



Chiricahua Community Health Centers, Inc.

Independent Auditor's Reports and Consolidated Financial Statements

April 30, 2025 and 2024



Chiricahua Community Health Centers, Inc.
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April 30, 2025 and 2024

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Independent Auditor's Report

Board of Directors
Chiricahua Community Health Centers, Inc.
Douglas, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Chiricahua Community Health Centers, Inc. (the "Organization"), which comprise the consolidated balance sheets as of April 30, 2025 and 2024, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chiricahua Community Health Centers, Inc. as of April 30, 2025 and 2024, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *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 Chiricahua Community Health Centers, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Chiricahua Community Health Centers, Inc.'s ability to continue as a going concern for one year after the date that the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 Chiricahua Community Health Centers, 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chiricahua Community Health Centers, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2025, on our consideration of Chiricahua Community Health Centers, Inc.'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 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 Chiricahua Community Health Centers, Inc.'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 Chiricahua Community Health Centers, Inc.'s internal control over financial reporting and compliance.

Forvis Mazars, LLP

**Springfield, Missouri
November 25, 2025**

Chiricahua Community Health Centers, Inc.
Consolidated Balance Sheets
April 30, 2025 and 2024

	2025	2024
ASSETS		
Current Assets		
Cash	\$ 3,564,407	\$ 4,182,307
Patient accounts receivable	5,114,175	6,701,498
Grants and other receivables	533,671	1,094,750
Estimated amounts due from third-party payors	2,139,704	1,805,833
Supplies	201,035	358,532
Prepaid expenses and other	381,140	331,806
Total Current Assets	11,934,132	14,474,726
Assets Limited as to Use		
Deferred compensation plan assets	1,321,169	1,533,794
Internally designated	50,851	-
	1,372,020	1,533,794
Investment in Equity Investee	1,105,563	641,413
Property and Equipment, at Cost		
Land	397,447	397,447
Buildings and leasehold improvements	23,640,610	21,667,831
Equipment	9,959,980	9,990,136
Construction in progress	1,047,181	1,542,170
	35,045,218	33,597,584
Less accumulated depreciation	15,305,861	14,109,416
	19,739,357	19,488,168
Other Assets		
Right-of-use assets – operating leases	21,156,953	22,037,973
Right-of-use assets – finance leases	66,025	-
	21,222,978	22,037,973
Total Assets	\$ 55,374,050	\$ 58,176,074

Chiricahua Community Health Centers, Inc.
Consolidated Balance Sheets
April 30, 2025 and 2024

(Continued)

	2025	2024
LIABILITIES AND NET ASSETS		
Current Liabilities		
Line of credit	\$ 1,806,276	\$ 1,859,493
Current maturities of long-term debt	1,251,114	2,089,149
Current portion of operating lease liabilities	560,197	510,059
Current portion of finance lease liabilities	36,543	-
Accounts payable	1,306,806	2,605,908
Accrued expenses	5,046,836	5,206,789
Deferred grant revenue	35,846	-
Estimated amounts due to third-party payors	-	442,850
Total Current Liabilities	10,043,618	12,714,248
Other Liabilities		
Long-term debt, net	3,335,391	3,568,412
Operating lease liabilities	23,180,264	23,740,461
Finance lease liabilities	24,641	-
Deferred compensation	1,321,169	1,533,794
	27,861,465	28,842,667
Total Liabilities	37,905,083	41,556,915
Net Assets		
Without donor restrictions	17,149,371	16,307,291
With donor restrictions	319,596	311,868
Total Net Assets	17,468,967	16,619,159
Total Liabilities and Net Assets	\$ 55,374,050	\$ 58,176,074

Chiricahua Community Health Centers, Inc.
Consolidated Statements of Operations
Years Ended April 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Revenues, Gains, and Other Support		
Without Donor Restrictions		
Patient service revenue	\$ 58,522,649	\$ 51,980,911
Grant revenue	9,051,489	9,438,675
Contributions of cash and other financial assets	99,637	82,440
Contributions of nonfinancial assets	2,016,548	2,024,513
Other revenue	1,606,832	1,733,272
Net assets released from restrictions used for operations	<u>173,626</u>	<u>232,540</u>
Total Revenues, Gains, and Other Support		
Without Donor Restrictions	<u>71,470,781</u>	<u>65,492,351</u>
Expenses and Losses		
Salaries and wages	35,525,677	37,345,266
Employee benefits and payroll taxes	7,963,153	7,100,872
Purchased services and professional fees	5,048,790	5,653,968
Supplies and other	18,703,658	15,436,044
Rent	2,658,334	2,577,403
Depreciation and amortization	1,328,498	1,390,023
Interest expense	<u>854,623</u>	<u>299,441</u>
Total Expenses and Losses	<u>72,082,733</u>	<u>69,803,017</u>
Operating Loss	<u>(611,952)</u>	<u>(4,310,666)</u>
Other Income		
Gain on investment in equity investee	464,150	298,699
Investment return, net	<u>34,796</u>	<u>127,534</u>
Total Other Income	<u>498,946</u>	<u>426,233</u>
Excess (Deficiency) of Revenues		
Over Expenses and Losses	(113,006)	(3,884,433)
Contributions for acquisition of property and equipment	830,275	-
Net assets released from restriction		
for property and equipment	<u>124,811</u>	<u>-</u>
Increase (Decrease) in Net Assets		
Without Donor Restrictions	<u>\$ 842,080</u>	<u>\$ (3,884,433)</u>

Chiricahua Community Health Centers, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended April 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses and losses	\$ (113,006)	\$ (3,884,433)
Contributions for acquisition of property and equipment	830,275	-
Net assets released from restriction for property and equipment	<u>124,811</u>	<u>-</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>842,080</u>	<u>(3,884,433)</u>
Net Assets With Donor Restrictions		
Contributions of cash and other financial assets	306,165	187,057
Net assets released from restriction	<u>(298,437)</u>	<u>(232,540)</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>7,728</u>	<u>(45,483)</u>
Change in Net Assets	849,808	(3,929,916)
Net Assets, Beginning of Year	<u>16,619,159</u>	<u>20,549,075</u>
Net Assets, End of Year	<u><u>\$ 17,468,967</u></u>	<u><u>\$ 16,619,159</u></u>

Chiricahua Community Health Centers, Inc.
Consolidated Statements of Cash Flows
Years Ended April 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating Activities		
Change in net assets	\$ 849,808	\$ (3,929,916)
Items not requiring (providing) cash		
Depreciation and amortization	1,328,498	1,390,023
Undistributed gain on investment in equity investee	(464,150)	(298,699)
Contributions for acquisition of property and equipment	(924,575)	-
Noncash operating lease expense	881,020	766,072
Changes in		
Patient accounts receivable	1,587,323	(2,434,871)
Grants receivable	561,079	(378,192)
Estimated amounts due from and to third-party payors	(776,721)	(758,151)
Inventories	157,497	99,727
Other current assets	(49,334)	118,948
Operating lease liability	(510,059)	(274,666)
Accounts payable and accrued expenses	(1,568,244)	2,587,147
Net Cash Provided by (Used in) Operating Activities	<u>1,072,142</u>	<u>(3,112,578)</u>
Investing Activities		
Purchase of investments	-	(72,345)
Proceeds from disposition of investments	-	3,393,619
Purchase of property and equipment	(1,403,447)	(723,366)
Net Cash Provided by (Used in) Investing Activities	<u>(1,403,447)</u>	<u>2,597,908</u>
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	924,575	-
Payments on line of credit	(553,217)	(40,557)
Borrowings on line of credit	500,000	1,900,000
Principal payments on long-term debt	(1,321,056)	(528,721)
Principal payments on finance lease liabilities	(36,046)	(429,226)
Proceeds from issuance of long-term debt	250,000	800,000
Net Cash Provided by (Used in) Financing Activities	<u>(235,744)</u>	<u>1,701,496</u>
Increase (Decrease) in Cash	(567,049)	1,186,826
Cash, Beginning of Year	<u>4,182,307</u>	<u>2,995,481</u>
Cash, End of Year	<u>\$ 3,615,258</u>	<u>\$ 4,182,307</u>

Chiricahua Community Health Centers, Inc.
Consolidated Statements of Cash Flows
Years Ended April 30, 2025 and 2024

(Continued)

	<u>2025</u>	<u>2024</u>
Reconciliation of Cash and Restricted Cash to Consolidated Balance Sheets		
Cash	\$ 3,564,407	\$ 4,182,307
Restricted cash in assets limited as to use	<u>50,851</u>	<u>-</u>
	<u>\$ 3,615,258</u>	<u>\$ 4,182,307</u>
Supplemental Cash Flows Information		
Interest paid (net of capitalized interest)	\$ 854,623	\$ 299,441
ROU assets obtained in exchange for new finance lease liabilities	\$ 97,230	\$ -
Property and equipment acquisitions in accounts payable	\$ 166,616	\$ 21,581

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Chiricahua Community Health Centers, Inc. (the "Organization") is a Federally Qualified Health Center (FQHC) that primarily earns revenues by providing medical, dental, and related health care services through clinics located in Cochise County, Arizona.

The Chiricahua Health Foundation was formed in September 2022, and operates exclusively for the benefit of Chiricahua Community Health Centers, Inc.

Principles of Consolidation

The consolidated financial statements include the accounts of Chiricahua Community Health Centers, Inc. and the Chiricahua Health Foundation (collectively, the "Organization"). All material accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash and cash equivalents included in investment accounts and assets limited as to use, other than deferred compensation plan assets, are considered to be cash and cash equivalents. At April 30, 2025 and 2024, the Organization had no cash equivalents.

At April 30, 2025 the Organization's cash accounts exceeded federally insured limits by approximately \$3,230,000.

Investment and Investment Return

The Organization measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in deficiency of revenues over expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return is comprised of interest income, less external and internal investment expense, and is reflected in the statements of operations as a component of net assets without donor restrictions.

Assets Limited as to Use

Assets limited as to use include (1) assets set aside by the Board of Directors for loan repayment over which the Board retains control and may at its discretion subsequently use for other purposes and (2) deferred compensation plan assets. Amounts required to meet current liabilities of the Organization are included in current assets.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of 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. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient's responsibility for copays, coinsurance, and deductibles is determined. Patient accounts receivable are due in full when billed.

No material credit loss expense has been recognized for the years ended April 30, 2025 and 2024.

Supplies

Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under finance lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives. Right-of-use finance leases assets are included within building and leasehold improvements and equipment.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	5 – 40 years
Equipment	3 – 39 years

Certain property and equipment have been purchased with grant funds. Such items may have a reversionary interest by the grantor if not used to further the grants objectives or held for a specific length of time.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended April 30, 2025 and 2024.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Patient Service Revenue

Patient service revenue is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. 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 policies, and implicit price concessions provided to uninsured patients.

The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies, and historical experience by payor groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations by third-party payors.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, inventory, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor 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 statements of operations as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, inventory, and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Chiricahua Community Health Centers, Inc.
Notes to Consolidated Financial Statements
April 30, 2025 and 2024

340B Drug Pricing Program

The Organization participates in the 340B Drug Pricing Program which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization receives benefits under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

	<u>2025</u>	<u>2024</u>
Internal pharmacy gross receipts	\$ 17,674,176	\$ 13,206,289
Internal pharmacy cost of goods sold	(7,795,383)	(5,262,808)
Internal pharmacy other operating expense	<u>(4,219,037)</u>	<u>(2,895,756)</u>
Internal pharmacy net revenue	<u>5,659,756</u>	<u>5,047,725</u>
Contract pharmacy gross receipts	3,179,803	2,435,009
Contract pharmacy drug replenishment costs	(1,507,811)	(711,329)
Contract pharmacy administrative and filling fees	<u>(1,004,450)</u>	<u>(259,492)</u>
Contract pharmacy net revenue	<u>667,542</u>	<u>1,464,188</u>
Total net pharmacy revenue	<u>\$ 6,327,298</u>	<u>\$ 6,511,913</u>

The 340B gross receipts are included in patient service revenue on the consolidated statements of operations and are recognized as revenue as the Organization satisfies performance under its contracts with patients. The drug replenishment costs are included on the pharmacy cost of goods sold line, and the contracted pharmacy costs are included on the purchased services and professional fees line on the consolidated statements of operations. The internal pharmacy other operating expenses are included with the associated operating expense line items such as salaries and wages, employee benefits and supplies and other on the consolidated statements of operations. The net 340B revenue from this program is used in furtherance of the Organization's mission.

Government Grants

Support funded by grants is generally considered a conditional contribution and recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant agreements which are reimbursement for services provided are considered exchange transactions and recognized as patient service revenue which is recognized as the service is performed. Grant activities and outlays are subject to audit and acceptance by the granting agency that, as a result of such audit, adjustments could be required.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

Self-Insurance

The Organization has elected to self-insure certain costs related to employee dental insurance and medical health insurance.

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations includes excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, the change in fair value of an interest rate swap agreement, permanent transfers to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Revisions

Certain immaterial revisions have been made to the 2024 consolidated financial statements to correct the treatment of a restricted donation, to correct the classification of debt noted to be due on demand, and to correct the recorded investment in equity investee and gain on investment in equity investee. Revisions were also made to the 2024 notes to the financial statement to correct the financial position and results of operations for the year ended April 30, 2024, for an equity investee. The revisions did not have a significant impact on the financial statement line items impacted.

Note 2. Grant Revenue

The Organization is the recipient of a Health Center Program (HCP) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery services. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as the Organization meets the conditions prescribed by the grant agreement, which requires incurring qualifying expenditures over the grant period. During the years ended April 30, 2025 and 2024, the Organization recognized \$6,240,849 and \$5,863,470, respectively, in HCP grant funds. Funding for the grant year ended on April 30, 2026, has been authorized at \$6,363,470. The HCP grant is considered a conditional award. As such, the approved funding in which the Organization has not incurred allowable expenditures has not been recognized in the financial statements at year-end.

Note 3. Patient Service Revenue

Patient service 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

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 total expected or actual charges. 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. Generally, performance obligations satisfied over time relate to patients receiving services in the Organization's clinics. The Organization measures the performance obligation from commencement of a service to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example,

Chiricahua Community Health Centers, Inc.
Notes to Consolidated Financial Statements
April 30, 2025 and 2024

pharmaceuticals) and the Organization does not believe it is required to provide additional goods related to the patient. The Organization had no performance obligations considered unsatisfied or partially unsatisfied as of April 30, 2025 and 2024.

Transaction Price

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 sliding fee discount policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its sliding fee discount program policy, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Third-Party Payors

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. 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. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid based on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on either a prospective payment system (PPS) or the alternative payment methodology (APM). Services not covered under the FQHC benefit are paid based on established fee schedules.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per billable encounter, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

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 based on newly available information or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2025 and 2024.

Refund Liabilities

From time to time the Organization will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of April 30, 2025 and 2024, the Organization had no refund liabilities.

Patient and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. As required by Section 330 of the Public Health Service Act (42 U.S.C. §254b), the Organization also has established a sliding fee discount program and offers low-income patients a sliding fee discount 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, sliding fee 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. For the years ended April 30, 2025 and 2024, additional revenue of approximately \$0 and \$769,000, respectively, was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as credit loss expense.

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, such as 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.

Revenue Composition

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care, or other insurance patient) have different reimbursement and payment methodologies and service lines
- Organization's line of business that provided the service (for example, medical, dental, behavioral health, pharmacy, etc.)

For the years ended April 30, 2025 and 2024, the Organization recorded patient service revenue of \$37,668,670 and \$36,339,613, respectively, from health care services transferred to the customer over time and \$20,853,979 and \$15,641,298, respectively, from pharmacy sales at a point in time.

Financing Component

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payor pays for the service will be one year or less.

Contract Costs

The Organization has applied the practical expedient provided by FASB ASC 320-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

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Contract Balances

The following table provides information about the Organization's receivables, contract assets, and contract liabilities from contracts with customers:

	<u>2025</u>	<u>2024</u>
Accounts receivable, beginning of year	\$ 6,701,498	\$ 4,266,627
Accounts receivable, end of year	\$ 5,114,175	\$ 6,701,498

The Organization has no significant contract assets or contract liabilities at April 30, 2025 and 2024.

Note 4. Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at April 30, 2025 and 2024, is:

	<u>2025</u>	<u>2024</u>
Medicare	34%	33%
Medicaid	47%	52%
Self-pay	1%	1%
Other third-party payors	18%	14%
	<u>100%</u>	<u>100%</u>

Note 5. Conditional Grants and Contributions

The Organization has received the following conditional promises to give at April 30, 2025 and 2024, that are not recognized in the financial statements:

	<u>2025</u>	<u>2024</u>
Given upon incurring allowable expenditures under the agreement	\$ 1,264,054	\$ 6,425,503
Given for capital project	1,611,265	2,441,540
	<u>\$ 2,875,319</u>	<u>\$ 8,867,043</u>

Chiricahua Community Health Centers, Inc.
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Note 6. Investments

Assets Limited as to Use

Assets limited as to use, at April 30, 2025 and 2024, include:

	<u>2025</u>	<u>2024</u>
Deferred compensation plan assets		
Cash	\$ 91,582	\$ 222,650
Mutual funds		
Target date	679,040	839,993
Other	550,547	471,151
Internally designated - cash	<u>50,851</u>	<u>-</u>
	<u>\$ 1,372,020</u>	<u>\$ 1,533,794</u>

Investment Return

Investment return is comprised of interest income of \$34,796 and \$127,534 for the years ended April 30, 2025 and 2024, respectively. Investment return is reflected in the consolidated statements of operations as a component of net assts within net assets without donor restriction.

Note 7. Investment in Equity Investee

The Organization has an approximately 19.11% ownership in VBCare Network, LLC, at April 30, 2025 and 2024.

The LLC's unaudited financial position and results of operations during the years ended April 30, 2025 and 2024, are summarized below.

	<u>2025</u>	<u>2024</u>
Current assets	<u>\$ 5,075,665</u>	<u>\$ 2,791,132</u>
Total assets	<u>5,075,665</u>	<u>2,791,132</u>
Current liabilities	<u>89,741</u>	<u>236,324</u>
Total liabilities	<u>89,741</u>	<u>236,324</u>
Equity	<u>\$ 4,985,924</u>	<u>\$ 2,554,808</u>
Revenues	\$ 11,499,036	\$ 8,187,943
Net income	\$ 2,428,957	\$ 1,231,974

The Organization's proportionate share of net income in the LLC amounted to approximately \$464,000 and \$235,000 for the years ended April 30, 2025 and 2024, respectively. An additional gain on investment in equity investee of approximately \$64,000 was recorded during the year ended April 30, 2024, related to prior year activity. The Organization's investment in the LLC is included in investment in equity investee on the consolidated balance sheets.

Note 8. Medical Malpractice

The U.S. Department of Health and Human Services has deemed the Organization and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage and personal injury, including death resulting from the performance of medical, surgical, dental, and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claims experience, no accrual has been made for medical malpractice costs for the years ended April 30, 2025 and 2024. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 9. Line of Credit

The Organization has a \$3,000,000 revolving line of credit which expires December 31, 2025. At April 30, 2025 and 2024, there was an outstanding balance on the line of credit of \$1,806,276 and \$1,859,493, respectively. The interest rate was 7.5% and 8.25% at April 30, 2025 and 2024, respectively. The line is collateralized by the Organization's accounts receivable balances.

Note 10. Long-Term Debt

Long-term debt at April 30, 2025 and 2024, consisted of the following:

	2025	2024
Notes payable (A)	\$ 301,036	\$ 323,536
Notes payable (B)	467,647	503,553
Notes payable (C)	3,567,822	4,030,472
Notes payable (D)	-	500,000
Notes payable (E)	-	300,000
Notes payable (F)	250,000	-
	4,586,505	5,657,561
Less current maturities	1,251,114	2,089,149
	<u>\$ 3,335,391</u>	<u>\$ 3,568,412</u>

(A) Note is due on demand from the lender. If no demand is made, note is payable in 60 initial monthly payments of \$3,199, including interest at 5.000%. Beginning April 2025, monthly payments of \$3,215 will be made for 60 months including interest at 8.000%. Beginning April 2030, monthly payments of \$3,323 will be paid for 60 months with a final payment of outstanding principal and interest due upon the maturity of the note in March 2035. The interest rate will be adjusted every 60 months and will be equal to the Wall Street Journal Prime Rate plus 0.5 percentage points. The note is secured by certain real property.

(B) Note is due on demand from the lender. If no demand is made, note is payable in 60 initial monthly payments of \$4,672, including interest at 4.08%. Beginning August 2025, monthly payments of \$4,674 will be made for 120 months including interest at the Treasury nominal constant maturities rate plus 3.75%, with a final payment of outstanding principal and interest due upon the maturity of the note in July 2035. The note is secured by certain real property.

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- (C) Note payable with monthly payments of \$50,631 with a fixed interest rate of 3.740%. The loan matures in December 2031. The note is secured by certain real property.

In connection with this note, the Organization is required to comply with certain covenants including maintaining a debt-service coverage ratio in excess of 1.25 to 1.

- (D) Unsecured note payable with monthly payments of \$3,199 with a fixed interest rate of 10.000%. The loan matured in May 2024, and was paid in full during 2025.

- (E) Unsecured note payable with monthly payments of \$3,199 with a fixed interest rate of 10.000%. The loan matured in May 2024, and was paid in full during 2025.

- (F) Note payable with quarterly payments of interest only at a rate of 3.00%. The loan matures in May 2029 with the balance due at maturity. The loan is secured by certain real property.

Aggregate annual maturities of long-term debt at April 30, 2025, are:

2026	\$	1,251,114
2027		500,788
2028		519,842
2029		539,621
2030		810,152
Thereafter		964,988
	\$	<u>4,586,505</u>

Note 11. Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions at April 30, 2025 and 2024 are restricted for the following purposes:

	<u>2025</u>	<u>2024</u>
Subject to expenditure for specified purpose		
Capital project	\$ 94,300	\$ 124,811
Health care services	119,011	95,000
Employee assistance fund	1,515	1,515
Chiricahua Cares fund	104,770	90,542
	\$ <u>319,596</u>	\$ <u>311,868</u>

Chiricahua Community Health Centers, Inc.
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Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors were:

	<u>2025</u>	<u>2024</u>
Satisfaction of purpose restrictions		
Capital project	\$ 124,811	\$ -
Health care services	83,084	164,047
Chiricahua Cares fund	90,542	68,493
	<u>\$ 298,437</u>	<u>\$ 232,540</u>

Note 12. Liquidity and Availability

The Organization's financial assets available for general expenditures within one year of April 30, 2025 and 2024 are:

	<u>2025</u>	<u>2024</u>
Financial assets at year-end		
Cash	\$ 3,564,407	\$ 4,182,307
Patient accounts receivable	5,114,175	6,701,498
Grants and other receivables	533,671	1,094,750
Estimated amounts due from third-party payors	2,139,704	1,805,833
Assets limited as to use	1,372,020	1,533,794
Total financial assets	<u>12,723,977</u>	<u>15,318,182</u>
Less amounts not available to be used within one year		
Assets limited as to use	<u>1,372,020</u>	<u>1,533,794</u>
Financial assets available to meet general expenditures within one year	<u>\$ 11,351,957</u>	<u>\$ 13,784,388</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$3,000,000 (see Note 9), which it could draw upon.

Chiricahua Community Health Centers, Inc.
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Note 13. Functional Expenses

The Organization provides health care services to residents within its service area. Certain costs attributable to more than one function have been allocated among the medical and other, dental, pharmacy, and general and administrative functional expense classifications based on direct assignment, salary allocation, and other methods. The following schedules present the natural classification of expenses by function as follows:

	2025		
	Health Care Program Services	Support Services	
	Medical and Other	General and Administrative	Total
Salaries and wages	\$ 29,420,923	\$ 6,104,754	\$ 35,525,677
Employee benefits and payroll taxes	5,647,589	2,315,564	7,963,153
Purchased services and professional fees	1,888,924	3,159,866	5,048,790
Supplies and other	16,052,907	2,650,751	18,703,658
Rent	1,898,654	759,680	2,658,334
Depreciation	1,027,016	301,482	1,328,498
Interest	106,968	747,655	854,623
Total expenses	<u>\$ 56,042,981</u>	<u>\$ 16,039,752</u>	<u>\$ 72,082,733</u>

	2024		
	Health Care Program Services	Support Services	
	Medical and Other	General and Administrative	Total
Salaries and wages	\$ 31,747,388	\$ 5,597,878	\$ 37,345,266
Employee benefits and payroll taxes	5,341,747	1,759,125	7,100,872
Purchased services and professional fees	1,634,842	4,019,126	5,653,968
Supplies and other	12,586,528	2,849,516	15,436,044
Rent	1,981,647	595,756	2,577,403
Depreciation	184,531	1,205,492	1,390,023
Interest	160,616	138,825	299,441
Total expenses	<u>\$ 53,637,299</u>	<u>\$ 16,165,718</u>	<u>\$ 69,803,017</u>

Note 14. Leases

Accounting Policies

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

The Organization combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities for its leased locations.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the Organization's secured debt yields corresponding to the lease commencement date.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of 12 months or less on the consolidated balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Organization has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of equipment. Termination of the leases generally is prohibited unless there is a violation under the lease agreement.

Operating Leases

The Organization leases primary care outpatient offices that expire in various years through 2042. These leases generally contain renewal options for periods ranging from 1 to 5 years and require the Organization to pay all executory costs (property taxes, maintenance, and insurance). Some lease payments have an escalating fee schedule of 3% increase each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

All Leases

The Organization has no material related party leases.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Chiricahua Community Health Centers, Inc.
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Quantitative Disclosures

The lease cost and other required information for the years ended April 30, 2025 and 2024, are:

	<u>2025</u>	<u>2024</u>
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 31,205	\$ 161,143
Interest on lease liabilities	2,080	28,290
Operating lease cost	2,015,439	2,015,439
Short-term lease cost	<u>642,895</u>	<u>561,964</u>
Total lease cost	<u>\$ 2,691,619</u>	<u>\$ 2,766,836</u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 33,285	\$ 189,433
Financing cash flows from finance leases	\$ 36,046	\$ 429,226
Operating cash flows from operating leases	\$ 510,059	\$ 274,666
Weighted average remaining lease term		
Finance leases	1.67 years	0.0 years
Operating leases	19 years	20 years
Weighted average discount rate		
Finance leases	1.37%	3.12%
Operating leases	4.75%	4.75%

Future minimum lease payments and reconciliation to the consolidated balance sheet at April 30, 2025, are as follows:

	<u>Finance Leases</u>	<u>Operating Leases</u>
2026	\$ 37,152	\$ 1,669,085
2027	24,768	1,570,471
2028	-	1,613,356
2029	-	1,656,879
2030	-	1,703,023
Thereafter	<u>-</u>	<u>29,100,677</u>
Total future undiscounted lease payments	61,920	37,313,491
Less imputed interest	<u>736</u>	<u>13,573,030</u>
Lease liabilities	<u>\$ 61,184</u>	<u>\$ 23,740,461</u>

Note 15. Retirement Plan

The Organization has a 403(b) defined contribution retirement plan covering substantially all employees. The Organization matches 100% of the eligible employees' contributions up to 3% of the employees' compensation. Contributions are vested over a four-year period, vesting at the rate of 25% per year. Pension expense was \$529,094 and \$606,403 for the years ended April 30, 2025 and 2024, respectively, and is included in employee benefits on the consolidated statements of operations.

The Organization also has a 457(b) retirement plan that covers select highly compensated employees. Employee contributions are made through salary deductions. There were no employer contributions under this plan for the years ended April 30, 2025 and 2024.

The Organization also has a 457(f) Supplemental Executive Plan, for the benefit of a selected group of management to provide a deferred compensation plan. These benefits will be 100% vested by January 2026. No employer contributions were made under this plan for the years ended April 30, 2025 and 2024.

Note 16. Contributed Nonfinancial Assets

For the years ended April 30, 2025 and 2024, contributed nonfinancial assets recognized within the consolidated statements of operations included:

	<u>2025</u>	<u>2024</u>
Pharmaceuticals	<u>\$ 2,016,548</u>	<u>\$ 2,024,513</u>

The nonfinancial assets listed above were considered unconditional gifts with donor restriction. Conditional contributions having donor restrictions which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions. The pharmaceuticals listed above were recognized within contribution revenue and net assets released from restriction used for operations on the consolidated statements of operations.

Pharmaceuticals

Contributed pharmacy inventory was utilized in the Vaccine for Children programs. The Organization used the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Prices (AMP) that approximate wholesale prices in the United States (that is, the principal market).

Note 17. Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Chiricahua Community Health Centers, Inc.
Notes to Consolidated Financial Statements
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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at April 30, 2025 and 2024:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
April 30, 2025				
ASSETS				
Deferred compensation plan				
Assets – mutual funds	\$ 1,229,587	\$ 1,067,271	\$ 162,316	\$ -
April 30, 2024				
ASSETS				
Deferred compensation plan				
Assets – mutual funds	\$ 1,311,144	\$ 910,421	\$ 400,723	\$ -

Following is a description of the valuation methodologies and inputs used for liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended April 30, 2025.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. No Level 3 securities were noted.

Note 18. Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Variable Consideration

Estimates of variable consideration in determining the transaction price for patient service revenue are described in Notes 1 and 3.

Grant Revenue

A concentration of revenues related to grant awards and other support is described in Note 2. The current environment regarding federal financial assistance is uncertain and could materially impact grant revenues in the future. There is the potential for reductions in federal funding as part of the annual federal budget process, or through a reduction in special program appropriations that require periodic renewal and funding. In addition, current or future federal financial assistance could be impacted by executive orders.

Medical Malpractice Claims

Estimates related to the accrual for professional liability claims are described in Note 8.

Self-Insurance

The Organization is self-insured for employee group dental care and medical health insurance. Liabilities include an accrual for claims that have been incurred and an estimate of claims incurred but not reported. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

340B Drug Discount Program

The Organization participates in the 340B Drug Pricing Program (340B Program) as a covered entity which enables the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA has implemented a program integrity initiative to maximize oversight and manage compliance risks for 340B Program covered entities. The initiative's guiding principles include audits of covered entities and manufacturers to enforce requirements for these stakeholders. Annual recertification is required to allow covered entities an opportunity to assess their 340B program and reattest to meeting program requirements.

Laws and regulations governing the 340B Program are complex and subject to interpretation and change. The Organization monitors requests and notifications from manufacturers and assess with their legal department as needed as these notifications could result in potential reduction in savings for the Organization. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 19. Construction in Process

The Organization is in the process of multiple projects as of April 30, 2025. They are:

- Sierra Vista Clinic projects estimated to be completed in April 2026 with remaining costs of approximately \$190,000. The project is funded through operating cash flow and debt.
- Ginger Ryan Clinic project estimated to be completed in June 2025 with remaining costs of approximately \$120,000. The project is funded through operating cash flow.
- Rural area training center project estimated to be completed in December 2025 with remaining costs of approximately \$650,000. The project is funded through operating cash flow and a federal grant.

Note 20. Subsequent Events

On July 3, 2025, the U.S. Congress enacted the One Big Beautiful Bill Act (OBBBA), a comprehensive budget reconciliation law that introduces significant changes to federal healthcare programs, tax policy, and energy-related incentives. The legislation includes substantial reductions in Medicaid funding, modifications to provider tax structures, and new eligibility and cost-sharing requirements for Medicaid beneficiaries. The Organization is currently assessing the potential financial and operational impacts of the OBBBA. These changes may materially affect the Organization's Medicaid reimbursement levels, patient coverage mix, and compliance obligations. Management is monitoring regulatory guidance and implementation timelines to evaluate the implications for revenue recognition, operating margins, and long-term strategic planning.

Subsequent events have been evaluated through November 25, 2025, which is the date the financial statements were available to be issued.

Supplementary Information

Chiricahua Community Health Centers, Inc.
Schedule of Expenditures of Federal Awards
Year Ended April 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/ Health Center Program/Health Center Program Cluster	93.224	N/A	\$ -	\$ 6,167,436
U.S. Department of Health and Human Services/ Grants for New and Expanded Services Under the Health Center Program/Health Center Program Cluster	93.527	N/A	-	46,730
U.S. Department of Health and Human Services/COVID-19 - Grants for New and Expanded Services Under the Health Center Program/Health Center Program Cluster	93.527	N/A	-	26,683
Total Health Center Program Cluster			-	6,240,849
U.S. Department of Health and Human Services/Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912	N/A	-	876,841
U.S. Department of Health and Human Services/Arizona Family Health Partnership d/b/a Affirm Sexual and Reproductive Health/Family Planning Services	93.217	None	-	512,500
U.S. Department of Health and Human Services/Arizona Department of Health Services Well Woman Health Program/Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	CTR059653/ CTR070058	-	299,343
U.S. Department of Justice/Arizona Alliance for Community Health Centers/Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	2018-WR-AX-0034	-	83,428
U.S. Department of Treasury/Cochise County/COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	2022-00000536	-	367,604
Total forward			-	8,380,565

Chiricahua Community Health Centers, Inc.
Schedule of Expenditures of Federal Awards
Year Ended April 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
Total forward			\$ -	\$ 8,380,565
U.S. Department of Health and Human Services/Grants for Capital Development in Health Centers	93.526	N/A	-	830,275
U.S. Department of Health and Human Services/ Congressional Directives	93.493	N/A	-	84,300
U.S. Department of Health and Human Services/ Healthy Tomorrows/Maternal and Child Health Federal Consolidated Programs	93.110	N/A	-	50,000
U.S. Department of Health and Human Services/ Arizona Department of Health Services/Well-Integrated Screening and Evaluation for Women Across the Nation (Wisewoman)	93.436	CTR070058	-	22,727
U.S. Department of Health and Human Services/ El Rio/HIV Care Formula Grants	93.917	RFGA2024-005-02	-	25,739
U.S. Department of Health and Human Services/ Arizona Board of Regents, University of Arizona/ Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	794538	-	42,663
U.S. Department of Health and Human Services/ AACHC/Cooperative Agreement to Support Navigators in Federally-facilitated Exchanges	93.332	NAVCA210401	-	103,349
			<u>\$ -</u>	<u>\$ 9,539,618</u>

Chiricahua Community Health Centers, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended April 30, 2025

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Chiricahua Community Health Centers, Inc. under programs of the federal government for the year ended April 30, 2025. The information in this 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Chiricahua Community Health Centers, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets, or cash flows of Chiricahua Community Health Centers, Inc.

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. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

Chiricahua Community Health Centers, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Federal Loan Programs

Chiricahua Community Health Centers, Inc. did not have any federal loan programs during the year ended April 30, 2025.

**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***

Independent Auditor's Report

Board of Directors
Chiricahua Community Health Centers, Inc.
Douglas, Arizona

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 consolidated financial statements of Chiricahua Community Health Centers, Inc. (the "Organization"), which comprise the Organization's consolidated balance sheet as of April 30, 2025, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 25, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 Organization'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 2025-001 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 consolidated 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 consolidated 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*.

Chiricahua Community Health Centers, Inc.'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 other auditing procedures applied in the audit of the consolidated 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Forvis Mazars, LLP

**Springfield, Missouri
November 25, 2025**

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Chiricahua Community Health Centers, Inc.
Douglas, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Chiricahua Community Health Centers, Inc.'s 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 Chiricahua Community Health Centers, Inc.'s major federal programs for the year ended April 30, 2025. Chiricahua Community Health Centers, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Chiricahua Community Health Centers, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*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 Chiricahua Community Health Centers, Inc. 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 Chiricahua Community Health Centers, Inc.'s compliance with the compliance requirements referred to above.

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 Chiricahua Community Health Centers, Inc.'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 Chiricahua Community Health Centers, Inc.'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 Chiricahua Community Health Centers, Inc.'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 Chiricahua Community Health Centers, Inc.'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 Chiricahua Community Health Centers, Inc.'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 Chiricahua Community Health Centers, Inc.'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

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weakness or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

Forvis Mazars, LLP

**Springfield, Missouri
November 25, 2025**

Chiricahua Community Health Centers, Inc.
Schedule of Findings and Questioned Costs
Year Ended April 30, 2025

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

4. Internal control over major federal awards programs:
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported
- Material weakness(es) identified? ☐ Yes ☒ No
5. Type of auditor’s report issued on compliance for each major federal award programs:
- ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer
6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No
7. Identification of major federal programs:

Assistance Listing Numbers

Name of Federal Program or Cluster

93.224 and 93.527

Health Center Program Cluster

93.526

Grants for Capital Development in Health Centers

21.027

Coronavirus State and Local Fiscal Recovery Grant

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
9. Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

Chiricahua Community Health Centers, Inc.
Schedule of Findings and Questioned Costs
Year Ended April 30, 2025

Section II – Financial Statement Findings

Reference Number	Finding
2025-001	Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – The Organization’s financial statements required certain adjustments to be in conformity with accounting principles generally accepted in the United States of America (GAAP), including revisions to the previously reported investment in equity investee asset balance and net assets with donor restrictions. Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with GAAP or identify the needed adjustment on a timely basis. Effect of potential effect – Adjustments were required and revisions were made to the previously issued financial statements. Recommendation – Management should continue to monitor month-end closing procedures to ensure controls in place are sufficient to assure financial statements are prepared in accordance with GAAP. View of Management Officials and Planned Corrective Actions – Management will modify month-end closing procedures to ensure that controls are in place sufficient to assure that financial statements are prepared in accordance with GAAP prior to the close of the fiscal year. We will pay more attention to our valuation of investments and associated allowance using consolidated statements and improve the process for calculating net assets with donor restrictions. Contract person – Gary McPherran Completion date – May 1, 2026

**Chiricahua Community Health Centers, Inc.
Schedule of Findings and Questioned Costs
Year Ended April 30, 2025**

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
	No matters are reportable.



CHIRICAHUA

COMMUNITY HEALTH CENTERS, INC.

HEALTH FOR ALL

**Chiricahua Community Health Centers, Inc.
Summary Schedule of Prior Audit Findings
Year Ended April 30, 2025**

Reference Number	Summary of Finding	Status
2024-001	Criteria – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – The Organization's financial statements required adjustments to be in conformity with accounting principles generally accepted in the United States of America (GAAP), including adjustments to patient accounts receivable and the related patient service revenues. Cause – The Organization's policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with GAAP or identify the needed adjustments on a timely basis. Effect or potential effect – Adjusting journal entries were proposed during the financial statement audit. Reason for recurrence and status of corrective action planned – The CFO resigned during the year. Management modified month- and year-end closing procedures to ensure that controls are in place sufficient to assure that financial statements are prepared in accordance with GAAP prior to the close of the fiscal year. We will pay more attention to our valuation of investments and associated allowance using consolidated statements. Contract person – Gary McPherran Completion date – May 1, 2026	Unresolved – see Finding 2025-001



CHIRICAHUA
COMMUNITY HEALTH CENTERS, INC.

HEALTH FOR ALL

Chiricahua Community Health Centers, Inc.
Summary Schedule of Prior Audit Findings
Year Ended April 30, 2025

Reference Number	Summary of Finding	Status
2024-002	Health Center Program Cluster – ALNs. 93.224 and 93.527 U.S. Department of Health and Human Services Award No. 5 H80CS00696-22-12 Program Year 22 Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(g); 42 CFR sections 51c.303(g); and 42 CFR sections 56.303 (f)). Condition – Patients received a sliding fee discount that was inconsistent with the stated sliding fee discount categories under the Organization’s policy. Cause – The Organization did not comply with their sliding fee policy. Effect or potential effect – Sliding fee discounts were given to patients that were inconsistent with the Organization’s sliding fee discount policy. Questioned cost – None Context – A sample of 25 patients were tested out of the total population of 144,985 encounters. The sampling methodology used is not and is not intended to be statistically valid. Four patients received a sliding fee adjustment that was inconsistent with the approved policy for the proper sliding fee adjustments based on their income documentation. Identification as a repeat finding, if applicable – Is not a repeat finding.	Resolved