, 2022, the Director of Accounting began generating monthly reports from the payroll software for all managers with direct timecard approval of grant-funded staff (allocated or in-total) listing, on a per-pay-period basis, how many hours were being allocated to the grant(s) during the pay period. Each manager reviews, signs, and returns these reports to the Director of Accounting for archival and retention.

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Summary Schedule of Prior Year Audit Findings

Item: 2020-001

Type of finding: Material weakness in internal control over financial reporting

Condition: The Chief Financial Officer identified that insurance billings from the internal billing system occur without notification to the accounting department to record revenue. As a result, when cash is received from insurance providers, the cash cannot be applied against a receivable and is instead recorded as revenue, resulting in cash basis revenue recognition.

Current Status: Partial corrective action taken. See 2021-001.

Item: 2020-002

CFDA Number: 93.914

Program: HIV Emergency Relief Project Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Maricopa County Ryan White Program

Compliance Requirement: Allowable Costs and Activities

Condition: In 2020, the Organization did not have an adequate process in place to transfer information from an employee's timecard and payroll register to the request for reimbursement. A non-statistical sample of 1 out of 18 employee pay periods had an error due to inadequate review of timecard data requested for reimbursement for two contracts under the program. Additionally, for employees that allocate 100% of their time to a major program, the Organization did not have records to support that at least 50% of their time was supported by billed client units as required by the contract. Due to the pervasiveness of the matter, this is considered a material weakness in internal control over compliance.

Current Status: Corrective action taken.

Item: 2020-003

CFDA Number: 93.914

Program: HIV Emergency Relief Project Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Maricopa County Ryan White Program

Compliance Requirement:	Procurement, Suspension, and Debarment
Condition:	The Organization does not have a formal procurement policy in place during 2020, nor a policy to perform a review of pricing among qualified suppliers. While the Organization does not typically have purchases that exceed the micro-purchases threshold, the matter is considered a significant deficiency in internal control over compliance.
Current Status:	Corrective action taken.

Item:	2020-004
CFDA Number:	93.914
Program:	HIV Emergency Relief Project Grant
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agency:	Maricopa County Ryan White Program
Compliance Requirement:	Eligibility
Condition:	During testing of a nonstatistical sample, we noted that for 2 out of 40 selections, documentation of the participant's eligibility was not retained in the participant's file. However, upon further research in the Maricopa County database, we noted that the participants were eligible to receive services under the program, therefore there was not a matter of non-compliance. This issue was identified as a material weakness in internal control over compliance in the prior year, given the level of exceptions and pervasiveness of the issue. This is considered a material weakness in internal control over compliance in the current year as well.
Current Status:	Corrective action taken.

Item:	2020-005
CFDA Number:	93.914
Program:	HIV Emergency Relief Project Grant
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agency:	Maricopa County Ryan White Program
Compliance Requirement:	Reporting

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Condition:	During testing of a nonstatistical sample of 4 months of reporting during 2020, MHM noted that there is not a control implemented to perform a reconciliation or review over the amounts billed to the programs compared to the amounts accepted and received and as a result individual costs do not agree to the some or all of the individual cost in the Billings summary workbooks. Additionally, there is not a control in place to ensure that billed expenditures are not in excess of the contract budget in a timely manner. Per review of all contract billings for the major programs compared to all cash receipts, the following errors were identified: missing month of billing for $39,800, billing exceeding budget resulting in return of funds of $28,240, unsupported cash reimbursement of $3,977. The missing month of billing and over budget billing was corrected within the reporting period. This is considered a deficiency in internal control over compliance.
Current Status:	Corrective action taken.
Item:	2020-006
CFDA Number:	93.940
Program:	HIV Prevention
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agency:	Arizona Department of Health Services
Compliance Requirement:	Procurement, Suspension, and Debarment
Condition:	The Organization does not have a formal procurement policy in place during 2020, nor a policy to perform a review of pricing among qualified suppliers. While the Organization does not typically have purchases that exceed the micro-purchases threshold, the matter is considered a significant deficiency in internal control over compliance.
Current Status:	Corrective action taken.
Item:	2020-007
CFDA Number:	93.940
Program:	HIV Prevention
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Agency:	Arizona Department of Health Services
Compliance Requirement:	Reporting
Condition:	During testing of a nonstatistical sample of 4 months of reporting during 2020, MHM noted that there is not a control implemented to perform a reconciliation or review over the amounts billed to the programs compared to the amounts accepted

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and received and as a result individual costs do not agree to the some or all of the individual cost in the Billings summary workbooks. Additionally, there is not a control in place to ensure that billed expenditures are not in excess of the contract budget in a timely manner. Per review of all contract billings for the major programs compared to all cash receipts, the following errors were identified: unsupported cash reimbursement of $1,427. This is considered a deficiency in internal control over compliance.

Current Status: Corrective action taken.