

North Country HealthCare, Inc.

**Financial Statements,
Supplementary Information,
and Single Audit Reports**

**Year Ended June 30, 2023
(with comparative totals for 2022)**

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Independent Auditors' Report

To the Board of Directors of
North Country HealthCare, Inc.
Flagstaff, Arizona

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of North Country HealthCare, Inc. (the Center, a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

Emphasis of Matter

As discussed in Note 9 to the financial statements, in the year ended June 30, 2023, the Center changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), as amended, using the modified retrospective approach. Our opinion is not modified with respect to this matter.

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 schedule of expenditures of federal awards 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 October 24, 2023 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Center's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 20, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

October 24, 2023

North Country HealthCare, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2023

(with comparative financial information as of June 30, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash	\$ 4,320,062	\$ 3,983,201
Investments	4,768,066	3,036,691
Accounts receivable, patient revenues, net	6,041,294	5,120,822
Grants receivable	1,889,362	4,256,178
Inventory	881,725	697,923
Prepaid expenses	<u>579,476</u>	<u>495,292</u>
Total current assets	18,479,985	17,590,107
Right-of-use asset - operating leases	1,876,475	
Property and equipment, net	<u>16,966,504</u>	<u>15,612,087</u>
Total assets	<u>\$ 37,322,964</u>	<u>\$ 33,202,194</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,859,342	\$ 1,180,593
Accrued wages and benefits	2,495,773	1,970,803
Accrued vacations	1,088,455	1,743,823
Refundable advances	1,539,008	1,498,899
Operating lease liability, current portion	891,458	
Long-term debt, current portion	<u>380,187</u>	<u>442,446</u>
Total current liabilities	8,254,223	6,836,564
Operating lease liability, net of current maturities	1,009,133	
Long-term debt, net of current maturities	<u>4,196,361</u>	<u>2,917,850</u>
Total liabilities	13,459,717	9,754,414
Net assets:		
Without donor restrictions	23,269,638	22,888,840
With donor restrictions	<u>593,609</u>	<u>558,940</u>
Total net assets	<u>23,863,247</u>	<u>23,447,780</u>
Total liabilities and net assets	<u>\$ 37,322,964</u>	<u>\$ 33,202,194</u>

The accompanying notes are an integral part of these statements.

North Country HealthCare, Inc.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

(with comparative financial information for the year ended June 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2023	2022
Revenue, support, gains and losses:				
Patient revenue, net	\$ 31,157,548		\$ 31,157,548	\$ 27,532,963
Health Center Program grants	11,492,996		11,492,996	12,913,866
Other grants and contracts	13,741,746		13,741,746	9,668,239
Pharmacy sales	10,407,061		10,407,061	8,363,487
Other income	175,845	\$ 38,029	213,874	82,202
Net investment income (loss)	231,812	34,581	266,393	(460,575)
In-kind contributions	387,459		387,459	388,711
Net assets released from donor restrictions	<u>37,941</u>	<u>(37,941)</u>		
Total revenue, support, gains and losses	67,632,408	34,669	67,667,077	58,488,893
Expenses:				
Wages and salaries	37,354,528		37,354,528	33,591,577
Payroll taxes and fringe benefits	6,886,151		6,886,151	6,503,517
Professional services - locums	3,046,044		3,046,044	1,483,601
Professional services - other	2,999,566		2,999,566	2,662,847
Pharmaceuticals	4,276,294		4,276,294	3,134,902
Supplies	1,986,395		1,986,395	1,807,869
Repairs and maintenance	1,089,385		1,089,385	1,037,843
Telephone and internet	627,863		627,863	1,003,891
Marketing	863,832		863,832	703,781
Occupancy	1,719,632		1,719,632	1,729,323
Travel and training	1,251,145		1,251,145	842,860
Depreciation and amortization	920,783		920,783	926,311
Patient screening and assistance	564,829		564,829	533,659
Interest	310,791		310,791	169,008
Software maintenance	2,101,996		2,101,996	1,744,785
Recruitment, licensing and dues	727,395		727,395	432,146
Miscellaneous	137,522		137,522	210,373
In-kind expense	<u>387,459</u>		<u>387,459</u>	<u>388,711</u>
Total expenses	<u>67,251,610</u>		<u>67,251,610</u>	<u>58,907,004</u>
Change in net assets	380,798	34,669	415,467	(418,111)
Net assets, beginning of year	<u>22,888,840</u>	<u>558,940</u>	<u>23,447,780</u>	<u>23,865,891</u>
Net assets, end of year	<u>\$ 23,269,638</u>	<u>\$ 593,609</u>	<u>\$ 23,863,247</u>	<u>\$ 23,447,780</u>

The accompanying notes are an integral part of these statements.

North Country HealthCare, Inc.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2023

(with comparative financial information for the year ended June 30, 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 415,467	\$ (418,111)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net change in operating lease - right-of-use assets and operating lease liabilities	24,116	
Depreciation and amortization	920,783	926,311
Unrealized (gains) losses on investments	(156,595)	649,381
Change in:		
Accounts receivable, patient revenues, net	(920,473)	(810,311)
Grants receivable	2,366,815	(3,348,431)
Inventory	(183,802)	23,916
Prepaid expenses	(84,184)	(72,336)
Accounts payable	678,750	174,390
Accrued wages and benefits	524,970	348,320
Accrued vacations	(655,368)	(207,053)
Refundable advances	<u>40,109</u>	<u>472,575</u>
Net cash provided (used) by operating activities	2,970,588	(2,261,349)
Cash flows from investing activities:		
Purchases of property and equipment	(2,275,199)	(682,312)
Proceeds from the sales of investments	2,993,316	243,473
Purchases of investments	<u>(4,568,096)</u>	<u>(426,846)</u>
Net cash used by investing activities	(3,849,979)	(865,685)
Cash flows from financing activities:		
Principal payments on long-term debt	(436,261)	(480,618)
Proceeds from refinancing note payable	<u>1,652,513</u>	<u> </u>
Net cash provided (used) by financing activities	<u>1,216,252</u>	<u>(480,618)</u>
Net change in cash	336,861	(3,607,652)
Cash, beginning of year	<u>3,983,201</u>	<u>7,590,853</u>
Cash, end of year	<u>\$ 4,320,062</u>	<u>\$ 3,983,201</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest	\$ 310,791	\$ 169,008
Cash paid for operating lease payments	979,821	
<u>Non-cash financing information:</u>		
Leased assets obtained in exchange for new operating lease liabilities	\$ 2,476,022	
Note payable refinanced	3,069,840	

The accompanying notes are an integral part of these statements.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Country HealthCare, Inc. (the Center) is a nonprofit corporation formed in Arizona under Section 501(c)(3) of the Internal Revenue Code. The Center has multiple service sites in northern Arizona including Flagstaff, Winslow, Holbrook, Round Valley/Springerville, Kingman, Grand Canyon, Show Low, Lake Havasu, Williams, Bullhead City, and Payson. The Center's objective is to provide accessible, affordable, comprehensive, quality primary health care in northern Arizona, through direct services, training, outreach and advocacy.

The Center's operations are in an area where a significant number of the target population is uninsured and below 200% of the Federal Poverty Level (FPL). In addition, there are a limited number of providers serving this target population in the service area.

The Center received Federal funding through the U.S. Department of Health and Human Services (DHHS) totaling 26% and 28% of total revenue, support, gains and losses for the years ended June 30, 2023 and 2022, respectively. The Center receives other operating funds from Arizona Health Care Cost Containment System (AHCCCS), Medicare, private insurance, self-pay parties and various third-party payers. Training and outreach programs are funded through a variety of grants and contracts.

The significant accounting policies of the Center follow:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Center 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.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition: The Center recognizes its Federal 330 grant and certain State of Arizona and County grants on a pro-rata basis over a twelve-month period, which represents the service period for certain grants, or to the extent of expenses. The Center recognizes contract revenue as services are rendered under unit of service contracts and as expenses are incurred under cost reimbursement contracts. As a requirement of the Federal 330 Funds, the Center provides primary care to patients who meet certain criteria under its sliding fee discount program without fee or at amounts less than its established rates. The Center recognizes revenue from the sliding fee program, net of discounts provided to eligible patients.

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, discounted charges, and per diem payments. Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive agreements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Center recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Conditional contributions and grants are recorded as net assets without restrictions if donor-imposed restrictions are met in the same fiscal period in which the conditional contributions and grants are received.

Investments: Investments are stated at fair value. Unrealized and realized gains are accounted for as investment income. The Center estimates the fair value of its investments using available market information and other valuation methodologies (See Note 4). Accordingly, the estimates presented are not necessarily indicative of the amounts that the Center could realize in a current market exchange. The use of different assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimates are based on pertinent information available to management as of June 30, 2023 and 2022. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the statements presented.

Grants Receivable: The Center recognizes grants as support when eligible costs are incurred or revenues are earned. Grants receivable are recorded when grant expenses are incurred or contracted services have been provided, but reimbursement has not been received by the Center.

Inventory: Inventory, which is comprised of pharmaceuticals and medical supplies, is stated at cost (which approximates fair value) for purchased items, and at estimated fair value for donated items. Cost for items on hand at year-end is determined using the first-in, first-out method.

Property and Equipment: Property and equipment costing \$5,000 or more are recorded at cost, or at their estimated fair value at the date of gift if donated. The cost or value is allocated to current and future periods through depreciation and amortization.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Depreciation and amortization is computed using the straight-line method based on estimated economic lives of the assets as follows:

Medical equipment	5 - 7 years
Furniture, fixtures and office equipment	5 - 7 years
Leasehold improvements	Lesser of the estimated useful life or remaining term of applicable lease
Buildings and improvements	10 - 40 years

Refundable Advances: The Center records funds received from grant awards classified as conditional contributions as refundable advances until the related funds are expended and/or the services related to the awards are performed, at which time funds are recognized as revenue.

Uncompensated Care: The Center provides health care and other related services to patients who meet certain criteria under its charity care policy. Because the Center does not pursue collection of amounts which qualify as charity care, they are not reported as net patient service fees. Uncompensated care provided by the Center under its policy amounted to \$2,114,749 and \$1,992,165 for the years ended June 30, 2023 and 2022, respectively.

In-kind Contributions/Expenses: Donated goods and services are recorded at their estimated fair value at the date of contribution, and shown as revenues and expenses in the financial statements. Donated services are recognized in the financial statements at their estimated fair value if the following criteria are met:

- i) The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or
- ii) The services enhance or create an asset.

It is the Center's policy to utilize donated goods and services for its programs to benefit patients.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in Note 12. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

Income Taxes: The Center 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.

Reclassifications: Certain reclassifications were made to the 2022 notes to the financial statements in order to conform to the 2023 presentation.

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. Accordingly, such information should only be read in conjunction with the Center's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Change in Accounting Principle: In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights of obligations created by leases that extended more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Center has elected the package of practical expedients permitted in ASU 2016-02. Accordingly, the Center accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASU 2016-02, (b) whether classification of the operating leases would be different in accordance with ASU 2016-02, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2015) would have met the definition of initial direct costs in ASU 2016-02 at lease commencement. No changes to beginning net assets were necessary as the Center implemented this change in accounting principle on a modified retrospective basis.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Center monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Center has the following financial assets that could readily be made available within one year of each fiscal year end to fund expenses without limitations:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 4,320,062	\$ 3,983,201
Investments	4,768,066	3,036,691
Accounts receivable, patient revenues, net	6,041,294	5,120,822
Grants receivable	<u>1,889,362</u>	<u>4,256,178</u>
Total financial assets	17,018,784	16,396,892
Less amounts unavailable for general expenditure within one year:		
Restricted by donors	(238,819)	(200,790)
Investments held in perpetuity (Caskey Fund)	<u>(354,790)</u>	<u>(358,150)</u>
Total amounts unavailable for general expenditure within one year	<u>(593,609)</u>	<u>(558,940)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,425,175</u>	<u>\$ 15,837,952</u>

In addition to financial assets available to meet general expenditures over the year, the Center operates with a balanced budget and anticipates covering its general expenditures by collecting patient revenues, contributions, grants, and other income; by utilizing donor-restricted resources from current and prior years gifts; and by appropriating the investment return on its donor-restricted endowment, as needed. The Center also has a \$2,000,000 line-of-credit, which it could draw upon in the event of an unanticipated liquidity need (See Note 7).

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 3 - CONCENTRATIONS

The Center maintains cash and investments at several financial institutions located in northern Arizona. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC), or covered under the Securities Investor Protection Corporation (SIPC). The Center has not experienced material losses in such accounts and believes it is not exposed to significant credit risks.

At June 30, 2022, \$2,936,621 or 69% of grants receivable was due from DHHS and was subsequently collected.

Patient Revenue and Receivable: The Center received payments for services rendered to patients under payment arrangements with payors which include third-party payors contracting with the Center to provide services. The following table summarizes the percentages of net revenues from each of these payor types for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Medicaid	67 %	53 %
Medicare	12 %	16 %
Self-Pay	2 %	10 %
Other third-party payors	<u>19 %</u>	<u>21 %</u>
Total	<u>100 %</u>	<u>100 %</u>

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT

GAAP establishes a framework for measuring fair value and expands disclosures about fair value measurements, which are determined based on assumptions that market participants would use in pricing assets and liabilities. GAAP also establishes a fair value hierarchy that distinguishes between market participant assumptions and the Center's own assumptions about market participant assumptions.

Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are the Center's own assumptions about what market participants would assume based on the best information available in the circumstance.

Level 1 inputs – A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. All of the Center's investments, except for certificates of deposit, were measured using Level 1 inputs at June 30, 2023 and 2022.

Level 2 inputs – These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The Center did not have any financial instruments it valued based on Level 2 inputs at June 30, 2023 and 2022.

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Center did not have any financial instruments it valued based on Level 3 inputs at June 30, 2023 and 2022.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENT - CONTINUED

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

Equities: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

Bonds: Determined by the closing bid price on the last business day of the fiscal year if actively traded.

Certificates of deposit: Stated at cost, plus accrued interest.

Fair value of assets measured on a recurring basis were as follows at June 30:

	<u>2023</u>	<u>2022</u>
<u>Level 1 Inputs:</u>		
Equities:		
U.S. large cap	\$ 414,353	\$ 581,344
U.S. mid cap	324,461	118,743
U.S. open-end funds	285,064	241,056
Non-U.S. equities	<u>888,285</u>	<u>867,380</u>
Total equities	1,912,163	1,808,523
Bonds:		
Core fixed income	535,708	517,717
High-yield fixed income	447,353	179,545
Short U.S. government funds	273,140	409,563
Emerging market local currency debt	<u>4,421</u>	<u>60,791</u>
Total bonds	<u>1,260,622</u>	<u>1,167,616</u>
Total Level 1 inputs	3,172,785	2,976,139
Cash and sweep accounts	90,425	60,552
Certificates of deposit	<u>1,504,856</u>	
Total investments	<u>\$ 4,768,066</u>	<u>\$ 3,036,691</u>

NOTE 5 - ACCOUNTS RECEIVABLE, PATIENT REVENUES - NET

Accounts receivable consist of charges to patients for services provided to them. Settled charges have been adjusted by a sliding fee schedule based on each patient's ability to pay. Management provides for uncollectible amounts through a provision for bad debt and contractual allowances, and based on its assessment of the current status of individual accounts.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 5 - ACCOUNTS RECEIVABLE, PATIENT REVENUES - NET - CONTINUED

The Center's due from AHCCCS receivable balance is included in accounts receivable, net, and it represents amounts due from Arizona Health Care Cost Containment System (AHCCCS) for the unreimbursed cost of providing primary health care to AHCCCS members. The Center completes annual reconciliations between actual costs of providing healthcare services to AHCCCS members and the payments received for those encounters. The Center receives quarterly supplemental payments from AHCCCS at its all-inclusive per visit cost for each AHCCCS encounter by billing the contracted third party AHCCCS insurance plans. The following is a summary at June 30,

	<u>2023</u>	<u>2022</u>
Accounts receivable, patient revenues	\$ 10,740,528	\$ 12,295,200
Pharmacy revenue	1,258,619	1,270,031
Medicare Cost Report	240,000	(54,242)
Due from AHCCCS	1,590,439	1,052,825
Allowance for doubtful accounts and contractual allowances	<u>(7,788,292)</u>	<u>(9,442,992)</u>
Accounts receivable, patient revenues, net	<u>\$ 6,041,294</u>	<u>\$ 5,120,822</u>

NOTE 6 - PROPERTY AND EQUIPMENT, NET

The following is a summary of the Center's property and equipment at June 30,

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 18,283,488	\$ 17,770,194
Furniture, fixtures and office equipment	4,489,334	4,559,183
Medical equipment	2,503,367	2,422,661
Land	2,146,758	2,146,758
Leasehold improvements	1,492,697	1,480,156
Construction in progress	<u>1,755,598</u>	<u>130,935</u>
	30,671,242	28,509,887
Less: accumulated depreciation and amortization	<u>(13,704,738)</u>	<u>(12,897,800)</u>
Property and equipment, net	<u>\$ 16,966,504</u>	<u>\$ 15,612,087</u>

DHHS and the State of Arizona retain reversionary interests in property and equipment purchased with their funds, as well as proceeds from the sale of such assets.

NOTE 7 - LINE-OF-CREDIT

The Center has a revolving line-of-credit with J.P. Morgan Chase Bank in the amount of \$2,000,000, secured by the Center's assets, maturing in April 2024. Borrowings under the line bear interest at LIBOR plus 3.0%, which was 8.2% and 4.5% at June 30, 2023 and 2022, respectively. The outstanding balance on the line-of-credit was \$0 at June 30, 2023 and 2022.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 8 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
\$5,118,583 note payable to J.P. Morgan Chase Bank dated August 10, 2018, secured by the Flagstaff clinic. The note is due in monthly installments of \$54,136 including interest at 4.6%, maturing on September 10, 2023, with remaining principal and unpaid interest due at maturity. (The note was refinanced in January 2023. See below.)		\$ 3,360,296
\$4,736,903 note payable to J.P. Morgan Chase Bank dated January 10, 2023, secured by the Flagstaff clinic. The note is due in monthly installments of \$50,525 including interest at 5.05%, maturing on January 10, 2033.	\$ 4,576,548	
Total	4,576,548	3,360,296
Less current maturities	<u>380,187</u>	<u>442,446</u>
Long-term debt, net of current maturities	<u>\$ 4,196,361</u>	<u>\$ 2,917,850</u>

Future maturities of long-term debt are as follows for the years ending June 30,

2024	\$ 380,187
2025	400,358
2026	421,345
2027	443,432
2028	466,303
Thereafter	<u>2,464,923</u>
	<u>\$ 4,576,548</u>

The Center is required to comply with the following financial covenant on long-term debt: debt service coverage ratio of not less than 1.10 to 1.00 (annually). At June 30, 2023 the Center was in compliance with this requirement.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 9 - LEASES

The Center has an equipment and facilities operating leases that expire on various dates through 2027. Amounts paid to satisfy operating lease liabilities for the leases was \$1,003,937 for the year ended June 30, 2023, and is included in occupancy expenses on the Statement of Activities.

During the year ended June 30, 2023, the components of the lease expense were as follows:

Operating lease cost:	
Facilities	\$ 957,524
Equipment	46,413
Total	<u>\$ 1,003,937</u>

Supplemental information related to leases for the year ended June 30, 2023 is as follows:

Operating lease right-of-use assets, net	\$ 1,876,475
Operating lease liabilities:	
Current portion	891,458
Noncurrent portion	1,009,133
Weighted average remaining lease term:	
Operating leases	4.5 years

During the year ended June 30, 2023, the Center had the following cash and non-cash activities associated with leases:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 979,821
Non-cash investing and financing activities	
Right-of-use assets obtained in exchange for operating lease obligations	\$ 2,746,022

Future minimum payments on noncancellable operating leases at June 30, 2023 are as follows:

Years ending June 30,	
2024	\$ 971,295
2025	490,977
2026	298,165
2027	<u>248,795</u>
	2,009,232
Less amounts representing interest	<u>(108,641)</u>
	<u>\$ 1,900,591</u>

Because the Center does not have access to the rate implicit in the leases, the Center utilizes 5.9% as the discount rate on its operating leases, which was the average Consumer Price Index at the beginning and end of the fiscal year ended June 30, 2023.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 10 - PATIENT REVENUE, NET

Patient revenue consists of gross charges to patients for services rendered. The charges are comparable to what other health service facilities would charge for the same services. The charges are then decreased by a sliding scale subsidy adjustment (charity care) based on each patient's ability to pay. The Center also receives fees for services provided that are adjusted based on a negotiated fee schedule with the patient's insurer.

The following summarizes patient revenue for the years ended June 30,

	<u>2023</u>	<u>2022</u>
Patient service charges	\$ 44,753,685	\$ 41,199,414
Disallowed insurance, sliding scale subsidy, bad debt, and other contractual adjustments	<u>(13,596,137)</u>	<u>(13,666,451)</u>
Patient revenue, net	<u>\$ 31,157,548</u>	<u>\$ 27,532,963</u>

NOTE 11 - IN-KIND CONTRIBUTIONS AND EXPENSES

During the years ended June 30, 2023 and 2022, the Center recognized in-kind contributions and expenses of \$387,459 and \$388,711, respectively, for donated vaccines, which were used by the Center's program services. There were no donor-imposed restrictions associated with the donated vaccines.

Donated vaccines are valued using the cost of the vaccines as provided by the donating agencies.

NOTE 12 - FUNCTIONAL EXPENSE ALLOCATIONS

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses allocated on a square-footage proportional basis include occupancy, depreciation and amortization. Expenses allocated on the basis of estimates of proportional use or time and effort are wages and salaries, payroll taxes and fringe benefits, professional services, occupancy, telephone and internet, repairs and maintenance, and miscellaneous expenses.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 12 - FUNCTIONAL EXPENSE ALLOCATIONS - CONTINUED

The following summarizes the Center's expenses by function for the for the year ended June 30, 2023:

	Health Care and Education	General and Administrative	Fundraising	Total
Wages and salaries	\$ 30,089,248	\$ 7,238,368	\$ 26,912	\$ 37,354,528
Payroll taxes and fringe benefits	5,672,107	1,203,817	10,227	6,886,151
Professional services - locums	3,046,044			3,046,044
Professional services - other	1,118,169	1,856,482	24,915	2,999,566
Pharmaceuticals	4,276,294			4,276,294
Supplies	1,682,522	261,751	42,122	1,986,395
Repairs and maintenance	214,202	875,183		1,089,385
Telephone and internet	89,532	538,331		627,863
Marketing	250,136	596,672	17,024	863,832
Occupancy	1,187,267	532,365		1,719,632
Travel and training	830,716	419,765	664	1,251,145
Depreciation and amortization	568,032	352,751		920,783
Patient screening and assistance	564,829			564,829
Interest		310,791		310,791
Software maintenance	1,603,870	498,126		2,101,996
Recruitment, licensing and dues	133,069	594,326		727,395
Miscellaneous	137,522			137,522
In-kind expense	387,459			387,459
Total expenses	<u>\$ 51,851,018</u>	<u>\$ 15,278,728</u>	<u>\$ 121,864</u>	<u>\$ 67,251,610</u>

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 12 - FUNCTIONAL EXPENSE ALLOCATIONS - CONTINUED

The following summarizes the Center's expenses by function for the for the year ended June 30, 2022:

	Health Care and Education	General and Administrative	Fundraising	Total
Wages and salaries	\$ 27,289,725	\$ 6,281,406	\$ 20,446	\$ 33,591,577
Payroll taxes and fringe benefits	4,857,640	1,638,016	7,861	6,503,517
Professional services - locums	1,483,601			1,483,601
Professional services - other	751,524	1,886,128	25,195	2,662,847
Pharmaceuticals	3,134,902			3,134,902
Supplies	1,352,689	448,457	6,723	1,807,869
Repairs and maintenance	255,180	782,663		1,037,843
Telephone and internet	131,241	872,650		1,003,891
Marketing	232,064	444,105	27,612	703,781
Occupancy	1,435,950	291,196	2,177	1,729,323
Travel and training	634,939	207,011	910	842,860
Depreciation and amortization	461,675	464,636		926,311
Patient screening and assistance	520,261		13,398	533,659
Interest		169,008		169,008
Software maintenance	1,314,577	430,208		1,744,785
Recruitment, licensing and dues	125,419	306,727		432,146
Miscellaneous	100,681	107,307	2,385	210,373
In-kind expense	371,545	17,166		388,711
Total expenses	<u>\$ 44,453,613</u>	<u>\$ 14,346,684</u>	<u>\$ 106,707</u>	<u>\$ 58,907,004</u>

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

Endowment Fund:

The Center's John H. Caskey endowment fund (Caskey Fund) is restricted by donors in perpetuity. The Caskey Fund is managed in accordance with Arizona's Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs the handling of endowment funds. Under UPMIFA, institutions may spend or accumulate as much as they determine to be prudent, taking into account the donor's intent, the duration and preservation of the endowment fund, and the purposes of the institution and the endowment fund. Assets in the endowment fund are donor restricted until appropriated for expenditure by the Center's governing Board.

Contributions to the endowment fund are classified as net assets with donor restrictions, with investment income available for distribution, after the Board has appropriated such earnings for expenditure.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

Asset Allocation, Return Objectives and Spending Policy

The Board has authorized the finance committee to review the endowment fund's asset allocation periodically. Endowment fund assets include investments in equity securities, bonds and money market accounts based on a Board-approved percentage range for each type of investment. Each year the Board may appropriate endowment funds to be available for expenditure. This distribution is calculated as 5% of the average balance of the endowment fund for the previous four quarters. The Board's finance committee may adjust the spending rate percentage as it deems appropriate, based on market conditions and other factors.

Activity of the endowment fund (Caskey Fund) for the year ended June 30, 2023 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year		\$ 358,150	\$ 358,150
Investment gains		34,581	34,581
Appropriated for expenditures		(37,941)	(37,941)
Endowment net assets, end of year	<u>\$</u>	<u>\$ 354,790</u>	<u>\$ 354,790</u>

Activity of the endowment fund (Caskey Fund) for the year ended June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year		\$ 412,498	\$ 412,498
Investment loss		(54,348)	(54,348)
Endowment net assets, end of year	<u>\$</u>	<u>\$ 358,150</u>	<u>\$ 358,150</u>

Other Donor Restricted Net Assets:

The Center's Angel Fund includes amounts which are donor restricted to benefit patients in certain service areas or for specific purposes. The balance of the Angel Fund was \$238,819 and \$200,790 at June 30, 2023 and 2022, respectively.

NOTE 14 - DEFINED CONTRIBUTION RETIREMENT PLAN

The Center has a 401(k) defined contribution retirement plan which allows employees with one year of service to participate. Under the plan, the Center provides matching contributions of up to 4 percent of each participating employee's salary. The Center's contributions to the plan were \$866,564 and \$811,346 for the years ended June 30, 2023 and 2022, respectively.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 15 - CONTINGENT LIABILITIES

Compliance: The Center participates in federally-funded and state-funded programs administered by various government agencies. The programs included in these financial statements may be subject to program compliance and/or financial monitoring by the granting agencies or their representatives. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time.

Healthcare Regulation: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Center is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) broadened the scope of certain fraud and abuse laws by adding several criminal provisions for fraud offenses that apply to all health benefit programs. HIPAA also added a prohibition against incentives intended to influence decisions by Medicare beneficiaries as to the provider from which they receive services. HIPAA was followed by the Balanced Budget Act of 1997, which created additional fraud and abuse provisions, including civil penalties for contractors.

HIPAA developed standards to protect the privacy and security of individually identifiable health-related information. The privacy standards regulate the use and disclosure of health-related information, whether communicated electronically, on paper or orally. Also, additional security regulations became mandatory on April 20, 2005, and require health care providers to implement administrative, physical and technical practices to protect the security of individually identifiable health-related information that is maintained or transmitted electronically. In February 2010, HIPAA requirements were updated by the Health Information Technology for Economic and Clinical Health Act (HITECH Act).

Under the HITECH Act, violations of HIPAA requirements could now result in civil penalties of up to \$50,000 per incident, and up to \$1.5 million in total for each type of violation in a calendar year.

Professional Liability Insurance: The Federally Supported Health Centers Assistance Act of 1992 authorizes the Public Health Service to assume responsibility for medical malpractice claims involving approved grantees and certain other health care providers under the Federal Tort Claims Act (FTCA).

Litigation: Periodically, the Center is involved in litigation and claims arising in the normal course of operations. In the opinion of management, based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

Commitments: The Center had construction commitments totaling approximately \$1.2 million at June 30, 2023 related to estimated costs to complete the Winslow building expansion.

North Country HealthCare, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

(with comparative financial information as of and for the year ended June 30, 2022)

NOTE 16 - CONDITIONAL CONTRIBUTIONS

The Center received conditional contributions during the fiscal years ended June 30, 2023 and 2022. Conditional contributions are recorded as refundable advances until the donor-imposed conditions are substantially met, if cash is received in advance of the Center meeting those conditions. Certain conditions are required to be met by the Center in the subsequent years in order to earn these amounts. Conditional contributions received and earned in the same fiscal year are recognized as net assets without donor restrictions.

As of June 30, 2023 and 2022, conditional contributions totaled \$10,092,935 and \$9,369,219, respectively. While management believes that the Center will meet the conditions, they had not been met as of each fiscal year end. Accordingly, no amounts were recorded as revenue or receivables for these conditional contributions in these financial statements.

NOTE 17 - RELATED PARTY TRANSACTIONS

The Executive Board Chair for The NARBHA Institute (NARBHA) also serves on the Board of Directors for the Center. During the year ended June 30, 2023, the Center received approximately \$600,000 in funding from NARBHA.

The Center leases one of its clinic sites at a building that is owned by an employee of the Center. Amounts paid to the employee to satisfy the related operating lease liability totaled approximately \$78,000 during the year ended June 30, 2023.

NOTE 18 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 24, 2023, which was the date the Center's financial statements were available to be issued. The Center has concluded that no events have occurred since the year ended June 30, 2023 that would require an adjustment to the financial statements.

SUPPLEMENTARY INFORMATION

North Country HealthCare, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Assistance Listings (FAL) Number	Federal Program Name	Cluster Title	Pass-Through Grantor	Pass-Through Grantor's Number	Expenditures	Passed through to Subrecipients
U.S. Department of Health and Human Services						
93.224	Health Center Program	Health Center Program Cluster	N/A	N/A	\$ 6,958,557	
93.224	COVID-19: Health Center Program	Health Center Program Cluster	N/A	N/A	<u>4,000,379</u>	
Total FAL 93.224					10,958,936	
93.527	COVID-19: Grants for New and Expanded Services under the Health Center Program	Health Center Program Cluster	N/A	N/A	<u>534,060</u>	
Total Health Center Program Cluster					11,492,996	
93.107	Area Health Education Centers	N/A	Arizona Board of Regents, University of Arizona	PO 422895, PO 684047	133,084	
93.247	Advanced Nursing Education Workforce Grant Program	N/A	Arizona Board of Regents, University of Arizona	SubA 643796	45,014	
93.257	Grants for Education, Prevention, and Early Detection of Radiogenic Cancers and Diseases	N/A	N/A	N/A	207,740	
93.332	Cooperative Agreement to Support Navigators in Federally-facilitated Exchanges	N/A	Arizona Alliance for Community Health Centers	NAVCA210401-02-00	235,066	
93.426	The National Cardiovascular Health Program	N/A	Arizona Department of Health Services	SubA CTR046430	87,637	
93.526	COVID-19: Grants for Capital Development in Health Centers	N/A	N/A	N/A	1,095,320	
93.530	Teaching Health Center Graduate Medical Education Payment	N/A	N/A	N/A	1,878,318	
93.788	Opioid STR	N/A	Health Choice Integrated Care	None	127,207	
93.822	Health Careers Opportunity Program	N/A	Arizona Board of Regents, University of Arizona	PO 478983	53,263	
93.870	Maternal, Infant and Early Childhood Home Visiting Grant	N/A	Arizona Department of Health Services	ADHS15-096696	352,857	

See Notes to Schedule of Expenditures of Federal Awards

North Country HealthCare, Inc.
Schedule of Expenditures of Federal Awards - Continued
Year Ended June 30, 2023

Federal Assistance Listings (FAL) Number	Federal Program Name	Cluster Title	Pass-Through Grantor	Pass-Through Gantor's Number	Expenditures	Passed through to Subrecipients
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	N/A	Arizona Department of Health Services	ADHS 14-064595	835,525	
93.914	HIV Emergency Relief Project Grants	N/A	Clark County, NV			
93.917	HIV Care Formula Grants	N/A	Department of Finance	4610008021	291,866	
93.959	Block Grants for Prevention and Treatment of Substance Abuse	N/A	Arizona Department of Health Services	ADHS18-205223	481,185	
			Health Choice Integrated Care	CTR064122	<u>65,351</u>	
Total U.S. Department of Health and Human Services					<u>17,382,429</u>	
U.S. Department of Justice						
16.575	Crime Victim Assistance	N/A	Arizona Department of Public Safety	SubA 2018-V2-GX-0012	23,856	
16.588	Violence Against Women Formula Grants	N/A	Governor's Office of Youth, Faith and Family	ST-WSG-18-010118-07Y2, ST-WSG-20-010121-15Y3	106,594	
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	N/A	Arizona Alliance for Community Health Centers	SubA #15JOVW-21-GG-00804-RURA	<u>77,917</u>	
Total U.S. Department of Justice					<u>208,367</u>	
U.S. Department of Agriculture						
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SNAP Cluster	Arizona Community Action Association dba Wildfire	None	<u>294,683</u>	
Total Expenditures of Federal Awards					<u>\$ 17,885,479</u>	<u>\$</u>

See Notes to Schedule of Expenditures of Federal Awards

North Country HealthCare, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of North Country HealthCare, Inc. for the year ended June 30, 2023. 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).

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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the financial statements.

NOTE 2 -FEDERAL ASSISTANCE LISTINGS NUMBER

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the *2023 Federal Assistance Listings*. When no Federal Assistance Listings number has been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the 2-digit federal agency identifier and the word "unknown" were used.

NOTE 3 - INDIRECT COST RATE

The Center has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SINGLE AUDIT REPORTS



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
North Country HealthCare, Inc.
Flagstaff, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Country HealthCare, Inc. (the Center, a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) 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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of This Report

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

Fester & Chapman, PLLC

October 24, 2023



Independent Auditors' Report on Compliance For Each Major Federal Program and
on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors of
North Country HealthCare, Inc.
Flagstaff, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited North Country HealthCare, Inc. (the Center)'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 the Center's major federal programs for the year ended June 30, 2023. The Center'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, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

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

We are required to be independent of the Center 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 Center'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 the Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center'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 generally accepted auditing standards, *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 Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Center'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 Center'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 Center'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 weaknesses 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.

Fester & Chapman, PLLC

October 24, 2023

North Country HealthCare, Inc.
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued: Unmodified

Is a going concern emphasis-of-matter paragraph included in the auditors' report? _____ yes x no

Internal control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? _____ yes x no

Identification of major programs:

<u>Federal Assistance Listings Number</u>	<u>Name of Federal Programs or Cluster</u>
93.224/93.527	Health Center Program Cluster
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations
93.526	COVID-19: Grants for Capital Development in Health Centers

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? x yes _____ no

Other Matters:

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with 2 CFR 200.511 (b)? x yes _____ no

North Country HealthCare, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2023

Status of Financial Statement Findings:

Finding No.: 2022-101 – Special Tests and Provisions – Sliding Fee Scale Discounts
Status: Fully corrected

Status of Federal Award Findings and Questioned Costs:

Finding No.: 2022-102 – Reporting for Provider Relief Funds
Status: Fully corrected