Hope Community Services, Inc.
Financial Statements
For the Year Ended June 30, 2023

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Independent Auditor's Report

The Board of Directors
Hope Community Services, Inc.

Report on Audit of Financial Statements

Opinion
We have audited the accompanying financial statements of Hope Community Services, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Hope Community Services, Inc. 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.

Change in Accounting Principle
As described in Note 1, Hope Community Services, Inc. implemented the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-02, *Leases* (Topic 842), for the year ended June 30, 2023, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
October 18, 2023

Hope Community Services, Inc.
Statement of Financial Position
June 30, 2023

Assets		
Cash and cash equivalents	$	1,613,121
Government receivables, net		325,050
Contributions receivables, net		75,000
Security deposit		16,810
Prepaid expenses and other current assets		21,658
Property and equipment, net		622,959
Operating lease right of use asset		792,686
Total assets	$	3,467,284
Liabilities		
Accounts payable	$	48,511
Accrued expenses		75,390
Operating lease liability		843,813
Total liabilities		967,714
Net assets		
Without donor restrictions:		
Undesignated		2,323,539
With donor restrictions:		
Time restricted		75,000
Purpose restricted		101,031
Total net assets		2,499,570
Total liabilities and net assets	$	3,467,284

See accompanying notes to financial statements.

Hope Community Services, Inc.
Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues:			
Public support:			
Community support	$ 20,661	$	$ 20,661
Corporations and nongovernment grants	5,813	116,229	122,042
Foundations	8,323		8,323
Individuals	113,356		113,356
United Way	3,950		3,950
Gifts-in-kind	13,798		13,798
Total public support	165,901	116,229	282,130
Revenue:			
Governmental contracts and grants	2,074,177		2,074,177
Employer retention tax credit	193,212		193,212
Interest and dividends	2,228		2,228
Total revenue	2,269,617		2,269,617
Net assets released from restrictions	308,485	-308,485	-
Total Public Support and Revenue	2,744,003	(192,256)	2,551,747
Expenses:			
Program services			
Family support services	1,085,032		1,085,032
Behavioral health	1,530,688		1,530,688
Total program expenses	2,615,720		2,615,720
Supporting services			
General and administrative	448,945		448,945
Fundraising	145,177		145,177
Total supporting services	594,122		594,122
Total expenses	3,209,842		3,209,842
Total expenses and losses	3,209,842		3,209,842
Change in net assets	(465,839)	(192,256)	(658,095)
Net assets, beginning of year	2,789,378	368,287	3,157,665
Net assets, end of year	$ 2,323,539	$ 176,031	$ 2,499,570

See accompanying notes to financial statements.

Hope Community Services, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services			Supporting Services		
	Family Support Services	Behavioral Health	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 735,982	$ 980,127	$ 1,716,109	$ 227,490	$ 76,142	$ 2,019,741
Payroll taxes and employee related expenses	83,362	121,904	205,266	26,140	11,902	243,308
Employee Mileage	137,249	3,551	140,800		199	140,999
Employment Expenses	20,566	36,505	57,071	1,370	87	58,528
Insurance	12,330	11,376	23,706	9,084	725	33,515
Events & Meetings		2,178	2,178	583	1,919	4,680
Licenses & Fees		1,838	1,838	1,215	2,827	5,880
Office Expenses	1,100	2,693	3,793	2,403	619	6,815
Postage	519	554	1,073	418	826	2,317
Printing	1,260	1,552	2,812	165	654	3,631
Professional Fees	679	37,030	37,709	133,491	24,000	195,200
Program Supplies & Activities	902	52,983	53,885	97	87	54,069
Repairs & Maintenance	5,648	75,674	81,322	10,666	5,599	97,587
Security	272	247	519	42	16	577
Storage Rental	2,214	1,145	3,359	10,157	2,845	16,361
Other Expenses	9,254	15,945	25,199	1,707	14,941	41,847
Depreciation & Amortization		14,753	14,753			14,753
Telephone	27,783	18,748	46,531	3,774	1,103	51,408
Rent & Utilities	32,114	151,885	183,999	20,143	686	204,828
In-kind	13,798		13,798			13,798
Total expenses	$ 1,085,032	$ 1,530,688	$ 2,615,720	$ 448,945	$ 145,177	$ 3,209,842

See accompanying notes to financial statements.

Hope Community Services, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2023

Cash flows from operating activities:		
Change in net assets	$	(658,095)
Adjustments to reconcile change in net assets to net cash provided by/used for operating activities:		
Depreciation & amortization		14,753
Net (gain)/loss on investments		
Changes in assets and liabilities:		
Government receivables		(115,522)
Contributions receivables		75,000
Security deposits		(6,511)
Prepaid expenses and other current assets		(1,749)
Accounts payable		(42,525)
Accrued expenses		10,122
Deferred rent		(490)
Operating lease assets and liabilities		51,127
Net cash provided by/used for operating activities		(673,890)
Cash flows from investing activities:		
Purchases of property and equipment		(561,262)
Net cash provided by/used for investing activities		(561,262)
Net increase/decrease in cash and cash equivalents		(1,235,152)
Cash and cash equivalents, beginning of year		2,848,273
Cash and cash equivalents, end of year	$	1,613,121

Supplemental disclosure of cash flow information		
Cash paid during during the year for amounts included in the measurement of leases	$	146,857

See accompanying notes to financial statements.

Note 1 – Summary of Significant Accounting Policies

Nature of Activities

Hope Community Services, Inc., (the Organization) was incorporated on November 5, 1986 in the state of Arizona as a nonprofit corporation under the name West Valley Child Crisis Center, Inc. In June 2018, the Organization changed their name to Hope Community Services, Inc. The Organization was established to find temporary and permanent homes for children (from infant to teens) in the Phoenix metropolitan area who are victims of, or at risk of, domestic violence, abuse, or abandonment. The Organization now provides outpatient behavioral health services to include trauma-focused therapy and animal-assisted therapy. In addition, the organization provides supervised parental visitation and parenting skills training. The Organization's primary source of revenue for its programs are government contracts, health insurance contracts, grants, and contributions.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Organization is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Note 1 – Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. At year end, the carrying amount of the Organization's deposits was $1,613,121, and the bank balance was $1,615,068. At year end, $1,115,068 of the Organization's deposits were uninsured and uncollateralized. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions. The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. The Organization did not have any conditional promises to give at June 30, 2023.

Government Contracts and Grants. The Organization's supervised visitation and nurturing parent programs are funded by government contracts. The government is billed monthly for services provided in the preceding month. The behavioral health program is funded by fee for service contracts with multiple health plans. The health plans set the reimbursement rates for billing by the organization. The health plans are billed biweekly for the services provided during the preceding two weeks.

Government Receivables

Government receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to government receivables. At year end, the valuation allowance for government receivables was $16,500.

Note 1 – Summary of Significant Accounting Policies

Contributions Receivable
Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in periods greater than one year are recorded at net present value of expected cash flows. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with donors, and accordingly has made no allowance for doubtful accounts.

Property and Equipment
All acquisitions of property and equipment with a cost in excess of $5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three years for vehicles, furniture and equipment to three to six years for leasehold improvements, to 40 years for buildings and improvements. Depreciation and amortization expense for the current fiscal year was $14,753.

Compensated Absences
Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is the Organization's policy to recognize the cost of compensated absence when leave is earned by employees. As of June 30, 2023, the balance in accrued PTO was $48,801 and is included in the accrued expenses on the Statement of Financial Position.

Leases
The Organization determines if an arrangement is or contains a lease at inception. All leases are recorded on the statement of financial position except for leases with an initial term less than 12 months. Lease assets and obligations are recognized based on the present value of future lease payments over the lease terms. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments when the implicit rate is not readily determinable.

Operating lease right-of-use assets (ROU) include adjustments related to lease payments made and lease incentives received at or before the commencement date. The assets resulting from operating leases are included in right-of-use assets and the related liabilities are included in operating leases payable on the Statement of Financial Position. Finance lease assets are included in property and equipment, net, and the related liabilities are included in finance leases payable on the Statement of Financial Position.

Operating lease expense is recognized on a straight-line basis over the lease term. Lease and non-lease components of lease agreements are accounted for separately. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option.

Note 1 – Summary of Significant Accounting Policies

In-Kind Contributions

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Volunteers may contribute time to the Organization's program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses.

Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages	Time and effort
Payroll taxes and employee related expenses	Time and effort
Professional fees	Time and effort
Rent and utilities	Square footage

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). The Organization's Form 990, *Return of Organization Exempt from Income Taxes,* is generally subject to examination by the Internal Revenue Service for three years after the date filed.

Management has evaluated the tax positions taken or expected to be taken, if any, on its exempt organization filings, and the likelihood that upon examination those positions would be sustained. Based on the results of this evaluation, management believes there are no uncertain tax positions.

Note 1 – Summary of Significant Accounting Policies

New Accounting Pronouncement

During the fiscal year, the Organization adopted Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). This update requires entities to recognize assets and liabilities for both capital and operating leases on the statement of financial position, and disclose key information about leasing arrangements. In adopting Topic 842, the Organization elects the practical expedient transition package to not reassess (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. It also elects not to report assets or liabilities for leases with terms of one year or less.

Upon adoption, the Organization recognized operating lease ROU assets of $792,686 and related lease liabilities of $843,813 in the statement of financial position. The adoption did not result in a significant effect on amounts reported in the statement of activities, or on the accounting for contracts classified as finance leases.

Date of Management's Review

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 18, 2023, which is the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

The following represents the Organization's financial assets at fiscal year end:

Financial assets at year end:	
Cash and cash equivalents	$ 1,613,121
Government receivables, net	325,050
Contributions receivables, net	75,000
Total financial assets	2,013,171
Less amounts not available to be used within one year:	
Less: Net assets with purpose restrictions to be met in less than a year	--
Financial assets available to meet general expenditures over the next twelve months	$ 2,013,171

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

Note 3 – Government and Contributions Receivables

All government receivables are due within one year. As of June 30, 2023, the Organization has government receivables of $325,050, including an allowance for uncollectibles of $16,500.

Changes in government and contributions receivable for the fiscal year are as follows:

	Government Receivables	Contributions Receivables
Beginning of the year	$ 209,528	$ 150,000
Revenue recognized during fiscal the year	2,074,177	282,130
Revenue collected during fiscal the year	(1,958,655)	(357,130)
End of year	$ 325,050	$ 75,000

Unconditional contributions receivable consisted of $75,000 in amounts due in less than one year. Management determined discounting the contributions receivable balance was unnecessary and would have had a negligible impact on the financial statements.

Note 4 – Property and Equipment

Property and equipment consist of the following.

Land	$ 140,000
Leasehold improvements	59,969
Buildings and improvements	390,987
Vehicles, furniture and equipment	121,205
Total property and equipment	712,161
Less: Accumulated depreciation and amortization	(89,202)
Net property and equipment	$ 622,959

Note 5 – Employer Retention Tax Credit

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) signed into law on March 27, 2020 and the subsequent extension of the CARES Act, Hope Community Services, Inc. was eligible for a refundable employee retention tax credit subject to certain criteria. Employers were eligible for the credit if Hope Community Services, Inc. sustained a full or partial suspension of operations limiting commerce, travel or group meetings due to COVID-19 and orders from an appropriate governmental authority or experienced a significant decline in gross receipts during 2020 or a decline in gross receipts during the first three quarters of 2021. The tax credit was equal to 50% of qualified wages paid to employees during a quarter, capped at $10,000 of qualified wages per employee from March 12, 2020 through December 31, 2020.

Note 5 – Employer Retention Tax Credit

Additional relief provisions were passed by the United States government, which extended and slightly expanded the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit for the first three quarters of 2021 was equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to $10,000 of qualified wages per quarter. Hope Community Services, Inc. qualified for the credit under the provision for having sustained a full or partial suspension of operations. In December 2022, Hope Community Services, Inc. filed Form 941-X Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund for two quarters from April 2020 through September 2020. During the fiscal year ended June 30, 2023, Hope Community Services, Inc. recognized $193,212 in revenue from the employer retention credit. The credits are subject to audit from the Internal Revenue Service for up to 5 years from when it was paid in June 2023.

Note 6 – Net Assets

Net assets without donor restrictions at year end of $2,323,539 were all considered undesignated. Net assets with donor restrictions were as follows:

Specific Purpose	
Foster and adopt program	$ 818
Marketing materials	168
Staff retention	518
Training	298
Behavioral health program	29,375
Equine program	69,854
Passage of time	
Contribution receivable due in 2024	75,000
Total	$ 176,031

Net assets released from donor restrictions are as follows:

Specific Purpose	
Foster and adopt program	$ 12,500
Behavioral health program	115,211
Equine program	105,774
Passage of time	
Contribution receivable	75,000
Total	$ 308,485

Note 7 – Leases

The Organization leases office facilities under a long-term noncancelable operating lease. The lease expires at October 31, 2027 and provides for no renewal options. The operating lease provides for increases in future minimum annual rental payments.

The Organization has determined that sales tax will be allocated to the lease as a nonlease component. In determining the value of the right-of-use asset and lease liabilities, future lease payments were discounted applying the risk-free discount rate of 2.66%. The Organization considers the discount rate to be an appropriate measure of the interest cost to obtain financing for the purchase of the leased property. The right-of-use asset consisted of $951,140, net of accumulated amortization of $158,454, resulting in a value of $792,686.

The following table provides a schedule of future lease payments and other supplemental information for the Organization's operating lease as of year end:

Year End:	
2024	$ 196,496
2025	202,400
2026	208,448
2027	214,711
2028	73,348
Total minimum lease payments	895,403
Less: Discount to present value	(51,590)
Present value of lease liabilities	$ 843,813
Weighted average remaining lease term	52 months
Weighted average discount rate	2.66%

There were no noncash investing and financing transactions related to leasing other than the transition entry described in note 1.

Note 8 – In-Kind Contributions

The Organization received $13,798 of supplies as contributions of nonfinancial assets during the fiscal year.

Contributed supplies are valued using current average prices located on a publicly available website for similar items. Contributed supplies are used in program services.

Note 9 – Concentrations

The Organization receives a substantial portion of its total revenue, approximately 59 percent under contracts negotiated with the Arizona Department of Child Safety (DCS). At June 30, 2023, 80 percent of their government receivables were from DCS, and 18 percent were from Mercy Care. If the Organization is unable to renegotiate its contracts with DCS in the future, it would have an adverse effect on the operations of the Organization.

At June 30, 2023, the entire contributions receivable balance was attributable to one private foundation.

Note 10 – Contingencies

Contract compliance. Under a previous block grant delivery program for behavioral health services, the Organization was required to meet contract year end minimum encounter submission percentages or be subject to sanction by Mercy Care. The organization received communication from Mercy Care that they will not sanction the organization or recoup funding related to an under-encounter prior to January 1, 2020. Accordingly, as of June 30, 2023, the Organization has not recorded a liability associated with an encounter sanction or recoupment.

Note 11 – Employee Benefit Plans

Tax-deferred Annuity Plan

The Organization has a tax-deferred annuity plan that qualifies under Section 408(p) of the Internal Revenue Code. The plan covers full-time employees of the Organization. The Organization contributes up to 3 percent of gross salaries to the plan for qualified employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan expenses were $6,652 for the fiscal year.