Ritter Center
Audited Financial Statements
As of and for the Years Ended June 30, 2023 and 2022
with Independent Auditor's Report

VASQUEZ
+ COMPANY LLP

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Independent Auditor's Report

To the Board of Directors of
Ritter Center
San Rafael, California

Report on the Financial Statements

Opinion

We have audited the financial statements of Ritter Center (the Center), a California nonprofit organization, which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2023 and 2022, and the results of its operations and its 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 audits 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 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Center adopted the provisions of Accounting Standard Codification (ASC) Topic 842, *Leases*, effective July 1, 2022. Our opinion is not modified with respect to this matter.

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 issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2024 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 contol over financial reporting and compliance.

Vasquez & Company LLP

Glendale, California
July 3, 2024

	June 30	
	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	**$ 2,775,903**	$ 1,229,199
Investments	**897,441**	2,370,654
Patient accounts receivable, net	**318,506**	247,923
Grants and other receivables	**1,597,320**	859,875
Estimated settlement amounts due from third-party payers	**-**	25,870
Prepaid expenses and inventories	**107,092**	119,693
Assets restricted as to use	**301,189**	243,228
Deposits	**61,022**	22,605
Total current assets	**6,058,473**	5,119,047
Noncurrent assets		
Property and equipment, net	**7,531,542**	609,499
Right-of-use assets, net	**328,831**	-
Total noncurrent assets	**7,860,373**	609,499
Total assets	**$ 13,918,846**	$ 5,728,546
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	**$ 246,970**	$ 99,340
Accrued expenses	**280,846**	354,310
Settlement payable	**250,000**	-
Estimated settlement amounts due to third-party payers	**328,314**	97,387
Due to clients - funds held in trust	**301,189**	243,228
Loan payable	**4,290,000**	-
Lease liabilities current portion	**207,946**	-
Total current liabilities	**5,905,265**	794,265
Noncurrent liabilities		
Lease liabilities, net of current portion	**123,377**	-
Total noncurrent liabilities	**123,377**	-
Total liabilities	**6,028,642**	794,265
Net Assets		
Without donor restrictions	**7,219,359**	4,539,009
With donor restrictions	**670,845**	395,272
Total net assets	**7,890,204**	4,934,281
Total liabilities and net assets	**$ 13,918,846**	$ 5,728,546

See notes to financial statements.

Revenue and support	Without Donor Restrictions	With Donor Restrictions	Total
Net patient services	$ 1,781,379	$ -	$ 1,781,379
Government grants and contracts	4,798,711	749,874	5,548,585
Contributions and support	735,541	-	735,541
In-kind contributions	414,314	-	414,314
Unrealized gain on investments	14,655	-	14,655
Other income	370,098	-	370,098
Net assets released from restrictions	474,301	(474,301)	-
Total revenue and support	8,588,999	275,573	8,864,572
Expenses			
Program services	6,542,238	-	6,542,238
Fundraising	314,981	-	314,981
Management and general	2,573,006	-	2,573,006
Total expenses	9,430,225	-	9,430,225
Excess of expenses over revenues	(841,226)	275,573	(565,653)
Contributions and support received for acquisition of property and equipment - capital campaign	-	3,521,576	3,521,576
Net assets released from restrictions used to acquire property and equipment - capital campaign	3,521,576	(3,521,576)	-
Total - capital campaign	3,521,576	-	3,521,576
Change in net assets from operations	2,680,350	275,573	2,955,923
Net assets, beginning of year	4,539,009	395,272	4,934,281
Net assets, end of year	$ 7,219,359	$ 670,845	$ 7,890,204

See notes to financial statements.

Revenue and support	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Net patient services	$ 1,282,637	$ -	$ 1,282,637
Government grants and contracts	4,639,587	844,660	5,484,247
Contributions and support	958,017	-	958,017
In-kind contributions	366,000	-	366,000
Unrealized loss on investments	(111,905)	-	(111,905)
Net assets released from restrictions	1,132,820	(1,132,820)	-
Total revenue and support	8,267,156	(288,160)	7,978,996
Expenses			
Program services	5,820,525	-	5,820,525
Fundraising	367,466	-	367,466
Management and general	2,206,566	-	2,206,566
Total expenses	8,394,557	-	8,394,557
Excess of revenues over expenses	(127,401)	(288,160)	(415,561)
Contributions and support received for acquisition of property and equipment - capital campaign	-	343,492	343,492
Net assets released from restrictions used to acquire property and equipment - capital campaign	343,492	(343,492)	-
Total - capital campaign	343,492	-	343,492
Change in net assets from operations	216,091	(288,160)	(72,069)
Net assets, beginning of year	4,322,918	683,432	5,006,350
Net assets, end of year	$ 4,539,009	$ 395,272	$ 4,934,281

See notes to financial statements.

	Program Services	Fundraising	Management and General	Total
Personnel costs	$ 3,723,810	$ 56,936	$ 1,049,066	$ 4,829,812
Bank fees and interest	74,302	11,745	12,967	99,014
Client assistance	1,073,485	-	-	1,073,485
Communications	50,895	1,717	4,628	57,240
Dues and subscriptions	56,288	5,467	94,528	156,283
Equipment rental and repair	247,153	-	77,584	324,737
Auto expense	21,219			21,219
Insurance	80,614	1,223	25,588	107,425
Occupancy	215,801	374	115,578	331,753
Postage and delivery	10,482	74	45	10,601
Printing and publications	7,306	19,659	16,757	43,722
Professional services	517,539	170,893	1,119,254	1,807,686
Supplies	188,791	43,282	28,226	260,299
Taxes and licenses	5,405	150	4,640	10,195
Training	13,958	40	10,389	24,387
Travel	55,797	3,421	770	59,988
Miscellaneous	119,793	-	-	119,793
Depreciation	79,600	-	12,986	92,586
Total expenses	$ 6,542,238	$ 314,981	$ 2,573,006	$ 9,430,225

See notes to financial statements.

	Program Services	Fundraising	Management and General	Total
Personnel costs	$ 3,676,816	$ -	$ 983,459	$ 4,660,275
Bank fees and interest	338	6,129	9,723	16,190
Client assistance	1,162,048	-	-	1,162,048
Client services	1,807	-	-	1,807
Communications	24,610	-	22,041	46,651
Dues and subscriptions	15,288	927	19,338	35,553
Equipment rental and repair	365	-	28,753	29,118
Insurance	14,089	-	35,574	49,663
Occupancy	348,050	-	195,778	543,828
Postage and delivery	175	-	10,060	10,235
Printing and publications	1,486	-	27,954	29,440
Professional services	114,695	347,800	730,322	1,192,817
Supplies	375,992	-	69,701	445,693
Taxes and licenses	7,755	12,610	12,150	32,515
Training	13,584	-	2,791	16,375
Travel	33,815	-	8,722	42,537
Miscellaneous	630	-	17,542	18,172
Depreciation	28,982	-	32,658	61,640
Total expenses	$ 5,820,525	$ 367,466	$ 2,206,566	$ 8,394,557

See notes to financial statements.

	Years ended June 30	
	2023	2022
Cash flows from operating activities		
Change in net assets from operations	**$ 2,955,923**	$ (72,069)
Adjustments to reconcile change in net assets		
to net cash (used in) provided by operating activities:		
Depreciation	**92,586**	61,640
Unrealized loss (gain) on investments	**(14,655)**	111,905
Decrease (increase) in:		
Patient accounts receivable	**(70,583)**	13,866
Grants and other receivables	**(737,445)**	(142,684)
Prepaid expenses and inventories	**12,601**	(93,810)
Estimated settlement amounts due from third-party payers	**25,870**	46,961
Increase (decrease) in:		
Accounts payable	**147,630**	(7,368)
Accrued expenses	**179,028**	93,551
Estimated settlement amounts due to third-party payers	**230,927**	(126,418)
Net cash provided by (used in) operating activities	**2,783,465**	(114,426)
Cash flows from financing activities		
Proceeds from loan	**4,290,000**	-
Net cash provided by financing activities	**4,290,000**	-
Cash flows from investing activities		
Proceeds from sale of investments	**1,487,868**	301,616
Acquisition of property and equipment	**(7,014,629)**	(445,600)
Net cash used in investing activities	**(5,526,761)**	(143,984)
Net increase (decrease) in cash and cash equivalents	**1,546,704**	(258,410)
Cash and cash equivalents at beginning of year	**1,229,199**	1,487,609
Cash and cash equivalents at end of year	**$ 2,775,903**	$ 1,229,199

See notes to financial statements.

NOTE 1 ORGANIZATION

Nature of Operations

Ritter Center (the Center) is a California community-based not-for-profit organization, located in downtown San Rafael, California that has assisted Marin County's (the County) residents since 1980. The Center's mission is to provide integrated, quality health and social services for homeless and at-risk individuals and families in the County. The Center works to help stabilize people's lives by offering a wide range of social services: emergency financial assistance, permanent housing subsidies, representative payee and comprehensive case management; primary health care, specialty care coordination, integrated mental health therapy and substance use counseling; and outpatient treatment program general delivery mail, voicemail, supplementary food and clothing; showers, laundry, and restroom facilities; and seasonal programs that include a Back to School Drive, Thanksgiving Turkey Giveaway and a Holiday Family to Family Toy Drive. All of the programs and services are provided free of charge to people in need or experiencing housing transitions.

The Center was designated in November 2013 as a federally qualified health center (FQHC) under Section 330 of the Public Health Service Act. As an FQHC, the Center is obligated to offer a sliding fee scale to their designated service area to benefit the underserved and special population of the County, thereby qualifying the Center to receive enhanced reimbursement from Medicare and Medi-Cal to offset the cost of uncompensated care and furnish other services that would otherwise not be available.

In addition to the Center's own programs, the Center maintains a thorough referral network to link clients to other vital services available in the community. The Center helps those in need to become more self-reliant. The Center's main outcomes are transitioning people into housing, employment, improving health, mental health and providing substance abuse treatment with the goal of improving people's day to day living conditions.

Case Management

The Center's case managers meet one-on-one with individuals and families in need of assistance. Case managers evaluate each client's immediate and long-term needs through an interview assessment process. Together, the client and case manager develop a case plan to help stabilize the client and create a path to increased self-sufficiency. Case managers specialize in providing the following services: housing (through the Housing First program and other subsidies such as Section 8 and Veterans Affairs Supportive Housing), substance abuse, government benefits including public health insurance programs, physical and mental health, jail release planning, and assistance with money management through a Representative Payee program.

Health Center

The Center provides primary health care services, urgent care, chronic disease management, behavioral health screenings and specialty care coordination to low-income, homeless and uninsured patients. The Center's medical professionals also conduct medical and mental work readiness exams for the County's General Assistance benefit program.

NOTE 1 ORGANIZATION (CONTINUED)

Behavioral Health
The Center provides behavioral health services including mental health and substance abuse counseling and psychiatric medicine management. The behavioral health program works in an integrated and holistic manner with the Center's medical and case management programs. This multi-disciplinary team of professionals makes up the Center's Behavioral Wellness Education and Life Learning (BWELL) team. The BWELL team meets weekly to create and update holistic treatment plans for patients with complex needs.

Food Pantry
The Center maintains the largest food pantry in Marin County. Over the last few years, the Center has distributed an average of more than 20,000 bags of groceries to over 3,000 households per year. The pantry serves both housed and homeless clients with nutritious supplementary food items on a weekly basis. The majority of the pantry's food is delivered by the San Francisco/Marin Food Bank with smaller contributions from stores and individuals in the community.

Clothing
Since its inception in 1980, the Center has been supporting those experiencing poverty and homelessness by distributing clothes. The Center maintains a stock of emergency clothing items and survival gear on site for their homeless clients including rain gear, sleeping bags, and warm socks.

Day Service Center
The Day Service Center is a clean, safe and nurturing environment primarily for use by persons who are homeless. The Center provides emergency medically necessary showers, hygiene supplies, laundry facilities, and restrooms.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The financial statements of the Center have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (US GAAP), which require the Center to report information regarding its financial position and activities according to the following net assets classifications:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

Donor-restricted contributions are reported as an increase in net assets with donor-restrictions. When a restriction expires, net assets are classified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments with maturities of three (3) months or less at the time of purchase. Cash equivalents exclude investments in money market accounts, which are recorded within assets restricted as to use.

Concentration of Credit Risk

Financial instruments that potentially subject the Center to credit risk are cash deposits with banks and other financial institutions. At times during the years ended June 30, 2023 and 2022, balances on deposits in financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) insured limits of $250,000. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in regard to cash. In May 2023, the Center implemented an insured cash sweep program to further manage potential credit risk.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Net unrealized gain or loss in fair value of investments is included in other income in the statements of activities.

Receivables

Receivables are recorded when billed or accrued and represent claims against third parties, primarily government agencies, which will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts and provision for disallowances, represents estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, the age of outstanding receivables and existing economic conditions. The allowance for doubtful accounts as of June 30, 2023 and 2022 amounted to $139,655 and $101,783, respectively. There were no write-offs of receivables for the years ended June 30, 2023 and 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist of food, purchased and received as contributions; clothing vouchers received from Goodwill in exchange for clothing received as contributions; and purchased bus passes and gift cards; but all not yet distributed to clients. The Center records contributions of food and clothing at fair value. The Center bases the initial fair value of contributed food and clothing on comparable sales of identical or similar items in markets available to the Center, which is a Level 2 input. In the case of contributed clothing that the Center exchanges for Goodwill vouchers, the Center bases the initial fair value on the value determined by Goodwill as evidenced by the amounts of vouchers received. The management of the Center has determined that Goodwill uses a method for determining fair value similar to that used by the Center.

Assets Restricted As To Use

The Center acts as a trustee to receive certain governmental and pension payments due to unbanked clients and remits those funds to the clients as needed. The Center records the total of the funds held as assets restricted as to use with an equal corresponding amount recorded as an offsetting liability.

Third-Party Contractual Agreements

The Center has agreements with Medicare that provide payments under a cost-based reimbursement (not to exceed the maximum cap) system and with Medi-Cal that provide payments under the Prospective Payment System (PPS). In the case of Medicare, reasonable estimates of patient services revenues are made and reported in the period services are rendered, and differences between the estimates and actual payments received are included in the statement of activities in the period in which they are determined. In the case of Medi-Cal, payments under the new payment system are final, unless the number of reimbursable visits is changed as a result of an audit by the State of California's Department of Health and Human Services.

Property and Equipment

Property and equipment acquisitions are recorded at cost. The Center capitalizes assets with economic useful lives greater than one (1) year and for values greater than $5,000. Provision for depreciation of property and equipment is computed on the straight-line method over the estimated lives of depreciable assets ranging from three (3) to ten (10) year economic useful lives. Donated assets are recorded at fair market value at the time an asset is received.

Long-Lived Asset Impairment

The Center 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 carrying amount 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 June 30, 2023 and 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vacation
Regular full-time employees accrue vacation at a rate of ten (10) days in their first year of employment. A full-time employee’s rate of accrual increases on the anniversary of the employee's start date of employment, by two days for each year of service up to a limit of twenty (20) days per year. Regular part-time employees accrue vacation on a pro-rated basis depending on how many hours per week they work compared to a 40-hour work week and the vacation is capped at a pro-rated basis. Vacation accrual for regular full-time, and regular part-time employees working fewer than 40 hours per week is pro-rated, based on the number of hours the employee is regularly scheduled to work.

The Center encourages employees to use their vacation in the year in which it accrues. When an employee accumulates more than the maximum allowed in unused vacation, the employee will stop accruing vacation until he or she uses some of the accrued vacation days and the balance falls below the cap. Accrued vacation that remains unused when employment terminates will be paid to the employee at the employee's final base pay rate. As of June 30, 2023 and 2022, accrued vacation amounted to $117,231 and $91,251, respectively.

Revenue Recognition

Net Patient Services Revenues
The Center is approved as an FQHC for both Medicare and Medi-Cal reimbursement and has agreements with third-party payers that provide payments to the Center at amounts different from its established rates. These payment arrangements include:

Medicare
Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost-reimbursement system. The Center is reimbursed for cost-reimbursable items at a tentative rate with a final settlement determined after the submission of an annual cost report by the Center and audit thereof by the Medicare fiscal intermediary. In the opinion of management, any final settlement of the associated cost reports will not materially affect the financial statements of the Center. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medi-Cal
Covered FQHC services rendered to Medi-Cal program beneficiaries are paid based on a prospective reimbursement methodology. The Center is reimbursed a set encounter rate for all services provided. Services not covered under the FQHC benefit are paid based on established fee schedules. The Center is required to submit an annual Medi-Cal Reconciliation Request Form to the California Department of Health Care Services (the Department) for purposes of determining whether the Center was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits. The Center established an estimated third-party payer settlement receivable in the amount of nil and $25,870 as of June 30, 2023 and 2022, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Net Patient Services Revenues (Continued)

Medi-Cal (Continued)
Additionally, the Center has also established an estimated third-party payer settlement payable in the amount of $328,314 and $97,387 as of June 30, 2023 and 2022 respectively, which is recorded on the statement of financial position as estimated settlement amounts due to third-party payers. Following submission of the Medi-Cal Reconciliation Request Form, the Center will generally receive a tentative settlement from the Medi-Cal program with a final settlement made within three years of the date of submission. Management believes that any potential adjustment from subsequent audits by the Department will not materially affect the financial statements of the Center.

Other Third-Party Payers
The Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and patients considered eligible for coverage under certain Federal Financial Assistance grants. The basis for payment to the Center under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Grants and Contracts
Support funded by grants is recognized as revenue as the Center performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

A portion of the Center's revenue is derived from cost-reimbursable federal contracts and grants, which are conditioned upon certain performance requirements and/or incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Center has incurred expenditures in compliance with specific contract or grant provisions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions
Contributions primarily include unconditional promises to give cash or other assets. Contributions, whether temporarily restricted or unrestricted, are recognized as revenue when they are received. Unconditional promises to give are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or when the conditions expire, whichever occurs first.

In-kind contributions
In-kind contributions consist principally of clothing and food contributions and professional medical services, all provided to clients. The Center reports in-kind contributions at fair value. The Center bases the fair value of professional medical services on the cost of similar services from comparable purchases, which is a Level 3 input. The Center only reports in-kind contributions of professional services when the professional services are of a professional or technical nature requiring expertise or education not available to the Center and the Center would have paid for the professional services if donors had not contributed them.

Leases
In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Center adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Center has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Center's historical accounting treatment under ASC Topic 840, Leases.

The Center has not elected to adopt the "hindsight" practical expedient, and therefore, measured the ROU asset and lease liability using the remaining portion of the lease term upon adoption of Topic 842 on July 1, 2022.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)
The Center determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Center obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Center also considers whether its service arrangements include the right to control the use of an asset.

The ROU asset and lease liability is measured based on the present value of future lease payments over the lease term at July 1, 2022, for existing leases upon the adoption of Topic 842. The ROU asset also includes any initial direct costs incurred and lease payments made at or before the commencement date and reduced by any lease incentives. To determine the present value of lease payments, the Center made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the remaining term for leases existing upon the adoption of Topic 842.

Income Taxes
The Center is exempt from taxation under section 501(c)(3) of the Internal Revenue Code and section 23701(d) of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Center is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

US GAAP requires that an organization recognize in the financial statements the impact of a tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2023, the Center had no material unrecognized tax benefits, tax penalties or interest. As of June 30, 2023, information returns after 2019 filed by the Center are subject to examination by the taxing authorities.

Functional Allocation of Expenses
Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on management estimates.

Allocation of Joint Costs
The Center incurs costs that include fundraising and program components. The costs of conducting those activities that are not specifically attributable to a particular component of the activities are allocated based on square footage or full-time employees (FTE).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements
Management believes that the adoption of the following Accounting Standards Update (ASU) as of December 31, 2023 will not have a material impact on the financial statements and related disclosures:

ASU 2022-02 *Troubled Debt Restructurings and Vintage Disclosure*: This ASU eliminates the accounting guidance for troubled debt restructurings by creditors in ASC 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The adoption of this new update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

In June 2016, FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Among other provisions, this ASU requires the allowance for credit losses to reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

Reclassifications
Certain prior year amounts in the financial statements and footnotes have been reclassified to conform to the 2023 presentation. These reclassifications have no effect on net earnings, cash flow, or changes in net assets as previously reported.

NOTE 3 PATIENT ACCOUNTS RECEIVABLE, NET

The Center grants credit without collateral to its patients, most of whom are residents and are insured under third-party agreements. The accounts receivable from patients at June 30, 2023 and 2022 consisted of the following:

	2023		2022	
Payor Class	**Balance**	**%**	Balance	%
Medi-Cal	**$ 357,494**	**78%**	$ 170,604	49%
Medicare	**84,430**	**18%**	43,807	13%
Private Pay	**16,211**	**3%**	50,034	14%
Commercial Insurance and third-party payers	**26**	**1%**	85,261	24%
Subtotal	**458,161**	**100%**	349,706	100%
Less: allowance for doubtful accounts	**(139,655)**		(101,783)	
Total patient accounts receivable, net	**$ 318,506**		$ 247,923	

NOTE 4 GRANTS AND OTHER RECEIVABLES

At June 30, grants and other receivables consisted of the following:

	2023	2022
County of Marin	**$ 993,850**	$ 791,469
Community Health Centers Program, Section 330 (ACA)	**563,762**	39,236
Partnership QIP	**38,572**	29,170
Other	**1,136**	-
Total grants and other receivables	**$ 1,597,320**	$ 859,875

NOTE 5 PROPERTY AND EQUIPMENT, NET

At June 30, property and equipment consisted of the following:

	2023	2022
Land	**$ 2,536,985**	$ -
Building and building improvements	**4,363,026**	293,561
Equipment	**205,983**	205,983
Furniture and fixtures	**192,265**	201,957
Software	**134,500**	134,500
Construction in progress - building improvements	**685,195**	267,324
Subtotal	**8,117,954**	1,103,325
Less: Accumulated depreciation	**(586,412)**	(493,826)
Property and equipment, net	**$ 7,531,542**	$ 609,499

On March 29, 2023, the Center purchased property consisting of land and building (800 A Street) amounting to $6,606,450. The building was purchased with proceeds of $4,290,000 from a short-term loan (see also Note 9), donations received for the capital campaign (see also Note 7), and federal grant funds. The Center is currently renovating the building. The building improvements are expected to be completed in fiscal year 2025 The building will be used for the Center's administrative office and the new clinic with the purpose of expanding the Center's services to meet the needs of the vulnerable community.

Provision for depreciation for the fiscal years ended June 30, 2023 and 2022 was $92,586 and $61,640, respectively.

Fully depreciated building and building improvements with a total cost of $226,344 were written off during the year ended June 30, 2022. No gain or loss on write-off was recognized.

NOTE 6 LEASES

The Center leases space under three operating leases that expire on various dates through May 14, 2026, and have a 90-day termination clause. Two of the three leases contain escalation clauses with minimum and maximum annual increases of 3% and 7%, respectively, options to renew for five years and rights of first refusal to purchase the properties if sold. In addition, one lease calls for payment of property taxes annually and another lease calls for payment to repaint the property every five years.

The Center also leases certain equipment under operating leases that expire on various dates through June 30, 2026. The Center also leases equipment under finance leases that will expire on March 25, 2026 and interest rates ranging from 4% to 3.85%. The Center's finance leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term. The components of lease expense are as follows for the year ended June 30, 2023:

Operating lease cost	$	255,235
Finance lease cost—amortization of right-of-use assets		1,063
Finance lease cost—interest on lease liabilities		120
Total lease cost	$	256,418

Total rent expense for operating leases was $255,235 and $272,704 for the years ended June 30, 2023 and 2022, respectively.

Supplemental balance sheet information related to leases is as follows as of June 30, 2023:

Operating leases:		
Operating lease right-of-use assets	$	557,805
Accumulated depreciation		(240,669)
Operating lease right-of-use assets, net	$	317,136
Current portion of lease liabilities	$	203,816
Lease liabilities, net of current portion		115,757
Total operating lease liabilities	$	319,573

NOTE 6 LEASES (CONTINUED)

Finance leases:

Equipment	$	12,758
Accumulated depreciation		(1,063)
Finance lease, right-of-use assets, net	$	11,695
Finance lease liabilities, current portion	$	4,130
Finance lease liabilities, net of current portion		7,620
Total finance lease liabilities	$	11,750

Weighted-average remaining lease term:	
Operating leases	2.90 years
Finance leases	3.00 years
Weighted-average discount rate:	
Operating leases	2.99%
Finance leases	3.85%

Future undiscounted cash flows for each of the next three years and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of June 30, 2023:

Years ending June 30		Operating Leases		Finance Leases
2024	$	210,256	$	4,510
2025		94,656		4,510
2026		23,113		3,382
Total future lease payments		328,025		12,402
Less imputed interest		(8,452)		(652)
Total present value of lease liabilities	$	319,573	$	11,750

NOTE 7 CAPITAL CAMPAIGN

During 2023, the Center initiated a capital campaign for the renovation of a building with the purpose of expanding the Center's services to meet the needs of the vulnerable community (see Note 5).

As of June 30, 2023, the Center has raised approximately $3.5 million towards a $7.2 million building renovation budget. Management and the Board believe that the current and future fundraising efforts are expected to meet the building renovation budget.

NOTE 8 LINE OF CREDIT

The Center has a line of credit with Heritage Bank of Commerce in the amount of $300,000. Interest is payable monthly at 4.25% on any outstanding balance. The Center has not drawn from the line of credit. There was no outstanding balance under the line of credit as of June 30, 2023 and 2022. The line of credit expired on April 6, 2024, and was not renewed.

NOTE 9 LOAN PAYABLE

In March 2023, the Center entered into a loan agreement with Heritage Bank of Commerce (HBC) in the amount of $4,290,000. The loan matures in June 2024 and bears an interest rate of 8% per annum. The loan principal payment is due on June 30, 2024.

Proceeds from the loan were used for the purchase of the 800 A Street property (see also Note 5).

Under the agreement, the Center is required to make regular monthly payments beginning April 29, 2023, with all subsequent interest payments to be due on the same day of each month. The Center has no unpaid interest balance as of June 30, 2023.

Subsequent to June 30, 2023, management is seeking to obtain a construction loan for the completion of the 800 A Street building (see also Note 5).

NOTE 10 COMMITMENT AND CONTINGENCIES

Grants and Contracts
Continuing program funding from federal and state sources is contingent upon the availability of funds and project performance. The funds are awarded on a yearly basis upon receipt and approval of program applications. In addition, expenses made under federal and state grants are subject to review and audit by the grantor agencies.

General Liability and Workers' Compensation
The Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters for which the Center carries commercial insurance. The Center purchases commercial insurance to cover the risk of loss for property and business liability. Management believes there are no known claims or incidents that may result in the assertion of material claims arising from potential losses.

Medical Malpractice Claims
The Center carries commercial insurance for its practicing physicians covered for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions.

NOTE 10 COMMITMENT AND CONTINGENCIES (CONTINUED)

Medical Malpractice Claims (Continued)

US GAAP requires a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Center's claims experience, no such accrual is necessary to be recorded as of June 30, 2023 and 2022. It is reasonably possible that this estimate could change materially in the near term.

Risks and Uncertainties

Laws and regulations governing Medicare and Medi-Cal programs are complex and subject to interpretation. The Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

County of Marin Settlement

The Center provided various services to residents of the County of Marin (County) pursuant to a master contract between the Center and the County’s Department of Health and Human Services. The services the Center provides under the contract include medical and psychiatric evaluations for General Relief clients to determine if they are exempt from General Relief work requirements. During the COVID-19 pandemic, the County suspended General Relief work requirements and the County funding intended to pay for General Relief services was repurposed to new County social services for the most vulnerable residents. The County initiated legal actions against the Center to recover payments previously made to the Center (overpayment) from the period from April 2020 to February 2023 related to the General Relief services. The Center contended that such funds were used to continue services to the County’s homeless and indigent populations during the COVID-19 pandemic.

In March 2024, a settlement agreement was reached in which the Center shall pay $250,000 to the County as full and final repayment of the contended overpayment and, as the Center has contended, the County agreed to provide the Center a thirteen-month contract through July 31, 2023 in the amount of $275,000 to be used for continued services to the County’s homeless and indigent populations during the COVID-19 pandemic.

As of June 30, 2023, the Center has recorded the contract receivable as a component of grants and other receivables amounting to $253,846, and a settlement payable amounting to $250,000 in the statement of financial position.

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

At June 30, net assets with donor restrictions consisted of the following:

At June 30, 2023

	Balance as of July 1, 2022	Contributions	Net assets released from restrictions	Balance as of June 30, 2023
Marin Community Foundation				
MCF23-Q12023	$ -	$ 160,500	$ (69,357)	**$ 91,143**
Buck Family	100,000	156,497	(184,596)	**71,901**
MCF Q1	15,000	15,000	(15,000)	**15,000**
Dental	2,277	-	-	**2,277**
Health Care	33,797	-	(33,227)	**570**
Housing 1st	40,990	20,093	(61,083)	**-**
	192,064	352,090	(363,263)	**180,891**
County of Marin				
Marin Health Quality Improvement	17,961	-	-	**17,961**
B/H Rest	2,500	-	-	**2,500**
MC Q1 2023	8,828	25,000	(8,338)	**25,490**
MC HUD	2,700	-	(2,700)	**-**
Capital Project	-	60,500	-	**60,500**
	31,989	85,500	(11,038)	**106,451**
Partnership Health Plan (PHP)				
PHP Local Innovation Grant (LIG) Housing	52,604	-	(52,604)	**-**
PHP CALAIM	-	292,284	-	**292,284**
PHP STMED	-	20,000	-	**20,000**
PHP Behavioral Health Integration (BHI) Plan	38,148	-	(38,148)	**-**
PHP BHI	9,248	-	(9,248)	**-**
	100,000	312,284	(100,000)	**312,284**
Fairfax Rental Assistance	6,714	-	-	**6,714**
Hamilton Meadows	64,505	-	-	**64,505**
Capital Campaign	-	3,521,576	(3,521,576)	**-**
Total	$ 395,272	$ 4,271,450	$ (3,995,877)	**$ 670,845**

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

At June 30, 2022

	Balance as of July 1, 2021	Contributions	Net assets released from restrictions	Balance as of June 30, 2022
Marin Community Foundation				
Buck Family	$ -	$ 300,000	$ (200,000)	**$ 100,000**
COVID Rent Assist Grant	40,159	1,382	(41,541)	**-**
Dental	8,249	-	(5,972)	**2,277**
Health Care	146,084	117,150	(229,437)	**33,797**
Housing 1st	35,878	219,262	(214,150)	**40,990**
Anonymous	40,465	44,211	(84,676)	**-**
MCF Q1	-	15,000	-	**15,000**
	270,835	697,005	(775,776)	**192,064**
County of Marin				
Marin Health Quality Improvement	25,000	30,599	(37,638)	**17,961**
B/H Rest	2,500	-	-	**2,500**
B/H Rest	-	2,700	-	**2,700**
MC Q1 2023	-	8,828	-	**8,828**
	27,500	42,127	(37,638)	**31,989**
Partnership Health Plan (PHP)				
Local Innovation Grant (LIG) on Housing	121,757	21,116	(90,269)	**52,604**
Behavioral Health Integration	149,598	349,709	(461,159)	**38,148**
PHP BHI	-	9,248	-	**9,248**
	271,355	380,073	(551,428)	**100,000**
Fairfax Rental Assistance	9,914	-	(3,200)	**6,714**
Hamilton Meadows	64,505	-	-	**64,505**
Bothin Foundation	6,991		(6,991)	**-**
Kaiser - Marin Patient Navigator	25,000	20,977	(45,977)	**-**
Other Restricted Grants	7,332	47,970	(55,302)	**-**
Total	$ 683,432	$ 1,188,152	$ (1,476,312)	**$ 395,272**

NOTE 12 DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities are measured at fair value using a three-level fair value hierarchy that ranks the quality and reliability of the information used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

The Center's financial assets and liabilities include primarily cash and cash equivalents, receivables, assets restricted as to use, accounts payable and accrued expenses. Because of the short-term nature of the cash and cash equivalents, receivables, accounts payable and accrued expenses, the carrying amounts of these assets and liabilities approximate their fair value.

Investments and Assets Restricted as to Use
Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange-traded equities and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and would be classified as Level 2. In certain cases where Level 1 or 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

NOTE 12 DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements are classified at June 30:

	Level 1	Level 2	Level 3	Total
At June 30, 2023:				
Investments				
Exchange traded funds	**$ 571,827**	**$ -**	**$ -**	**$ 571,827**
Mutual funds	**325,614**	**-**	**-**	**325,614**
Total investments	**$ 897,441**	**$ -**	**$ -**	**$ 897,441**
Assets restricted as to use - money market funds	**$ 301,189**	**$ -**	**$ -**	**$ 301,189**

	Level 1	Level 2	Level 3	Total
At June 30, 2022:				
Investments				
Exchange traded funds	$ 644,923	$ -	$ -	$ 644,923
Mutual funds	1,725,731	-	-	1,725,731
Total investments	$ 2,370,654	$ -	$ -	$ 2,370,654
Assets restricted as to use - money market funds	$ 243,228	$ -	$ -	$ 243,228

NOTE 13 AVAILABILITY OF RESOURCES AND LIQUIDITY

At June 30, the following represents the Center's financial assets:

	2023	2022
Financial assets		
Cash and cash equivalents	**$ 2,775,903**	$ 1,229,199
Investments	**897,441**	2,370,654
Patient accounts receivables, net	**318,506**	247,923
Estimated settlement amounts due from third-party payers	**-**	25,870
Grants and other receivables	**1,597,320**	859,875
Assets restricted as to use	**301,189**	243,228
Total financial assets	**5,890,359**	4,976,749
Less amounts not available to be used within one year		
Assets restricted as to use	**(301,189)**	(243,228)
Financial assets available to meet general obligations over the next twelve months	**$ 5,589,170**	$ 4,733,521

NOTE 13 AVAILABILITY OF RESOURCES AND LIQUIDITY (CONTINUED)

As part of the Center's liquidity plan, the Center invests excess cash in short-term investments, including exchange-traded funds and mutual funds. The Center reviews its cash position on a regular basis to ensure adequate funds are on hand to meet expenses.

NOTE 14 OPERATING RESERVE

The Board has designated $900,000 of net assets as of June 30, 2023 as an operating reserve. This reserve will be used for capital without donor restrictions expenditures or at times of hardship.

NOTE 15 CHARITY CARE AND COMMUNITY BENEFIT

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for healthcare. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Center maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients who do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by the policy. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records an explicit concession to uninsured patients in the period the services are provided based on historical experience. Community benefit services represent the cost of services for Medicaid, Medicare, and other public patients for which the Center is not reimbursed.

Based on the cost of patient services, charity care and community benefit for the years ended June 30, 2023 and 2022 was $14,407 and $39,587, respectively. These amounts are not reported as revenue.

NOTE 16 SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through July 3, 2024, the date on which the financial statements were available to be issued. Except as disclosed in Note 10, there were no other material subsequent events that require recognition or additional disclosures in these financial statements.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Ritter Center
San Rafael, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ritter Center (the Center), which comprise the statement of financial position as of June 30, 2023, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 3, 2024.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vasquez & Company LLP

Glendale, California
July 3, 2024