Hope Community Services, Inc.
Financial Statements
For the Year Ended June 30, 2024

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Independent Auditor's Report

The Board of Directors
Hope Community Services, Inc.

<u>Report on Audit of Financial Statements</u>

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, 2024, 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, 2024, 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.

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
February 25, 2025

Hope Community Services, Inc.
Statement of Financial Position
June 30, 2024

Assets		
Cash and cash equivalents	$	1,596,653
Government receivables, net		302,213
Contributions receivables		16,454
Security deposit		16,810
Prepaid expenses and other current assets		19,643
Property and equipment, net		593,146
Operating lease right of use asset		618,168
Total assets	$	3,163,087
Liabilities		
Accounts payable	$	80,698
Accrued expenses		97,321
Operating lease liability		667,631
Total liabilities		845,650
Net assets		
Without donor restrictions:		
Undesignated		2,215,550
With donor restrictions:		
Time restricted		16,454
Purpose restricted		85,433
Total net assets		2,317,437
Total liabilities and net assets	$	3,163,087

See accompanying notes to financial statements.

Hope Community Services, Inc.
Statement of Activities
For the Year Ended June 30, 2024

Revenue, support, and gains:	Without Donor Restrictions	With Donor Restrictions	Total
Community support	$ 22,384	$	$ 22,384
Corporations and nongovernment grants	114,258	292,954	407,212
Foundations	13,475		13,475
Individuals	110,347		110,347
United Way	13,162		13,162
Gifts-in-kind	17,285		17,285
Total public support	290,911	292,954	583,865
Revenue:			
Governmental contracts and grants	2,929,703		2,929,703
Interest and dividends	20,008		20,008
Total revenue	2,949,711		2,949,711
Net assets released from restrictions	367,098	(367,098)	-
Total Public Support and Revenue	3,607,720	(74,144)	3,533,576
Expenses:			
Program services			
Family support services	1,352,991		1,352,991
Behavioral health	1,730,887		1,730,887
Total program expenses	3,083,878		3,083,878
Supporting services			
Management and general	493,772		493,772
Fundraising	138,059		138,059
Total supporting services	631,831		631,831
Total expenses	3,715,709		3,715,709
Total expenses and losses	3,715,709		3,715,709
Change in net assets	(107,989)	(74,144)	(182,133)
Net assets, beginning of year	2,323,539	176,031	2,499,570
Net assets, end of year	$ 2,215,550	$ 101,887	$ 2,317,437

See accompanying notes to financial statements.

Hope Community Services, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2024

	Program Services			Supporting Services		
	Family Support Services	Behavioral Health	Total	General and Administrative	Fundraising	Total
Salaries and wages	$ 973,529	$ 1,184,969	$ 2,158,498	$ 221,664	$ 61,930	$ 2,442,092
Payroll taxes and employee related expenses	111,335	156,395	267,730	35,726	7,614	311,070
Employee Mileage	177,014	510	177,524	63	148	177,735
Employment Expenses	9,457	6,814	16,271	2,534	6,214	25,019
Insurance	13,540	12,354	25,894	9,794	761	36,449
Events & Meetings	23	2,660	2,683	769	4,990	8,442
Licenses & Fees		6,124	6,124	802	2,099	9,025
Office Expenses	1,787	3,963	5,750	2,439	1,132	9,321
Postage	463	334	797	452	537	1,786
Printing	1,530	1,400	2,930	228	829	3,987
Professional Fees	4,328	30,994	35,322	136,035	26,400	197,757
Program Supplies & Activities	2,763	74,517	77,280	299		77,579
Repairs & Maintenance	9,836	69,730	79,566	21,640	6,080	107,286
Security	226	206	432	35	13	480
Storage Rental	2,935	1,227	4,162	6,563	2,215	12,940
Other Expenses	183	3,460	3,643	1,610	16,492	21,745
Depreciation & Amortization		29,813	29,813			29,813
Telephone	15,217	10,876	26,093	2,108	605	28,806
Rent & Utilities	11,540	134,541	146,081	51,011		197,092
In-kind	17,285		17,285			17,285
Total expenses	$ 1,352,991	$ 1,730,887	$ 3,083,878	$ 493,772	$ 138,059	$ 3,715,709

Hope Community Services, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2024

Cash flows from operating activities:		
Change in net assets	$	(182,133)
Adjustments to reconcile change in net assets to net cash provided by/used for operating activities:		
Depreciation & amortization		29,813
Net (gain)/loss on investments		
Changes in assets and liabilities:		
Government receivables		22,837
Contributions receivables		58,546
Prepaid expenses and other current assets		2,015
Accounts payable		32,187
Accrued expenses		21,931
Operating lease assets and liabilities		(1,664)
Net cash provided by/used for operating activities		(16,468)
Net increase/decrease in cash and cash equivalents		(16,468)
Cash and cash equivalents, beginning of year		1,613,121
Cash and cash equivalents, end of year	$	1,596,653

Supplemental disclosure of cash flow information		
Cash paid during during the year for amounts included in the measurement of leases	$	195,104

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.

Hope Community Services, Inc.
Notes to Financial Statements
June 30, 2024

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 $1,596,653, and the bank balance was $1,596,151. At year end, $1,096,151 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, 2024.

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 to five 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 $29,813.

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, 2024, the balance in accrued PTO was $45,349 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
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 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	$ 1,596,653
Government receivables, net	302,213
Contributions receivables, net	16,454
Total financial assets	1,915,320
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	$ 1,915,320

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, 2024, the Organization has government receivables of $302,213, 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	$ 325,050	$ 75,000
Revenue recognized during fiscal the year	2,929,703	583,865
Revenue collected during fiscal the year	(2,952,540)	(642,411)
End of year	$ 302,213	$ 16,454

Unconditional contributions receivable consisted of $16,454 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	(119,015)
Net property and equipment	$ 593,146

Note 5 – Net Assets

Net assets without donor restrictions at year end of $2,215,550 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
Trauma Therapy	83,631
Passage of time	
Contribution receivable due in 2025	16,454
Total	$ 101,887

Net assets released from donor restrictions are as follows:

Satisfaction of purpose restrictions	
Behavioral health program	$ 28,375
Trauma Therapy	263,723
Satisfaction of time passage	
Contribution receivable	75,000
Total	$ 367,098

Note 6 – 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 percent. The Organization

Note 6 – Leases

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 $792,686, net of accumulated amortization of $174,518, resulting in a value of $618,168.

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:		
	2025	$ 202,400
	2026	208,448
	2027	214,711
	2028	73,348
Total minimum lease payments		698,907
Less: Discount to present value		(31,276)
Present value of lease liabilities		$ 667,631
Weighted average remaining lease term		40 months
Weighted average discount rate		2.66%

There were no noncash investing and financing transactions related to the operating cash flows from operating leases.

Note 7 – In-Kind Contributions

The Organization received $17,285 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 8 – Concentrations

The Organization receives a substantial portion of its total revenue, approximately 53 percent under contracts negotiated with the Arizona Department of Child Safety (DCS). At June 30, 2024, 59 percent of their government receivables were from DCS, and 30 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, 2024, the entire contributions receivable balance was attributable to one private foundation.

Note 9 – 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 three 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 $16,596 for the fiscal year.

Note 10 – Subsequent Events

Subsequent events have been evaluated through February 25, 2025, which is the date the financial states were available to be issued.

In November 2024, the Organization closed the farm location used for the Farm Therapy Program. Additionally, during the January 2025 board meeting, the Organization made the decision to end the Behavioral Health Program by March 2025. These programs were ended due to the financial impact resulting from billing changes with the Arizona Health Care Cost Containment System, the inability to find a partner to merge the program with, difficulty in staffing positions, and inflation.