Keegan Linscott & Associates, PC
Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

OLD PUEBLO COMMUNITY SERVICES

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2020)

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Keegan
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Old Pueblo Community Services

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Old Pueblo Community Services (the "Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of cash flows and expenses by function and nature for the years then ended, and the related statement of operations and changes in net assets for the year ended December 31, 2021, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the changes in its cash flows for the years then ended, and its changes in net assets for the year ended December 31, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* ("*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 Organization 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 Organization's ability to continue as a going concern for one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Keegan Linscott & Associates, PC

Tucson, Arizona
June 29, 2022

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 1,593,607	$ 678,752
Grants and contracts receivable	1,266,056	1,563,577
Grants and contracts receivable - unbilled	100,927	158,753
Prepaid expenses and other current assets	83,558	49,609
Total current assets	3,044,148	2,450,691
Property and equipment, net	2,251,229	2,271,681
Total assets	$ 5,295,377	$ 4,722,372
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 55,925	$ 52,375
Accounts payable	48,301	21,348
Accrued expenses	223,361	226,652
Other current liabilities	60,414	-
Total current liabilities	388,001	300,375
Deferred revenue	25,424	50,424
Paycheck Protection Program promissory note	594,190	660,200
Long-term debt	1,269,843	1,326,349
Total liabilities	2,277,458	2,337,348
Net assets		
Without donor restrictions	2,510,630	2,268,371
With donor restrictions	507,289	116,653
Total net assets	3,017,919	2,385,024
Total liabilities and net assets	$ 5,295,377	$ 4,722,372

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Summarized Total 2020
Revenues				
Grant and program revenue				
Government grants	$ 6,918,642	$ -	$ 6,918,642	$ 6,554,273
Client service revenue	815,297	-	815,297	793,941
Program revenue	-	-	-	13,851
	7,733,939	-	7,733,939	7,362,065
Public support and other revenue				
Contributions	51,850	571,069	622,919	425,439
Event revenue, net	2,050	-	2,050	82
Donated materials, property and services	5,486	-	5,486	9,980
Other revenue	88,632	-	88,632	33,507
	148,018	571,069	719,087	469,008
Releases from restrictions	180,433	(180,433)	-	-
Total revenues	8,062,390	390,636	8,453,026	7,831,073
Expenses				
Salaries	3,693,773	-	3,693,773	3,437,445
Payroll taxes and employee benefits	628,931	-	628,931	590,346
Outside professional services	823,629	-	823,629	673,011
Program expenses and supplies	204,347	-	204,347	271,407
Rent	521,610	-	521,610	670,229
Rent - supportive housing	1,113,663	-	1,113,663	1,108,678
Utilities	319,375	-	319,375	268,375
Auto, travel and training	127,063	-	127,063	113,053
Office supplies and equipment	95,701	-	95,701	143,797
Accounting, insurance, advertising and fees	102,659	-	102,659	113,967
Interest	69,117	-	69,117	57,558
Depreciation	120,263	-	120,263	101,844
Bad debt expense	-	-	-	2,821
Total expenses	7,820,131	-	7,820,131	7,552,531
Change in net assets	242,259	390,636	632,895	278,542
Net assets, beginning of year	2,268,371	116,653	2,385,024	2,106,482
Net assets, end of year	$ 2,510,630	$ 507,289	$ 3,017,919	$ 2,385,024

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	$ 632,895	$ 278,542
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Gain on disposal of property and equipment	(6,170)	-
Depreciation	120,263	101,844
Changes in operating assets and liabilities		
Accounts receivable, net	-	12,542
Grants and contracts receivable	297,521	(806,131)
Grants and contracts receivable - unbilled	57,826	(25,888)
Prepaid expenses and other current assets	(33,949)	(42,713)
Contributions receivable, net	-	207
Accounts payable	26,953	(71,139)
Accrued expenses	(3,291)	(43,554)
Other current liabilities	60,414	-
Deferred revenue	(25,000)	24,871
Net cash provided by (used in) operating activities	1,127,462	(571,419)
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	7,200	-
Purchases of property and equipment	(100,841)	(290,034)
Net cash used in investing activities	(93,641)	(290,034)
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Program promissory note	-	660,200
Repayment of Paycheck Protection Program promissory note	(66,010)	-
Proceeds from long-term debt	-	224,502
Repayment of long-term debt	(52,956)	(42,461)
Net cash (used in) provided by financing activities	(118,966)	842,241
Net change in cash	914,855	(19,212)
Cash and cash equivalents, beginning of year	678,752	697,964
Cash and cash equivalents, end of year	$ 1,593,607	$ 678,752
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 67,416	$ 48,771
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Property and equipment funded with liabilities	$ -	$ 440,000

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED DECEMBER 31, 2021

	Veteran Communities	Reentry Communities	Supportive Housing and Other	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	Total
Expenses								
Salaries	$ 528,674	$ 1,277,709	$ 832,409	$ 2,638,792	$ 961,061	$ 93,920	$ 1,054,981	$ 3,693,773
Payroll taxes and employee benefits	71,185	128,298	78,810	278,293	339,374	11,264	350,638	628,931
Outside professional services	30,660	137,412	235,360	403,432	389,103	31,094	420,197	823,629
Program expenses and supplies	20,967	89,182	92,418	202,567	800	980	1,780	204,347
Rent	165,685	343,064	4,486	513,235	7,059	1,316	8,375	521,610
Rent - supportive housing	1,443	7,706	1,104,514	1,113,663	-	-	-	1,113,663
Utilities	144,877	113,734	24,898	283,509	32,277	3,589	35,866	319,375
Auto, travel and training	12,108	27,784	70,690	110,582	14,928	1,553	16,481	127,063
Office supplies and equipment	8,434	40,586	16,858	65,878	29,115	708	29,823	95,701
Accounting, insurance, advertising and fees	5,668	22,272	4,113	32,053	62,006	8,600	70,606	102,659
Interest	27,881	-	17,358	45,239	23,878	-	23,878	69,117
Depreciation	6,102	-	3,405	9,507	110,756	-	110,756	120,263
Bad debt expense	-	-	-	-	-	-	-	-
Total expenses	$ 1,023,684	$ 2,187,747	$ 2,485,319	$ 5,696,750	$ 1,970,357	$ 153,024	$ 2,123,381	$ 7,820,131

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED DECEMBER 31, 2020

	Veteran Communities	Reentry Communities	Supportive Housing and Other	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	Total
Expenses								
Salaries	$ 558,723	$ 1,159,902	$ 711,688	$ 2,430,313	$ 894,053	$ 113,079	$ 1,007,132	$ 3,437,445
Payroll taxes and employee benefits	98,527	186,835	106,699	392,061	180,297	17,988	198,285	590,346
Outside professional services	36,702	104,199	225,570	366,471	301,390	5,150	306,540	673,011
Program expenses and supplies	35,100	126,506	107,179	268,785	2,501	121	2,622	271,407
Rent	152,680	480,599	28,944	662,223	6,684	1,322	8,006	670,229
Rent - supportive housing	770	44,024	1,063,884	1,108,678	-	-	-	1,108,678
Utilities	129,140	101,075	17,856	248,071	16,280	4,024	20,304	268,375
Auto, travel and training	15,468	23,565	61,342	100,375	11,291	1,387	12,678	113,053
Office supplies and equipment	4,846	99,508	24,786	129,140	13,705	952	14,657	143,797
Accounting, insurance, advertising and fees	3,302	28,637	2,454	34,393	70,407	9,167	79,574	113,967
Interest	30,553	-	10,277	40,830	16,728	-	16,728	57,558
Depreciation	6,102	-	3,405	9,507	92,337	-	92,337	101,844
Bad debt expense	-	235	-	235	-	2,586	2,586	2,821
Total expenses	$ 1,071,913	$ 2,355,085	$ 2,364,084	$ 5,791,082	$ 1,605,673	$ 155,776	$ 1,761,449	$ 7,552,531

NOTES TO FINANCIAL STATEMENTS

1. Organization

Old Pueblo Community Services (the "Organization") is a non-profit corporation supported by governmental grants and contracts, public contributions from various groups, corporate entities, and individuals. These funds support the operation of transitional housing for both veterans and persons leaving incarceration, bridge housing for persons in the process of obtaining permanent housing, low-barrier shelter for persons unable to utilize traditional mass shelters, and permanent housing for persons struggling with chronic homelessness, addictions, chronic medical conditions, and mental illness. Additionally, the Organization provides residents with intensive outpatient addiction treatment services, case management, employment coaching, and operates a low barrier day work program that offers a path to services and housing. The Organization currently serves adult men and women struggling with homelessness, providing them the opportunity to become engaged residents of Pima County.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of ASC 958, *Not-for-Profit Entities.* ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been grouped into similar categories as follows:

- **Without Donor Restrictions** – Net assets that represent the portion of expendable funds, which are available for support of the Organization's operations and are not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

- **With Donor Restrictions** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time or must be maintained by the Organization permanently.

Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as releases between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are expended in the same period as the revenue is recognized are classified as net assets without donor restrictions. Contributions of long-lived assets not having donor-imposed purpose or time restrictions are reported as contributions without donor restrictions in amounts equal to the fair value of the contributed assets.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in financial institutions that can be redeemed on demand. The Organization places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") limit (see Note 14). However, management does not believe it is exposed to any significant credit risk on cash. All such cash and cash equivalents accounts are monitored by management to mitigate risk.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Grants and Contracts Receivable

Grants and contracts receivable consist principally of amounts due from the Organization's government funding sources. The carrying amount of the receivables is reduced by an allowance for doubtful accounts that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of the receivables. Management considers the following factors when determining the collectability of specific receivables: past transaction history, current economic trends, and changes in payment terms. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management determined that no allowance was necessary as of December 31, 2021 and 2020.

Unbilled Grants and Contracts Receivable

Unbilled grants and contracts receivable represent revenue earned during the reporting period but not yet billed to the funding agency, as specified per the related grant agreements or contracts.

Contributions Receivable

The Organization accounts for contributions to be received in future years as unconditional promises to give in the year the promise is made. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. The fair value amount of contributions receivable is reduced by an allowance for uncollectible accounts that reflects management's best estimate of amounts that will not be collected determined on a specific identification basis. Contributions receivable are written off when deemed uncollectible. Management determined that no allowance was necessary as of December 31, 2021 and 2020.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value measured on the date the asset is donated. Acquisitions of property and equipment, repairs or betterments that significantly prolong the useful lives of assets in excess of $1,500, with a useful life of more than one year are capitalized. Repairs and maintenance for normal upkeep are charged to expense as incurred. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and building improvements	10 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	5 - 7 years
Software	3 years

When items are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of operations and changes in net assets.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Through December 31, 2021, the Organization had not experienced impairment losses on its long-lived assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions

Government Grants – The Organization accounts for its government grants by first determining whether the transaction is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and the Organization recognizes revenue in accordance with ASC 606. Government grants revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred or services are provided. If the transaction is considered a contribution, then the Organization recognizes revenue in accordance with ASC 958-605. None of the Organization's government grants revenues were considered exchange transactions for the years ended December 31, 2021 and 2020.

Contributions - Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.

- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a pledge is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers of each conditional contribution are met. If the funds are received from the donor before the relevant barriers are met, deferred revenue is recorded on the statements of financial position for the amount of funds provided by the donor. Consequently, government funded grants revenue is recognized when the related barriers to provide services are delivered and/or expenditures are incurred.

Donated Materials, Property and Services – Contributions of donated non-cash assets including materials and property are recognized in the financial statements at fair value at the date of donation. The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized when the services received create or enhance non-financial assets, or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these volunteer services is not reflected in the accompanying financial statements because the above criteria are not met.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Exchange Transactions

The Organization recognizes client service revenue and program revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Client Service Revenue- Client service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing behavioral health services to clients. These amounts are due from third-party payers (primarily AHCCCS health plans), and they include variable consideration for retroactive revenue adjustments due to settlement of audits, review and adjudication of claims, and investigations. Revenues are recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Management believes that services that are delivered to the client per each encounter are considered one performance obligation even though the underlying tasks performed for each client may vary. The Organization recognizes revenue over time since the client simultaneously receives and consumes the benefits of the services provided per each encounter. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Revenues are based primarily on payment terms involving predetermined rates per service (fee-for-service), and/or other similar contractual arrangements. These revenues are also subject to review and possible audit by the payers, which can take several years before they are completely resolved. The payers are billed for client services on an individual encounter basis. A bill is subject to adjustment on an encounter-by-encounter basis in the ordinary course of business by the payers following their review and adjudication of each particular bill.

Management does not believe that there were any adjustments to estimates of submitted bills that were material to the Organization’s revenues for the years ended December 31, 2021 and 2020.

Through June 29, 2022, the Organization is not aware of any claims, disputes or unsettled matters with any payer that would materially affect revenues in the accompanying financial statements.

Program Revenue – The Organization recognizes program revenue, which primarily consists of occupancy fees for individuals in transition for bed days that are used for temporary housing under fee-for-service and per-diem contracts when behavioral health and client housing services are rendered.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)
Performance obligations are determined based on the nature of the services provided. Management believes that an individual bed day provided to the client is considered one performance obligation, with the transaction price recognized as revenue when the performance obligations are transferred to the client. The Organization recognizes revenue over time since the client simultaneously receives and consumes the benefits of the services provided per each bed day. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Other Revenue – The Organization's other revenue is primarily made up of rental income. The Organization recognizes rental income in accordance with ASC 840, *Leases*. Rental income is recognized evenly over the terms of the tenant leases on the accrual basis. Rental receipts received in advance are deferred until earned.

Tax Exempt Status
The Organization is a Section 501(c)(3) organization exempt from taxation under Internal Revenue Code Section 501(a). Accordingly, no provision is made in the accompanying financial statements for federal and state income taxes. Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business income. Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

Management has considered its tax positions and believes that all positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

The Organization recognizes interest and penalties related to unrecognized tax benefits in management and general expenses and accrued expenses in the accompanying financial statements. During the years ended December 31, 2021 and 2020, the Organization did not recognize any interest and penalties.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include the potential recoupment liability related to not meeting certain minimum contracted service delivery thresholds (see Note 14).

Prior Year Information
The statement of operations and changes in net assets include 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020.

NOTES TO FINANCIAL STATEMENTS

3. New Accounting Pronouncements

Not Yet Required to be Adopted as of December 31, 2021

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required (see ASU No. 2019-11 below for optional transition method) for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

In July 2018, the FASB issued ASU No. 2019-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU No. 2019-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU No. 2019-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP in Topic 840, *Leases*. The amendments in ASU No. 2019-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU No. 2016-02 (i.e., fiscal years beginning after December 15, 2021). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Organization is currently evaluating the effect these standards will have on the financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of operations and change in net assets as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Organization does not intend to early adopt. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements and disclosures.

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)

Not Yet Required to be Adopted as of December 31, 2020 (continued)
In September 2020, the FASB issued ASU No. 2020-07*, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and recognized contributed services. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of operations and changes in net assets, apart from contributions of cash or other financial assets. It also requires a not-for-profit to disclose: 1) contributed nonfinancial assets recognized within the statement of operations and changes in net assets disaggregated by category that depicts the type of contributed nonfinancial assets; and 2) for each category of contributed nonfinancial assets recognized: i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used; ii) the not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; iv) the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition; and v) the principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit organization is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The Organization is planning on adopting this ASU during the fiscal year ended December 31, 2022; however, the adoption is not expected to have a material impact on the financial statements or disclosures.

4. Liquidity and Availability of Resources

The following table shows a determination of the Organization's financial assets that are available to meet cash needs for general expenditures within one year as of December 31:

	2021	2020
Cash and cash equivalents	$ 1,593,607	$ 678,752
Accounts, grants and contracts receivables	1,366,983	1,722,330
Total financial assets	2,960,590	2,401,082
Less amounts unavailable for general expenditure within one year, due to:		
Net assets with donor restrictions	507,289	116,653
Financial assets available to meet cash needs for general expenditures within one year	$ 2,453,301	$ 2,284,429

NOTES TO FINANCIAL STATEMENTS

Liquidity and Availability of Resources (continued)

The Organization is substantially supported by government grants and contracts, which are relatively predictable. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization manages liquidity by maintaining adequate working capital and monitoring liquid assets on a monthly basis. In the event of financial distress, the Organization would be able to draw on the line of credit for short-term cash needs.

5. Grants and Contracts Receivable

Grants and contracts receivable, including unbilled grants and contracts receivable, consist of the following as of December 31:

	2021	2020
City of Tucson	$ 561,222	$ 541,025
Arizona Department of Corrections	32,346	30,942
Arizona Superior Court in Pima County	8,198	-
U.S. Department of Health and Human Services	25,111	64,233
Pima County	176,584	392,294
U.S. Department of Housing and Urban Development	92,831	122,245
U.S. Department of Veterans Affairs	153,012	131,988
Arizona Department of Economic Security	194,795	253,000
El Rio Santa Cruz Neighborhood Health Center	21,957	27,850
	1,266,056	1,563,577
Arizona Complete Health (unbilled)	100,927	158,753
	$ 1,366,983	$ 1,722,330

6. Property and Equipment

Property and equipment and related accumulated depreciation consist of the following as of December 31:

	2021	2020
Land	$ 345,563	$ 345,563
Buildings	2,029,229	2,029,229
Building improvements	600,330	478,118
Furniture and equipment	24,681	85,642
Vehicles	161,369	176,671
Software	139,931	139,931
Construction in progress	44,634	66,004
	3,345,737	3,321,158
Less accumulated depreciation	(1,094,508)	(1,049,477)
	$ 2,251,229	$ 2,271,681

NOTES TO FINANCIAL STATEMENTS

7. Line of Credit

The Organization has an available $250,000 revolving line of credit with National Bank of Arizona, which had no outstanding balance as of December 31, 2021 or 2020. The agreement was renewed during 2021, where interest accrues at the prime rate (3.25% as of December 31, 2021 and 2020, respectively), plus 0.75% per annum, with a floor of 4.75%. Interest only payments are due monthly, with all outstanding principal and accrued interest due on July 18, 2023, the expiration date of the line of credit.

8. Long-Term Debt

A summary of long-term debt is as follows as of December 31:

	2021	2020
Wells Fargo Bank – Two notes payable with interest rates of 6.00% and 7.40% per annum, with monthly principal and interest payments of $764 and $1,280, maturing in December 2028 and April 2023, respectively. The notes are collateralized by certain real property.	$ 71,723	$ 90,920
National Bank of Arizona – $375,310 promissory note with an interest rate of 5.50% per annum. The promissory note requires monthly principal and interest payments of $2,284, maturing in May 2024 with an estimated $279,097 balloon payment. The promissory note is collateralized by a deed of trust on certain real property.	304,725	314,836
National Bank of Arizona – $548,000 promissory note, requiring 120 monthly principal and interest payments of $2,967 followed by 59 monthly principal and interest payments of $3,067, maturing in April 2035 with an estimated $295,691 balloon payment. For the first 120 months, interest accrues at an initial discounted rate of 4.24% per annum. For the remainder of the loan, interest accrues at the ten-year United States Treasury Rate plus 3.15% per annum, with a floor of 4.50%. The note also contains certain prepayment penalties if repaid within the first five years as specified in the agreement. The promissory note is collateralized by a deed of trust and fixture filing.	526,038	539,032

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

	2021	2020
National Bank of Arizona – $440,000 promissory note with an initial interest rate of 3.99% per annum. The promissory note requires monthly principal and interest payments of $2,334, maturing in May 2035 with an estimated $232,344 balloon payment. Interest accrues at the ten-year United States Treasury Rate (0.62% as of May 13, 2020), plus 3.25% per annum, subject to adjustment once every ten years, with a floor of 4.00%. The promissory note is collateralized by a deed of trust and fixture filing.	423,282	433,936
	1,325,768	1,378,724
Less current portion	(55,925)	(52,375)
	$ 1,269,843	$ 1,326,349

The following is a summary of future principal maturities as of December 31, 2021:

Year Ending	Amount
2022	$ 55,925
2023	48,648
2024	316,430
2025	35,336
2026	36,975
Thereafter	832,454
	$ 1,325,768

9. Paycheck Protection Program Promissory Note

In April 2020, the Organization entered into a promissory note agreement with National Bank of Arizona for an original amount of $660,200. The loan was made pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provided for loans to qualifying businesses for amounts up to 2.5 times of their average eligible monthly payroll and employee benefit expenses. Per the loan agreement, the Organization is required to apply for loan forgiveness within a deferral period of ten months from the date of the loan agreement; however, due to the lender's administrative delays, as of December 31, 2021, the Organization was not yet approved for loan forgiveness. The loans and accrued interest may be fully or partially forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its employment levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered payroll period. If the Small Business Administration does not confirm forgiveness of the loan or only partially confirms forgiveness of the loan, the financial institution would set the terms of repayment on a monthly schedule at that time with interest not to exceed 1.00% per annum, and a maturity date of two years from the funding date. As of December 31, 2021 and 2020, the loan had an outstanding balance of $594,190 and $660,200, respectively. Subsequent to year-end, the Organization received full forgiveness of the original loan amount in January 2022.

NOTES TO FINANCIAL STATEMENTS

10. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of December 31:

	2021	2020
Subject to expenditure for specified purpose		
Transitional housing	$ 3,643	$ 3,643
Down payment assistance	359	359
Financial education	16,962	3,851
Occupancy fees	53,174	50,658
Capital campaign	406,250	-
Homeless work program	26,901	58,142
	$ 507,289	$ 116,653

11. Methods Used for Allocation of Expenses Among Program and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Salaries, wages and fringe costs are allocated based on direct and indirect activity of the employee, allocable by hours worked. Travel expenses are charged to programs as applicable and allowable. Occupancy and utilities are allocated on a square footage basis.

12. Retirement Plans

Effective January 1, 2017, the Organization adopted a 401(k) defined contribution plan (the "Plan") to provide retirement benefits for all eligible employees as defined by the Plan document. Contributions to the Plan are made by the participants to their individual accounts through payroll withholdings, subject to annual deferral limits. The Organization makes discretionary matching contributions to the Plan that meet safe-harbor requirements as described by the Plan document. The Organization matches 3% of the employee's compensation, plus 50% of each eligible employee's contributions between 3% and 5% of the employee's compensation for the Plan year. All safe-harbor matching contributions, rollover contributions, and salary deferrals are 100% vested upon entering the plan. Employer contributions not meeting the previous criteria are 100% vested after six years of service. For the years ended December 31, 2021 and 2020, matching contributions totaled $74,456 and $76,269, respectively. Additionally, the Plan provides for a discretionary profit-sharing component to the Plan to be determined by the Board of Directors at the end of each calendar year. There were no such contributions as of December 31, 2021 and 2020.

13. Operating Leases

The Organization leases equipment under a non-cancelable operating lease. The Organization also leases multiple properties for its transitional housing programs. Each lease contains a clause which allows the Organization to cancel it if there is a decrease in funding, with 90 days written notice. Most of these lease agreements have the option to renew for one to five-year periods. In the normal course of operations, it is expected that these leases will be renewed or replaced. The Organization is exempt from property taxes, but carries liability insurance, and is responsible for normal maintenance and repair costs.

NOTES TO FINANCIAL STATEMENTS

Operating Leases (continued)

The following is a schedule by year of the future minimum required lease payments, which include the renewal period on those leases for which management intends to exercise its renewal option under the lease agreements:

Year Ending	Amount
2022	$ 300,095
2023	262,768
2024	66,647
2025	58,568
Thereafter	28,688

Rent expense totaled $556,086 and $705,277 for the years ended December 31, 2021 and 2020, respectively.

14. Commitments, Contingencies & Concentrations

Economic Dependency

The Organization receives a substantial amount of its support from government grants and contracts. A significant reduction in the level of support from government grants and contracts could have a material effect on the Organization's continuing operations. The Organization participates in several federal, state and local grant programs, and a significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities offered by the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

Participating Provider Agreement

The Organization entered into a participating provider agreement, as amended, with the Pima County Regional Behavioral Health Authority ("RBHA"), whereby the Organization received certain funding upfront on a monthly basis on block purchase/payment model and was required to provide covered services to eligible participants with certain minimum service delivery encounter requirements. The agreement includes a provision for the potential recoupment of funding if the established minimum service delivery thresholds are not met and/or contractual profit limitations are exceeded during the specified contract period. The agreement also requires viability ratios be maintained monthly.

In May 2018, the Organization received a final close out letter from the RHBA indicating the final recoupment amount totaled $100,121 for all contract years through December 31, 2017. There were no behavioral healthcare services payable as of December 31, 2021, and 2020.

Under the terms of the participating provider agreement, the Organization must continue to remain in compliance with the documentation requirements as specified in its provider agreement and as required under the Medicaid/State of Arizona rules and regulations. The provider agreement stipulates that noncompliance with these requirements may result in sanctions and/or request for return of funds, at the discretion of the AHCCCS health plans, and if these circumstances should occur, they might be significant to the Organization. The Organization has not received any such request by the RBHA, and in management's opinion, such an occurrence is unlikely. In addition, the State of Arizona, may, at their discretion review or audit claims filed and funds received from the State.

NOTES TO FINANCIAL STATEMENTS

Commitments, Contingencies & Concentrations (continued)

Participating Provider Agreement (continued)
The State of Arizona also has the discretion to request a refund for claims they determine are without the required documentation.

U.S. Department of Veterans Affairs – Buildings
During 2008, the Organization purchased three buildings with matching grants from the U.S. Department of Veterans Affairs ("VA"). The buildings are required to be used in the VA Homeless Providers Grant and Per Diem Program. If the Organization withdraws from the program while a need exists to service veterans within the Organization's geographic region, as defined by the grant agreements, the Organization may be required to refund the grant monies in accordance with 2 CFR 200.311 *Real Property*. The Organization intends to provide the services while a need exists. Matching grants received in 2008 totaled $472,130.

Concentrations of Contributions
For the years ended December 31, 2021 and 2020, 56% and 26%, respectively, of the Organization's contributions revenues were received from one donor.

Concentrations of Credit Risk
Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to $250,000. As of December 31, 2021, and 2020, the Organization had approximately $1,445,000 and $520,000 in excess of FDIC insured limits, respectively.

Property Liens
In 2016, the Organization entered into a Community Development Block Grant with the City of Tucson for the construction and renovation of real property. As of December 31, 2021, the City of Tucson had reimbursed the Organization $100,000 for expenditures incurred for the renovation and construction of the real property. The property was capitalized and is included in property and equipment in the accompanying financial statements. In accordance with the agreement, the City of Tucson retained a lien on the facilities and requires the Organization to use the facilities for the intended program purpose for a minimum of ten years. Disposition of the property, including non-program use, or failure to meet affordability requirements prior to the minimum period noted would require repayment of the original grant. The lien amount associated with the facilities totaled $100,000 as December 31, 2021. The Organization intends to comply with the ten-year holding period requirements; accordingly, no liability for the lien has been recorded in the accompanying financial statements.

15. Subsequent Events

The Organization evaluated subsequent events through June 29, 2022, which represents the date the financial statements were available to be issued and, with the exception of the matter discussed below, concluded that no additional disclosures are required.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and

NOTES TO FINANCIAL STATEMENTS

Subsequent Events (continued)

actions taken to mitigate the spread of it have had and are expected to continue to have an impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the CARES Act was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization.