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, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED DECEMBER 31, 2022)

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Keegan Linscott & Associates, PC

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, 2023 and 2022, 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, 2023, 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, 2023 and 2022, and the changes in its cash flows for the years then ended, and its changes in net assets for the year ended December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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, 2023, the Organization adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to this matter.

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Report on Summarized Comparative Information

We have previously audited the Organization's December 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 16, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, 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 June 26, 2024, 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 26, 2024

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31,

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 130,947	$ 2,132,937
Grants and contracts receivable	1,822,205	1,603,011
Grants and contracts receivable - unbilled	177,855	109,419
Prepaid expenses and other current assets	62,692	13,818
Total current assets	2,193,699	3,859,185
Operating lease right of use asset	1,471,897	363,692
Property and equipment, net	4,997,893	2,480,427
Total assets	$ 8,663,489	$ 6,703,304
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 332,606	$ 57,315
Accounts payable	117,524	110,504
Accrued expenses	291,714	253,036
Operating lease liability, current	375,445	275,943
Total current liabilities	1,117,289	696,798
Operating lease liability, long term	1,097,562	85,520
Deferred revenue	25,424	25,424
Long-term debt	2,451,215	1,842,843
Total liabilities	4,691,490	2,650,585
Net assets		
Without donor restrictions	3,810,571	3,319,715
With donor restrictions	161,428	733,004
Total net assets	3,971,999	4,052,719
Total liabilities and net assets	$ 8,663,489	$ 6,703,304

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Summarized Total 2022
Revenues				
Grant and program revenue				
Government grants	$ 7,581,726	$ -	$ 7,581,726	$ 6,834,024
Client service revenue	862,683	-	862,683	888,388
	8,444,409	-	8,444,409	7,722,412
Public support and other revenue				
Contributions	31,208	869,218	900,426	948,238
Event revenue, net	-	-	-	388
Donated materials, property and services	18,903	-	18,903	165,958
PPP loan forgiveness	-	-	-	672,628
Other revenue	35,319	-	35,319	34,553
	85,430	869,218	954,648	1,821,765
Releases from restrictions	1,440,794	(1,440,794)	-	-
Total revenues	9,970,633	(571,576)	9,399,057	9,544,177
Expenses				
Salaries	4,965,557	-	4,965,557	4,274,451
Payroll taxes and employee benefits	810,951	-	810,951	716,508
Outside professional services	563,398	-	563,398	788,463
Program expenses and supplies	710,501	-	710,501	477,094
Rent	586,094	-	586,094	565,042
Rent - supportive housing	697,420	-	697,420	709,379
Utilities	346,467	-	346,467	336,029
Auto, travel and training	219,838	-	219,838	180,374
Office supplies and equipment	87,327	-	87,327	107,890
Accounting, insurance, advertising and fees	214,066	-	214,066	161,140
Interest	81,497	-	81,497	65,349
Depreciation	196,661	-	196,661	127,658
Total expenses	9,479,777	-	9,479,777	8,509,377
Change in net assets	490,856	(571,576)	(80,720)	1,034,800
Net assets, beginning of year	3,319,715	733,004	4,052,719	3,017,919
Net assets, end of year	$ 3,810,571	$ 161,428	$ 3,971,999	$ 4,052,719

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	$ (80,720)	$ 1,034,800
Adjustments to reconcile change in net assets		
to net cash (used in) provided by operating activities		
Loss on disposal of property and equipment	2,868	-
Depreciation	196,661	127,658
PPP loan forgiveness	-	(672,628)
Reduction in carrying amount of right-of-use asset	473,632	275,544
Changes in operating assets and liabilities		
Grants and contracts receivable	(219,194)	(336,955)
Grants and contracts receivable - unbilled	(68,436)	(8,492)
Prepaid expenses and other current assets	(48,874)	69,740
Accounts payable	7,020	62,203
Accrued expenses	38,678	29,675
Operating lease liability	(470,293)	(277,773)
Other current liabilities	-	(60,414)
Net cash (used in) provided by operating activities	(168,658)	243,358
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,716,995)	(356,856)
Net cash used in investing activities	(2,716,995)	(356,856)
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Program promissory note	-	78,438
Proceeds from long-term debt	941,095	700,000
Repayment of long-term debt	(57,432)	(125,610)
Net cash provided by financing activities	883,663	652,828
Net change in cash	(2,001,990)	539,330
Cash and cash equivalents, beginning of year	2,132,937	1,593,607
Cash and cash equivalents, end of year	$ 130,947	$ 2,132,937
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 81,560	$ 66,016
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows - payments on operating lease	$ 488,779	$ 278,512
Right-of-use assets obtained in exchange for new lease obligations		
Operating lease	$ 1,581,837	$ 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, 2023

	Veteran Communities	Reentry Communities	Supportive Housing and Other	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	Total
Expenses								
Salaries	$ 662,019	$ 1,255,975	$ 1,141,082	$ 3,059,076	$ 1,755,083	$ 151,398	$ 1,906,481	$ 4,965,557
Payroll taxes and employee benefits	71,248	117,827	109,623	298,698	496,717	15,536	512,253	810,951
Outside professional services	29,134	75,334	183,122	287,590	269,609	6,199	275,808	563,398
Program expenses and supplies	81,107	93,726	534,419	709,252	1,155	94	1,249	710,501
Rent	198,719	322,886	27,897	549,502	36,592	-	36,592	586,094
Rent - supportive housing	8,137	4,970	684,313	697,420	-	-	-	697,420
Utilities	150,436	103,624	46,400	300,460	41,671	4,336	46,007	346,467
Auto, travel and training	12,700	33,325	148,495	194,520	22,636	2,682	25,318	219,838
Office supplies and equipment	235	3,115	27,449	30,799	56,136	392	56,528	87,327
Accounting, insurance, advertising and fees	12,049	22,081	2,572	36,702	101,030	76,334	177,364	214,066
Interest	39,745	669	17,476	57,890	23,607	-	23,607	81,497
Depreciation	6,591	-	29,536	36,127	160,534	-	160,534	196,661
Total expenses	$ 1,272,120	$ 2,033,532	$ 2,952,384	$ 6,258,036	$ 2,964,770	$ 256,971	$ 3,221,741	$ 9,479,777

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	$ 1,208,193	$ 2,179,207	$ 2,354,275	$ 5,741,675	$ 2,527,450	$ 240,252	$ 2,767,702	$ 8,509,377

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, and Grants and Contracts Receivable - Unbilled

Grants and contracts receivable consist principally of amounts due from the Organization's government funding sources. 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. The carrying amount of the receivables is reduced by an allowance for credit losses. The allowance for credit losses is the Organization's best estimate of the amount of probable credit losses in the Organization's existing receivables and is based upon historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss associated with specific accounts. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Uncollectible receivables are written off during the year in which they are identified. Recoveries of receivables previously written off are recorded when received.

Allowance for Credit Losses and Doubtful Accounts

The Organization adopted ASC 326, *Financial Instruments—Credit Losses*, as of January 1, 2023, with the cumulative-effect transition method with the required prospective approach. The measurement of expected credit losses under the current expected credit loss ("CECL") methodology is applicable to financial assets measured at amortized cost, which include trade receivables. An allowance for credit losses under the CECL methodology is determined using the loss-rate approach and measured on a collective (pool) basis when similar risk characteristics exist. Where financial instruments do not share risk characteristics, they are evaluated on an individual basis. The CECL allowance is based on relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Management determined no allowance for credit loss was deemed necessary for grants and contracts receivable, and grants and contracts receivable – unbilled, as of December 31, 2023.

Prior to adoption of ASC 326, the Organization maintained an allowance for doubtful accounts to reserve for potentially uncollectable receivables, however, management determined no allowance for doubtful accounts was necessary for grants and contracts receivable, and grants and contracts receivable – unbilled, as of December 31, 2022.

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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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, 2023, the Organization had not experienced impairment losses on its long-lived assets.

Leases

Lessee Leases

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 (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 recognizes most leases on its statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statement of operations and changes in net assets.

The Organization made an accounting policy election available 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, *Leases*). 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.

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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases (continued)

Lessor Leases

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 operations and changes in net assets.

Rental income totaled $26,555 and $28,434 for the years ended December 31, 2023 and 2022, respectively, and is included in other revenue on the statement of operations and changes in net assets.

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, 2023 and 2022.

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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

- **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.

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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Exchange Transactions (continued)

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. There was no such recoupment in 2023. 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, 2023 and 2022.

Through June 26, 2024, 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.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled $67,781 and $31,618 for the years ended December 31, 2023 and 2022, 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Tax Exempt Status (continued)
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, 2023 and 2022, 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, 2022.

3. New Accounting Pronouncements

Adopted as of December 31, 2023
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 changes 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. The Organization adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost. The adoption of ASC 326 and all related subsequent amendments thereto resulted in new disclosures about the Organization's allowance for credit losses and did not materially impact the financial statements and did not result in a cumulative-effect adjustment to opening net assets.

NOTES TO FINANCIAL STATEMENTS

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:

	2023	2022
Cash and cash equivalents	$ 130,947	$ 2,132,937
Grants and contracts receivables	2,000,060	1,712,430
Total financial assets	2,131,007	3,845,367
Less amounts unavailable for general expenditure within one year, due to:		
Net assets with donor restrictions	161,428	733,004
Financial assets available to meet cash needs for general expenditures within one year	$ 1,969,579	$ 3,112,363

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:

	2023	2022
City of Tucson	$ 628,493	$ 561,438
Arizona Department of Child Services	14,988	1,950
Arizona Department of Corrections	45,601	33,933
Arizona Superior Court in Pima County	4,588	7,480
U.S. Department of Health and Human Services	46,469	69,413
Pima County	319,597	423,997
U.S. Department of Housing and Urban Development	481,223	205,557
U.S. Department of Veterans Affairs	235,795	195,548
El Rio Santa Cruz Neighborhood Health Center	45,451	103,695
	1,822,205	1,603,011
Various unbilled receivables	177,855	109,419
	$ 2,000,060	$ 1,712,430

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

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

	2023	2022
Land	$ 345,563	$ 345,563
Buildings	2,029,229	2,029,229
Building improvements	3,042,941	636,420
Furniture and equipment	358,888	53,006
Vehicles	364,319	223,079
Software	139,931	139,931
Construction in progress	135,587	275,365
	6,416,458	3,702,593
Less accumulated depreciation	(1,418,565)	(1,222,166)
	$ 4,997,893	$ 2,480,427

7. Line of Credit

The Organization had an available $250,000 revolving line of credit with National Bank of Arizona, which had no outstanding balance as of December 31, 2023 or 2022 and expired on July 18, 2023. As of June 26, 2024, the agreement had not been renewed. Interest accrued at the prime rate (8.5% and 7.5% as of December 31, 2023 and 2022, respectively), plus 0.75% per annum, with a floor of 4.75%. Interest only payments were due monthly, with all outstanding principal and accrued interest due at the expiration date. As of June 26, 2024, the Organization and the National Bank of Arizona were in the process of negotiating a new line of credit.

NOTES TO FINANCIAL STATEMENTS

8. Long-Term Debt

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

	2023	2022
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 August 2024 with an estimated $279,097 balloon payment. The promissory note is collateralized by a deed of trust on certain real property.	281,789	293,144
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 $293,257 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.	497,166	511,360
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 $231,396 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.	400,639	412,189

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

	2023	2022
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 $243,944 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 was not in compliance with this covenant as of December 31, 2023; however as of June 26, 2024, the lender does not consider the loan to be in default.	331,579	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 $1,321. 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 $243,739 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 was not in compliance with this covenant as of December 31, 2023; however as of June 26, 2024, the lender does not consider the loan to be in default.	331,553	341,728
National Bank of Arizona - $1,050,000 construction loan with an initial interest rate of 1.00% over the the prime rate (8.5% as of December 31, 2023) per annum until the end of the draw period on September 7, 2024, at which time the loan will convert to a term loan with an interest rate of 3.40% over the five-year United States Treasury Rate (3.84% as of December 31, 2023), with a floor of 5.75%. Until the date of conversion, interest only payments are required. Beginning on October 7, 2024, The Organization will make equal payments of principal plus interest until the maturity date on September 7, 2029. The Organization is required to maintain an annual debt service coverage ratio of not less than 1.10 to 1.00, and an annual loan to value ratio of 50%. The Organization was in compliance with the loan to value ratio but was not in compliance with the debt service coverage ratio as of December 31, 2023; however as of June 26, 2024, the lender does not consider the loan to be in default.	941,095	-
	2,783,821	1,900,158
Less current portion	(332,606)	(57,315)
	$ 2,451,215	$ 1,842,843

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

The following is a summary of future principal maturities as of December 31, 2023:

Year Ending	Amount
2024	332,606
2025	70,515
2026	74,236
2027	78,178
2028	82,206
Thereafter	2,146,080
	$ 2,783,821

9. Lessee Leases

The Organization leases real estate, equipment and vehicles under operating lease agreements that have initial terms ranging from 2 to 5 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.

On January 1, 2024 the Organization entered into a 3-year operating lease agreement resulting in an estimated beginning ROU asset and corresponding lease liability of $644,030.

The components of lease expense are as follows for the years ended December 31:

	2023	2022
Operating lease cost	$ 475,252	$ 275,544
Short-term lease cost	147,783	331,641
Total lease cost	$ 623,035	$ 607,185

NOTES TO FINANCIAL STATEMENTS

Lessee Leases (continued)

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

	2023	2022
Operating leases:		
Operating lease right-of-use assets	$ 1,471,897	$ 363,692
Operating lease liabilities, current	$ 375,445	$ 275,943
Operating lease liabilities, long-term	1,097,562	85,520
Total operating lease liabilities	$ 1,473,007	$ 361,463
Weighted-average remaining lease term	4.22 years	1.65 Years
Weighted-average discount rate	1.24%	1.95

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, 2023:

Year Ending December 31,		Operating Leases
2024		$ 377,910
2025		364,176
2026		321,780
2027		313,320
2028		130,550
	Total lease payments	1,507,736
	Less imputed interest	(34,729)
	Total present value of lease liabilities	1,473,007
	Less Lease liability, current	375,445
	Lease liability, non-current	$ 1,097,562

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:

	2023	2022
Subject to expenditure for specified purpose		
Transitional housing	$ -	$ 3,643
Down payment assistance	359	359
Financial education	4,478	11,705
Occupancy fees & Other client expenses	97,096	96,169
Capital campaign	-	539,096
Reentry Bed Days	495	11,744
Homeless work program	-	70,288
Tenants Rights Education	43,756	-
Outreach	15,245	-
	$ 161,428	$ 733,004

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, 2023 and 2022, matching contributions totaled $91,815 and $71,310, 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, 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

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, 2023, and 2022.

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.

Concentrations of Contributions

For the years ended December 31, 2023 and 2022, 50% and 42%, respectively, of the Organization's contributions revenues were received from three and one donor(s), respectively.

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, 2023, and 2022, the Organization had approximately $37,000 and $1,980,000 in excess of FDIC insured limits, respectively.

NOTES TO FINANCIAL STATEMENTS

14. In-Kind Contributions

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

	2023	2022
Materials	$ 6,503	$ 165,958
Vehicles	12,400	-
	$ 18,903	$ 165,958

For the years ended December 31, 2023 and 2022, 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. Materials are valued based on quantity of items received and the market price of the items, if they had been purchased.

Vehicles – In 2023, the Organization received two contributed vehicles that are used for the Homeless Work Program in which the Organization transports individuals experiencing homelessness to and from places of employment. The vehicles were valued based on an online comparison of the sales price for similar vehicles.

15. Subsequent Events

The Organization evaluated subsequent events through June 26, 2024, which represents the date the financial statements were available to be issued and concluded that with the exception of the information at Note 9, no additional disclosures are required.