



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, 2022

(WITH SUMMARIZED COMPARATIVE TOTALS

FOR THE YEAR ENDED DECEMBER 31, 2021)

An independently owned member

RSM US Alliance



RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT 1 – 3

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION 5

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS 6

STATEMENTS OF CASH FLOWS 7

STATEMENT OF EXPENSES BY FUNCTION AND NATURE 2022 8

STATEMENT OF EXPENSES BY FUNCTION AND NATURE 2021 9

NOTES TO FINANCIAL STATEMENTS 10 – 25



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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the changes in its cash flows for the years then ended, and its changes in net assets for the year ended December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, effective January 1, 2022, the Organization adopted ASU No. 2016-02, *Leases (Topic 842)*. Additionally, in 2022, the Organization adopted ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 29, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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).

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 August 16, 2023, 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.

A handwritten signature in blue ink that reads "Keegan Zinsco & Associates, PC". The signature is written in a cursive, flowing style.

Tucson, Arizona
August 16, 2023

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 2,132,937	\$ 1,593,607
Grants and contracts receivable	1,603,011	1,266,056
Grants and contracts receivable - unbilled	109,419	100,927
Prepaid expenses and other current assets	13,818	83,558
Total current assets	3,859,185	3,044,148
Operating lease right of use asset	363,692	-
Property and equipment, net	2,480,427	2,251,229
Total assets	\$ 6,703,304	\$ 5,295,377
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 57,315	\$ 55,925
Accounts payable	110,504	48,301
Accrued expenses	253,036	223,361
Operating lease liability, current	275,943	-
Other current liabilities	-	60,414
Total current liabilities	696,798	388,001
Operating lease liability, long term	85,520	-
Deferred revenue	25,424	25,424
Paycheck Protection Program promissory note	-	594,190
Long-term debt	1,842,843	1,269,843
Total liabilities	2,650,585	2,277,458
Net assets		
Without donor restrictions	3,319,715	2,510,630
With donor restrictions	733,004	507,289
Total net assets	4,052,719	3,017,919
Total liabilities and net assets	\$ 6,703,304	\$ 5,295,377

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2022
 (WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Summarized Total 2021
Revenues				
Grant and program revenue				
Government grants	\$ 6,834,024	\$ -	\$ 6,834,024	\$ 6,918,642
Client service revenue	888,388	-	888,388	815,297
	7,722,412	-	7,722,412	7,733,939
Public support and other revenue				
Contributions	208,728	739,510	948,238	622,919
Event revenue, net	388	-	388	2,050
Donated materials, property and services	165,958	-	165,958	5,486
PPP loan forgiveness	672,628	-	672,628	-
Other revenue	34,553	-	34,553	88,632
	1,082,255	739,510	1,821,765	719,087
Releases from restrictions	513,795	(513,795)	-	-
Total revenues	9,318,462	225,715	9,544,177	8,453,026
Expenses				
Salaries	4,274,451	-	4,274,451	3,693,773
Payroll taxes and employee benefits	716,508	-	716,508	628,931
Outside professional services	788,463	-	788,463	823,629
Program expenses and supplies	477,094	-	477,094	204,347
Rent	565,042	-	565,042	521,610
Rent - supportive housing	709,379	-	709,379	1,113,663
Utilities	336,029	-	336,029	319,375
Auto, travel and training	180,374	-	180,374	127,063
Office supplies and equipment	107,890	-	107,890	95,701
Accounting, insurance, advertising and fees	161,140	-	161,140	102,659
Interest	65,349	-	65,349	69,117
Depreciation	127,658	-	127,658	120,263
Total expenses	8,509,377	-	8,509,377	7,820,131
Change in net assets	809,085	225,715	1,034,800	632,895
Net assets, beginning of year	2,510,630	507,289	3,017,919	2,385,024
Net assets, end of year	\$ 3,319,715	\$ 733,004	\$ 4,052,719	\$ 3,017,919

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 1,034,800	\$ 632,895
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Gain on disposal of property and equipment	-	(6,170)
Depreciation	127,658	120,263
PPP loan forgiveness	(672,628)	-
Reduction in carrying amount of right-of-use asset	275,544	-
Changes in operating assets and liabilities		
Grants and contracts receivable	(336,955)	297,521
Grants and contracts receivable - unbilled	(8,492)	57,826
Prepaid expenses and other current assets	69,740	(33,949)
Accounts payable	62,203	26,953
Accrued expenses	29,675	(3,291)
Operating lease liability	(277,773)	-
Other current liabilities	(60,414)	60,414
Deferred revenue	-	(25,000)
Net cash provided by operating activities	243,358	1,127,462
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	-	7,200
Purchases of property and equipment	(356,856)	(100,841)
Net cash used in investing activities	(356,856)	(93,641)
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Program promissory note	78,438	-
Repayment of Paycheck Protection Program promissory note	-	(66,010)
Proceeds from long-term debt	700,000	-
Repayment of long-term debt	(125,610)	(52,956)
Net cash provided by (used in) financing activities	652,828	(118,966)
Net change in cash	539,330	914,855
Cash and cash equivalents, beginning of year	1,593,607	678,752
Cash and cash equivalents, end of year	\$ 2,132,937	\$ 1,593,607
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 66,016	\$ 67,416
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows - payments on operating lease	\$ 278,512	\$ -
Right-of-use assets obtained in exchange for new lease obligations		
Operating lease	\$ 639,236	\$ -
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Forgiveness of Paycheck Protection Program Promissory Note	\$ 672,628	\$ -

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED DECEMBER 31, 2022

	Veteran Communities	Reentry Communities	Supportive Housing and Other	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	Total
Expenses								
Salaries	\$ 636,076	\$ 1,292,790	\$ 857,875	\$ 2,786,741	\$ 1,349,797	\$ 137,913	\$ 1,487,710	\$ 4,274,451
Payroll taxes and employee benefits	67,474	118,806	78,938	265,218	434,975	16,315	451,290	716,508
Outside professional services	29,946	120,278	221,407	371,631	385,049	31,783	416,832	788,463
Program expenses and supplies	83,167	107,226	284,892	475,285	1,635	174	1,809	477,094
Rent	186,503	344,845	8,510	539,858	25,161	23	25,184	565,042
Rent - supportive housing	2,829	4,141	702,409	709,379	-	-	-	709,379
Utilities	140,441	128,693	36,229	305,363	27,002	3,664	30,666	336,029
Auto, travel and training	9,251	35,863	112,490	157,604	21,393	1,377	22,770	180,374
Office supplies and equipment	6,891	5,610	19,645	32,146	73,644	2,100	75,744	107,890
Accounting, insurance, advertising and fees	9,615	20,955	6,797	37,367	76,870	46,903	123,773	161,140
Interest	30,110	-	16,918	47,028	18,321	-	18,321	65,349
Depreciation	5,890	-	8,165	14,055	113,603	-	113,603	127,658
Total expenses	<u>\$ 1,208,193</u>	<u>\$ 2,179,207</u>	<u>\$ 2,354,275</u>	<u>\$ 5,741,675</u>	<u>\$ 2,527,450</u>	<u>\$ 240,252</u>	<u>\$ 2,767,702</u>	<u>\$ 8,509,377</u>

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
Total expenses	<u>\$ 1,023,684</u>	<u>\$ 2,187,747</u>	<u>\$ 2,485,319</u>	<u>\$ 5,696,750</u>	<u>\$ 1,970,357</u>	<u>\$ 153,024</u>	<u>\$ 2,123,381</u>	<u>\$ 7,820,131</u>

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 13). 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, 2022 and 2021.

Grants and Contracts Receivable - Unbilled

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, 2022 and 2021.

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, 2022, the Organization had not experienced impairment losses on its long-lived assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases

Lessee Leases

In February 2016, the FASB issued 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 balance sheets 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 income statement. The Organization adopted Topic 842 on January 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 Organization has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization’s historical accounting treatment under ASC Topic 840, *Leases*.

The Organization elected the “package of practical expedients” under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Organization 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 Organization 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 Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases (continued)

Lessee Leases (continued)

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Lessor Leases

On January 1, 2022, the Organization adopted FASB ASC Topic 842, *Leases*, using the modified retrospective approach by electing a package of practical expedients including (1) to not reassess its prior conclusions under ASC Topic 840, *Leases*, regarding (a) whether a preexisting contract is or contains a lease, (b) whether a preexisting lease should be classified as an operating or finance lease and (c) whether the initial direct costs capitalized for a preexisting lease under Topic 840 qualify for capitalization.

The Organization leases certain of its buildings to third parties. These leases may contain extension and termination options that are predominantly at the sole discretion of the lessee, provided certain conditions are satisfied.

As a lessor, the Organization's leases with tenants for its real estate assets generally provide for the lease of space, as well as common area maintenance. Under Topic 842, the lease of space is considered a lease component while the common area maintenance billings are considered nonlease components, which fall under revenue recognition guidance in FASB ASC Topic 606, *Revenue from Contracts with Customers*. However, upon adopting the guidance in Topic 842, the Organization determined that its tenant leases met the criteria to apply the practical expedient provided by ASU 2018-11 to recognize the lease and non-lease components together as one single component. This conclusion was based on the consideration that 1) the timing and pattern of transfer of the nonlease components and associated lease component are the same, and 2) the lease component, if accounted for separately, would be classified as an operating lease. As the lease of space is the predominant component of the Organization's leasing arrangements, the Organization accounted for all lease and non-lease components as one single component under Topic 842. As a result, the adoption of Topic 842 did not have any impact on the Organization's timing or pattern of recognition of rental revenues as compared to previous guidance.

In addition, under Topic 842, lessors will only capitalize incremental direct leasing costs. The Organization does not capitalize non-incremental direct leasing costs. These costs are expensed as incurred and are included within general and administrative expenses on the statement of activities.

Rental income totaled \$28,434 and \$30,107 for the years ended December 31, 2022 and 2021, respectively, and is included in other revenue on the statement of operations and changes in net 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, 2022 and 2021.

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)

Exchange Transactions

The Organization recognizes client service 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 Arizona Health Care Cost Containment System, "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.

During 2018, the Organization received advance payments from AHCCCS in a total amount of \$250,000. During 2022, there was a recoupment of \$91,395 related to the advance payments by AHCCCS and is included as a decrease to client service revenue in the statement of operations and changes in net assets. 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, 2022 and 2021.

Through August 16, 2023, 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.

Other Revenue - The Organization's other revenue is primarily made up of rental income. The Organization recognizes rental income in accordance with ASC 842, *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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$31,618 and \$4,716 for the years ended December 31, 2022 and 2021, respectively.

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, 2022 and 2021, 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 13).

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, 2021.

3. New Accounting Pronouncements

Adopted as of December 31, 2022

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. 2018-11 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.

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)

Adopted as of December 31, 2022 (continued)

In July 2018, the FASB issued ASU No. 2018-11, *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. 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU No. 2018-11 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. Adoption of Topic 842 resulted in the recording of additional ROU assets and related lease liabilities related to the Organization's operating leases of \$639,236 at January 1, 2022. The adoption of the new lease standard resulted in significant new disclosures about Organization's leasing activities and did not materially impact the change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

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 adoption of this ASU primarily affected the Organization's disclosures for in-kind contributions (see Note 14).

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)

Not Adopted as of December 31, 2022

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.

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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,132,937	\$ 1,593,607
Grants and contracts receivables	<u>1,712,430</u>	<u>1,366,983</u>
Total financial assets	3,845,367	2,960,590
Less amounts unavailable for general expenditure within one year, due to:		
Net assets with donor restrictions	<u>733,004</u>	<u>507,289</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,112,363</u>	<u>\$ 2,453,301</u>

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.

NOTES TO FINANCIAL STATEMENTS

5. Grants and Contracts Receivable

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

	<u>2022</u>	<u>2021</u>
City of Tucson	\$ 561,438	\$ 561,222
Arizona Department of Child Services	1,950	-
Arizona Department of Corrections	33,933	32,346
Arizona Superior Court in Pima County	7,480	8,198
U.S. Department of Health and Human Services	69,413	25,111
Pima County	423,997	176,584
U.S. Department of Housing and Urban Development	205,557	92,831
U.S. Department of Veterans Affairs	195,548	153,012
Arizona Department of Economic Security	-	194,795
El Rio Santa Cruz Neighborhood Health Center	103,695	21,957
	<u>1,603,011</u>	<u>1,266,056</u>
Various Unbilled Receivables	109,419	100,927
	<u>\$ 1,712,430</u>	<u>\$ 1,366,983</u>

6. Property and Equipment

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

	<u>2022</u>	<u>2021</u>
Land	\$ 345,563	\$ 345,563
Buildings	2,029,229	2,029,229
Building improvements	636,420	600,330
Furniture and equipment	53,006	24,681
Vehicles	223,079	161,369
Software	139,931	139,931
Construction in progress	275,365	44,634
	<u>3,702,593</u>	<u>3,345,737</u>
Less accumulated depreciation	(1,222,166)	(1,094,508)
	<u>\$ 2,480,427</u>	<u>\$ 2,251,229</u>

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, 2022 or 2021. The agreement was renewed during 2021, where interest accrues at the prime rate (7.27% and 3.25% as of December 31, 2022 and 2021, 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.

NOTES TO FINANCIAL STATEMENTS

8. Long-Term Debt

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

	<u>2022</u>	<u>2021</u>
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. The notes were collateralized by certain real property. The notes were paid in full during 2022.	\$ -	\$ 71,723
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.	293,144	304,725
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, subject to adjustment every ten years, 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.	511,360	526,038
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, 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.	412,189	423,282

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

	<u>2022</u>	<u>2021</u>
National Bank of Arizona - \$350,000 promissory note with an initial interest rate of 0.99% per annum. The promissory note requires 12 monthly principal and interest payments of \$1,320. Beginning June 2023 the note's interest rate escalates to 3.49% with a corresponding principal and interest payment of \$1,742, maturing in April 2032 with an estimated \$244,717 balloon payment. The promissory note is collateralized by a deed of trust and fixture filing. The Organization is required to maintain an annual debt service coverage ratio of not less than 1.25 to 1.00. The Organization is in compliance with this covenant as of December 31, 2022.	341,737	-
National Bank of Arizona - \$350,000 promissory note with an initial interest rate of 0.99% per annum. The promissory note requires 12 monthly principal and interest payments of \$1,174.3. Beginning June 2023, the note's interest rate escalates to 3.49% with a corresponding principal and interest payment of \$1,743, maturing in April 2032 with an estimated \$246,801 balloon payment. The promissory note is collateralized by a deed of trust and fixture filing. The Organization is required to maintain an annual debt coverage service ratio of not less than 1.25 to 1.00. The Organization is in compliance with this covenant as of December 31, 2022.	<u>341,728</u>	<u>-</u>
	1,900,158	1,325,768
Less current portion	<u>(57,315)</u>	<u>(55,925)</u>
	<u>\$ 1,842,843</u>	<u>\$ 1,269,843</u>

The following is a summary of future principal maturities as of December 31, 2022:

<u>Year Ending</u>	<u>Amount</u>
2023	\$ 57,315
2024	327,126
2025	47,238
2026	49,115
2027	51,066
Thereafter	<u>1,368,298</u>
	<u>\$ 1,900,158</u>

NOTES TO FINANCIAL STATEMENTS

9. Lessee Leases

The Organization leases real estate, equipment and vehicles under operating lease agreements that have initial terms ranging from 2 to 4 years. Some leases may include one or more options to renew, generally at the Organization's sole discretion. In addition, certain leases may contain termination options, where the rights to terminate are held by either the Organization, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Organization will exercise that option. The Organization's operating 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.

The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	\$ 275,544
Short-term lease cost	<u>331,641</u>
Total lease cost	<u>\$ 607,185</u>

Supplemental balance sheet information related to leases is as follows as of December 31, 2022:

Operating leases:	
Operating lease right-of-use assets	\$ <u>363,692</u>
Operating lease liability, current	\$ 275,943
Operating lease liability, long-term	<u>85,520</u>
Total operating lease liabilities	<u>\$ 361,463</u>

Weighted-average remaining lease term:	
Operating leases	1.65 years

Weighted-average discount rate:	
Operating leases	1.96%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

Year Ending December 31,	Operating Leases
2023	\$ 277,713
2024	54,281
2025	40,547
2026	<u>359</u>
	Total lease payments
	<u>372,900</u>
Less imputed interest	<u>(11,437)</u>
	Total present value of lease liabilities
	<u>\$ 361,463</u>

NOTES TO FINANCIAL STATEMENTS

Lessee Leases (continued)

Future minimum lease commitments, as determined under Topic 840, *Leases* for all non-cancelable leases are as follows as of December 31, 2021:

Years Ending December 31,	Operating Leases
2022	\$ 300,095
2023	262,768
2024	66,647
2025	58,568
Thereafter	28,688
Total minimum lease payments	\$ <u>716,766</u>

Rent expense totaled \$556,086 for the year ended December 31, 2021.

10. Net Assets With Donor Restrictions

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

	2022	2021
Subject to expenditure for specified purpose		
Transitional housing	\$ 3,643	\$ 3,643
Down payment assistance	359	359
Financial education	11,705	16,962
Occupancy fees	96,169	53,174
Capital campaign	539,096	406,250
Reentry Bed Days	11,744	-
Homeless work program	70,288	26,901
	<u>\$ 733,004</u>	<u>\$ 507,289</u>

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

NOTES TO FINANCIAL STATEMENTS

Retirement Plans (continued)

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, 2022 and 2021, matching contributions totaled \$71,310 and \$74,456, 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, 2022 and 2021.

13. 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.

There were no behavioral healthcare services payable as of December 31, 2022, and 2021.

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.

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.

NOTES TO FINANCIAL STATEMENTS

Commitments, Contingencies & Concentrations (continued)

Concentrations of Contributions

For the years ended December 31, 2022 and 2021, 42% and 56%, 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, 2022, and 2021, the Organization had approximately \$1,980,000 and \$1,445,000 in excess of FDIC insured limits, respectively.

14. In-Kind Contributions

In-kind contributions consisted of the following for the years ended December 31:

	2022	2021
Materials	\$ 165,958	\$ 5,486
	\$ 165,958	\$ 5,486

For the years ended December 31, 2022 and 2021, the Organization recognized contributed nonfinancial assets within donated materials, property and services revenue, to include various materials. Unless otherwise noted, contributed nonfinancial assets were not monetized and did not have donor-imposed restrictions.

Materials – The Organization receives donated materials from several sources and are generally used in its Veteran Communities, Reentry Communities, and Supportive Housing and Other programs. Target contributes their broken, damaged, or returned health and beauty products, paper goods, etc. Bomba’s socks contributed donated socks for clients. Thrive Cosmetics donated makeup and skincare items for clients. Materials are valued based on quantity of items received and the market price of the items, if they had been purchased.

15. 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. 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 Organization received full forgiveness of the original loan amount plus accrued interest for a total of \$672,628 in January 2022.

16. Subsequent Events

The Organization evaluated subsequent events through August 16, 2023, which represents the date the financial statements were available to be issued and concluded that no additional disclosures are required.