

# ESPERANZA EN ESCALANTE AND AFFILIATE

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND  
SINGLE AUDIT REPORTS AND SCHEDULES  
Years ended September 30, 2024 and 2023



JENNIFER J. PHILLIPS, CPA, PLLC  
CERTIFIED PUBLIC ACCOUNTANT

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SINGLE AUDIT REPORTS AND SCHEDULES**  
Years ended September 30, 2024 and 2023

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Esperanza En Escalante and Affiliate  
Tucson, Arizona

### Opinion

I have audited the accompanying consolidated financial statements of Esperanza En Escalante and Affiliate (an Arizona nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2024 and 2023, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Esperanza En Escalante and Affiliate as of September 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Esperanza En Escalante and Affiliate and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Esperanza En Escalante and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated 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 my 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 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, 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Esperanza En Escalante and Affiliate'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 consolidated financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Esperanza En Escalante and Affiliate's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

### **Supplementary information**

My audit was performed for the purpose of forming an opinion on the consolidated financial statements of Esperanza En Escalante and Affiliate taken as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated January 8, 2025 on my consideration of Esperanza En Escalante and Affiliate's internal control over financial reporting

Board of Directors  
Esperanza En Escalante and Affiliate  
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and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Esperanza En Escalante and Affiliate's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jennifer J. Phillips, CPA, PLLC". The signature is written in a cursive, flowing style.

JENNIFER J. PHILLIPS, CPA, PLLC  
Tucson, Arizona

January 8, 2025

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 280,366	\$ 249,995
Grants receivable	105,617	80,747
Other receivables	5,490	831
Prepaid expenses and other assets	12,986	4,196
Due from related organizations - Note 7	13,411	13,174
Property and equipment - Note 6	<u>3,091,219</u>	<u>3,234,004</u>
	<u>\$ 3,509,089</u>	<u>\$ 3,582,947</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 62,674	\$ 39,099
Accrued expenses	<u>42,529</u>	<u>39,147</u>
	105,203	78,246
Net assets:		
Without donor restrictions:		
Available for operations	279,938	269,905
Expended for property and equipment	<u>3,091,219</u>	<u>3,234,004</u>
	3,371,157	3,503,909
With donor restrictions - Note 8	<u>32,729</u>	<u>792</u>
	<u>3,403,886</u>	<u>3,504,701</u>
	<u>\$ 3,509,089</u>	<u>\$ 3,582,947</u>

See Accompanying Notes.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
Year ended September 30, 2024

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenues:			
Government grants and contracts	\$ 994,690	\$ -	\$ 994,690
Resident service fees	108,927	-	108,927
Contributions	115,345	62,864	178,209
Special event revenue, net of direct donor benefit costs of \$1,352	6,472	-	6,472
Other revenues	14,494	-	14,494
	<u>1,239,928</u>	<u>62,864</u>	<u>1,302,792</u>
Net assets released from restrictions	<u>30,927</u>	<u>(30,927)</u>	<u>-</u>
Total public support and revenues	<u>1,270,855</u>	<u>31,937</u>	<u>1,302,792</u>
Expenses:			
Program service	1,187,080	-	1,187,080
Management and general	212,325	-	212,325
Fundraising	4,202	-	4,202
Total expenses	<u>1,403,607</u>	<u>-</u>	<u>1,403,607</u>
Change in net assets	(132,752)	31,937	(100,815)
Net assets, beginning of year	<u>3,503,909</u>	<u>792</u>	<u>3,504,701</u>
Net assets, end of year	<u>\$ 3,371,157</u>	<u>\$ 32,729</u>	<u>\$ 3,403,886</u>

See Accompanying Notes.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
Year ended September 30, 2023

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenues:			
Government grants and contracts	\$ 1,101,581	\$ -	\$ 1,101,581
Resident service fees	90,468	-	90,468
Contributions	79,402	-	79,402
Special event revenue, net of direct donor benefit costs of \$7,466	21,114	-	21,114
Other revenues	1,787	-	1,787
	<u>1,294,352</u>	<u>-</u>	<u>1,294,352</u>
Net assets released from restrictions	55,346	(55,346)	-
Total public support and revenues	<u>1,349,698</u>	<u>(55,346)</u>	<u>1,294,352</u>
 Expenses:			
Program service	1,208,543	-	1,208,543
Management and general	294,536	-	294,536
Fundraising	984	-	984
Total expenses	<u>1,504,063</u>	<u>-</u>	<u>1,504,063</u>
 Change in net assets	(154,365)	(55,346)	(209,711)
 Net assets, beginning of year	<u>3,658,274</u>	<u>56,138</u>	<u>3,714,412</u>
 Net assets, end of year	<u>\$ 3,503,909</u>	<u>\$ 792</u>	<u>\$ 3,504,701</u>

See Accompanying Notes.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended September 30, 2024

	<b>Program service</b>	<b>Management and general</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 491,901	\$ 139,559	\$ -	\$ 631,460
Employee related expenses	81,173	14,708	-	95,881
	<u>573,074</u>	<u>154,267</u>	<u>-</u>	<u>727,341</u>
Auto expense	7,432	-	-	7,432
Depreciation expense	127,307	15,478	-	142,785
Direct donor benefit costs	-	-	1,352	1,352
Information technology	49,944	8,442	-	58,386
Insurance	35,277	-	-	35,277
Office expenses	6,431	8,851	4,202	19,484
Other expenses	-	2,402	-	2,402
Permits and fees	787	-	-	787
Professional fees	11,628	11,539	-	23,167
Repairs and maintenance	64,425	-	-	64,425
Resident programs and aid	31,431	-	-	31,431
Security services	131,846	-	-	131,846
Staff training	1,902	-	-	1,902
Telephone	4,628	2,739	-	7,367
Travel	8,671	-	-	8,671
Utilities	132,297	8,607	-	140,904
Total functional expenses	<u>1,187,080</u>	<u>212,325</u>	<u>5,554</u>	<u>1,404,959</u>
Less: direct donor benefit costs netted against special events revenue	-	-	(1,352)	(1,352)
Total expenses	<u>\$ 1,187,080</u>	<u>\$ 212,325</u>	<u>\$ 4,202</u>	<u>\$ 1,403,607</u>

See Accompanying Notes.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended September 30, 2023

	<b>Program service</b>	<b>Management and general</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 427,490	\$ 154,734	\$ -	\$ 582,224
Employee related expenses	39,990	25,014	-	65,004
	<u>467,480</u>	<u>179,748</u>	<u>-</u>	<u>647,228</u>
Auto expense	6,517	-	-	6,517
Depreciation expense	126,449	15,715	-	142,164
Direct donor benefit costs	-	-	7,466	7,466
Information technology	41,019	3,398	-	44,417
Insurance	40,319	3,533	-	43,852
Office expenses	6,735	7,008	984	14,727
Other expenses	-	54,440	-	54,440
Permits and fees	432	-	-	432
Professional fees	24,331	23,953	-	48,284
Repairs and maintenance	167,859	-	-	167,859
Resident programs and aid	40,566	-	-	40,566
Security services	125,063	-	-	125,063
Staff training	142	2,029	-	2,171
Telephone	14,010	3,374	-	17,384
Travel	1,364	-	-	1,364
Utilities	146,257	1,338	-	147,595
Total functional expenses	<u>1,208,543</u>	<u>294,536</u>	<u>8,450</u>	<u>1,511,529</u>
Less: direct donor benefit costs netted against special events revenue	-	-	(7,466)	(7,466)
Total expenses	<u>\$ 1,208,543</u>	<u>\$ 294,536</u>	<u>\$ 984</u>	<u>\$ 1,504,063</u>

See Accompanying Notes.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ (100,815)	\$ (209,711)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	142,785	142,164
(Increase) decrease in operating assets:		
Grants receivable	(24,870)	(9,217)
Other receivables	(4,659)	164
Prepaid expenses and other assets	(8,790)	5,751
Due from related organizations	(237)	18,614
Increase (decrease) in operating liabilities:		
Accounts payable	23,575	(18,554)
Accrued expenses	3,382	7,773
Refundable advances	-	(6,736)
Net cash provided by (used in) operating activities	<u>30,371</u>	<u>(69,752)</u>
Cash flows (used in) investing activities -		
Purchases of property and equipment	<u>-</u>	<u>(113,849)</u>
Net change in cash and cash equivalents	30,371	(183,601)
Cash and cash equivalents, beginning of year	<u>249,995</u>	<u>433,596</u>
Cash and cash equivalents, end of year	<u>\$ 280,366</u>	<u>\$ 249,995</u>

Supplemental disclosure:

No cash paid for interest or income taxes in 2024 or 2023.

See Accompanying Notes.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2024 and 2023

**NOTE 1 – Nature of operations**

Esperanza En Escalante is incorporated in the state of Arizona as a nonprofit corporation. The primary purpose of Esperanza En Escalante is to provide facilities, programs and respect to veterans and their families that will nurture and support the transition from homelessness to self-sufficiency. Primary funding is from government grants and contracts.

The major program of Esperanza En Escalante is *Transitional Housing*, which is designed to provide housing and rental assistance to veterans who are in transition from homelessness to self-sufficiency or require rental assistance to maintain self-sufficiency.

In 2016, Esperanza En Escalante created EEE Escalante, LLC, a single member limited liability company (Affiliate). The Affiliate then established EEE Supportive I MM, LLC and EEE Supportive II MM, LLC with a for-profit investor for the sole purpose of acting as managing members of the two projects, respectively. The Affiliate owns 51% of both EEE Supportive I MM, LLC and EEE Supportive II MM, LLC, and is entitled to 10% of all profits and losses of the companies. EEE Supportive I MM, LLC and EEE Supportive II MM, LLC are managed and controlled by an unrelated investor.

EEE Supportive I MM, LLC established EEE Supportive I, LLC and EEE Supportive II MM, LLC established EEE Supportive II, LLC (Project Owners) to finance, build and own permanent supportive housing for homeless veterans. EEE Supportive I MM, LLC and EEE Supportive II MM, LLC manage the operations and hired a leasing agency. An unrelated investor owns 99.9% as the Limited Partner of each of the two partnerships, and EEE Supportive I MM, LLC and EEE Supportive II MM, LLC retain .01% as the General Partner of their respective partnerships.

The Arizona Department of Housing allocated \$8.2 million (Phase 1) and \$11.9 million (Phase 2) in federal low-income housing tax credits to Esperanza En Escalante in 2016 and 2018, respectively. The Project Owners are responsible for the financing and construction of the projects. At the end of the tax credit periods, Esperanza En Escalante will receive title to the properties if all conditions are met.

The accompanying consolidated financial statements do not include the activity of EEE Supportive I MM, LLC, EEE Supportive II MM, LLC, or the Project Owners, as the criteria for consolidation has not been met. Esperanza En Escalante and Affiliate are herein collectively referred to as Esperanza. The Affiliate had no activity for the years ended September 30, 2024 and 2023.

**NOTE 2 – Summary of significant accounting policies**

*Principles of consolidation*

The consolidated financial statements include the accounts of Esperanza En Escalante and EEE Escalante, LLC. All significant inter-organization accounts and transactions have been eliminated.

*Cash and cash equivalents*

Esperanza considers all cash and highly liquid investments with an original maturity of three months or less which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition. Esperanza had no restricted cash as of either September 30, 2024 or 2023.

*Grants and receivable*

Esperanza records grants receivable (unconditional promises to give) that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
September 30, 2024 and 2023

**NOTE 2 – Summary of significant accounting policies – continued**

In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. As of both September 30, 2024 and 2023, all unconditional promises to give were due within one year.

Esperanza determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At both September 30, 2024 and 2023, management believes that all receivables are collectible and, accordingly, has recorded no allowance for uncollectible accounts.

*Property and equipment*

Esperanza capitalizes all expenditures for property and equipment in excess of \$5,000 including repairs that extend the life of the asset by two years or more. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Esperanza reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. Esperanza has determined that there were no indicators of asset impairment as of either September 30, 2024 or 2023.

*Net assets*

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Net assets without donor restrictions** – Net assets available for use in general operations and not subject to donor restrictions.

**Net assets with donor restrictions** – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity.

Esperanza reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

*Revenue and revenue recognition*

Esperanza recognizes revenue from resident service fees as earned when the services are provided. Esperanza records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. Esperanza recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
September 30, 2024 and 2023

**NOTE 2 – Summary of significant accounting policies – continued**

of return, are not recognized until the conditions on which they depend have been substantially met. Esperanza's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. There were no unrecognized conditional promises to give at either September 30, 2024 or 2023.

*In-kind contributions*

Contributed non-financial assets may include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods or services received. Esperanza does not sell donated gifts-in-kind. Contributed goods are recorded at fair value at the date of donation. There were no such contributions during either of the years ended September 30, 2024 or 2023.

Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Esperanza's volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

*Functional allocation of expenses*

The general approach to allocating costs to the various functions of Esperanza follows:

- All direct costs are charged to activities and functions;
- Direct costs that can be identified to more than one activity are prorated individually as direct costs using a base appropriate to the particular cost being prorated;
- All other allowable administrative costs (costs that benefit all activities and cannot be identified to a specific function) are allocated using a base that results in an equitable distribution.

*Income tax status*

Esperanza En Escalante is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Esperanza En Escalante's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, Esperanza En Escalante 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 Affiliate has elected to be classified as an association taxable as a corporation.

Management of Esperanza En Escalante considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to the organization's status as a not-for-profit entity. Management believes that Esperanza En Escalante met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax, therefore, no provision for income taxes has been provided in these consolidated financial statements.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
September 30, 2024 and 2023

**NOTE 2 – Summary of significant accounting policies – continued**

Accordingly, Esperanza En Escalante has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the Internal Revenue Service (IRS) for either of the years ended September 30, 2024 or 2023.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Financial instruments and credit risk*

Esperanza manages deposit concentration risk by placing cash and money market accounts with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, Esperanza has not experienced losses in any of these accounts. As of September 30, 2024, there was \$35,855 in uninsured cash and cash equivalents.

Credit risk associated with receivables is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of Esperanza’s mission; however, there is a potential credit risk and accounting loss that could occur if all parties to the receivables fail to perform their obligations for the stated amounts.

**NOTE 3 – Concentrations**

Esperanza received approximately 76% and 84% of its support and operating revenue from the Veterans Administration during the years ended September 30, 2024 and 2023, respectively. A significant decrease in this support, were it to occur, could have an adverse effect on the operations of Esperanza.

**NOTE 4 – Liquidity and availability**

Financial assets available for general expenditure (without donor or other restrictions limiting their use) within one year of the statement of financial position date comprise the following at September 30:

	2024	2023
Cash and cash equivalents	\$ 247,637	\$ 249,204
Grants receivable	105,617	80,747
Other receivables	5,490	831
	\$ 358,744	\$ 330,782

As part of Esperanza’s liquidity management plan, cash in excess of annual operating requirements is placed in interest-bearing savings accounts.

**NOTE 5 – Line of credit payable**

Esperanza had a \$100,000 revolving line of credit with a financial institution to be drawn as needed. The line of credit bore interest at 10.25% per annum. The outstanding balance on the line of credit was \$0 at September 30, 2023. The line of credit was closed during the year ended September 30, 2024. The line was secured by inventory, receivables and equipment.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
September 30, 2024 and 2023

**NOTE 6 – Property and equipment**

Property and equipment consisted of the following at September 30, 2024 and 2023:

	2024	2023
Land	\$ 442,013	\$ 442,013
Buildings	563,885	563,885
Housing units	2,787,874	2,787,874
Improvements	1,172,482	1,172,482
Furniture, fixtures and equipment	58,648	58,648
Vehicles	110,040	110,040
	<u>5,134,942</u>	<u>5,134,942</u>
Less accumulated depreciation	<u>(2,043,723)</u>	<u>(1,900,938)</u>
	<u>\$ 3,091,219</u>	<u>\$ 3,234,004</u>

Esperanza has acquired and constructed real property under various grants and bond funds. Terms of the agreements require Esperanza to use the facilities for the intended program purpose for the minimum period of time ranging from 20 to 30 years. Disposition of the property, including non-program use, or failure to meet affordability requirements prior to the minimum period noted would require repayment of the original grant or the unforgiven portion of the grant. The estimated amounts of liens and their expiration as of September 30, 2024 are summarized as follows:

Project	Expiration	Amount
Infrastructure improvements	2042	\$ 941,282
VA women's units	2034	275,569
ADOH units	2032	610,048
		<u>\$ 1,826,899</u>

**NOTE 7 – Related party transactions**

As discussed in Note 1, the Arizona Department of Housing allocated federal low-income housing tax credits to Esperanza En Escalante. Under the terms of two resident service agreements, Esperanza provides services to the residents of the Projects at no cost to the residents. Esperanza earned \$49,457 and \$49,769 under these agreements during the years ended September 30, 2024 and 2023, respectively. As portions of these amounts to be received are contingent upon the net cash flows of the Projects, management has recorded an allowance for uncollectible accounts.

Accrued resident service fees were as follows at September 30, 2024 and 2023:

	2024	2023
EEE Supportive I, LLC	\$ 33,049	\$ 21,705
EEE Supportive II, LLC	13,411	37,875
	<u>46,460</u>	<u>59,580</u>
Allowance for uncollectible accounts	<u>(33,049)</u>	<u>(46,406)</u>
	<u>\$ 13,411</u>	<u>\$ 13,174</u>

In addition, Esperanza received a cash flow distribution in the amount of \$12,482 from EEE Supportive II, LLC during the year ended September 30, 2024, included in other revenues in the consolidated statements of activities.

**ESPERANZA EN ESCALANTE AND AFFILIATE**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued  
September 30, 2024 and 2023

**NOTE 8 – Net assets with donor restrictions**

Net assets with donor restrictions were as follows for the year ended September 30, 2024:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending balance</u>
Purpose restrictions:				
Capital needs	\$ -	\$ 55,894	\$ (30,135)	\$ 25,759
Garden project	-	4,970	-	4,970
Veterans services	792	-	(792)	-
Other	-	2,000	-	2,000
	<u>\$ 792</u>	<u>\$ 62,864</u>	<u>\$ (30,927)</u>	<u>\$ 32,729</u>

Net assets with donor restrictions were as follows for the year ended September 30, 2023:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending balance</u>
Purpose restrictions:				
Vehicle	\$ 40,000	\$ -	\$ (40,000)	\$ -
Garden project	-	-	-	-
Veterans services	16,138	-	(15,346)	792
Other	-	-	-	-
	<u>\$ 56,138</u>	<u>\$ -</u>	<u>\$ (55,346)</u>	<u>\$ 792</u>

**NOTE 9 – Subsequent events**

Management has evaluated subsequent events through January 8, 2025 which is the date the financial statements were available to be issued.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATE-  
MENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Esperanza En Escalante and Affiliate  
Tucson, Arizona

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Esperanza En Escalante and Affiliate (collectively referred to as Esperanza), which comprise the consolidated statements of financial position as of September 30, 2024 and 2023, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued my report thereon dated January 8, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing my audit of the consolidated financial statements, I considered Esperanza's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Esperanza's internal control. Accordingly, I do not express an opinion on the effectiveness of Esperanza's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001, that I consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Esperanza's consolidated financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Esperanza En Escalante's Response to Finding

*Government Auditing Standards* requires the auditor to perform limited procedures on Esperanza's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Esperanza's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Esperanza's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Esperanza's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



JENNIFER J. PHILLIPS, CPA, PLLC

Tucson, Arizona  
January 8, 2025



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
Esperanza En Escalante  
Tucson, Arizona

Report on Compliance for Each Major Federal Program

*Opinion on each major federal program*

I have audited Esperanza En Escalante's (Esperanza) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Esperanza's major federal programs for the year ended September 30, 2024. Esperanza's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In my opinion, Esperanza complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2024.

*Basis for opinion on each major federal program*

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). My responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of my report.

I am required to be independent of Esperanza and to meet my other ethical responsibilities, in accordance with relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion on compliance for each major federal program. My audit does not provide a legal determination of Esperanza's compliance with the compliance requirements referred to above.

*Responsibilities of management for compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Esperanza's federal programs.

*Auditor's responsibilities for the audit of compliance*

My objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an

opinion on Esperanza's compliance based on my audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on Esperanza's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Esperanza's compliance with the compliance requirements referred to above and performing such other procedures as I considered necessary in the circumstances.
- Obtain an understanding of Esperanza's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Esperanza's internal control over compliance. Accordingly, no such opinion is expressed.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that I identified during the audit.

#### Report on Internal Control Over Compliance

My consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, as discussed below, I did identify certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with

a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2024-001 to be a significant deficiency.

My audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on Esperanza's response to the internal control over compliance findings identified in my audit described in the accompanying schedule of findings and questioned costs. Esperanza's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



JENNIFER J. PHILLIPS, CPA, PLLC

Tucson, Arizona  
January 8, 2025

**ESPERANZA EN ESCALANTE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended September 30, 2024

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:  
No material weaknesses identified.  
One significant deficiency identified. 2024-001

No non-compliance material to financial statements noted.

**Federal awards**

Internal control over major programs:  
No material weaknesses identified.  
One significant deficiency identified. 2024-001

Type of auditor’s report issued on compliance for major programs: Unmodified

No audit findings disclosed as required to be reported in accordance with 2 CFR section 200.516(a)

Identification of major programs:  
64.024 VA Homeless Providers Grant and Per Diem Program

Dollar threshold to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee.

**SECTION II – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

The following represents a significant deficiency in internal controls in accordance with *Government Auditing Standards* and over compliance in accordance with the Uniform Guidance.

<b>Finding:</b> 2024-001	Program: ALN 64.024, <i>VA Homeless Providers Grant and Per Diem Program</i>	<b>Questioned Cost:</b> NONE
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**Condition:** Esperanza currently lacks a centralized processing system for receiving payments from their program participants. Currently, checks and cash are handled manually by multiple staff members.

**Criteria:** The Code of Federal Regulations (CFR) § 200.303 requires the organization to establish and maintain effective internal control that provides reasonable assurance that the organization is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

**Cause:** Esperanza changed its system for receiving program receipts during the year.

**Effect:** This decentralized approach increases the risk of errors and mismanagement of funds.

**ESPERANZA EN ESCALANTE**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued  
Year ended September 30, 2024

**Recommendation:** I recommend that Esperanza revert to its former centralized processing system for receiving and managing payments from clients, whereby all payments are received and receipted by the Office Manager. This centralization will streamline the handling of checks and cash, reducing the risk of errors and fraud.

Copies of the triplicate receipts (pink) should remain in the book and be reconciled to the general ledger by the Accountant on a monthly basis to ensure accuracy and completeness.

**Views of Responsible Officials:** Management concurs. See Corrective Action Plan.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding Number:** 2024-001

**Repeat Finding:** No

**Program Name/CFDA Title:** VA Homeless Providers Grant and Per Diem Program

**CFDA Number:** 64.024

**Federal Agency:** US Department of Veterans Affairs

**Federal Award Number:** ESPE588-3965-678-PD-24

**Pass-Through Agency:** N/A

**Questioned Costs:** N/A

**Type of Finding:** Significant deficiency

**Compliance Requirement:** N/A

See Finding 2024-001 description in Section II above.

**ESPERANZA EN ESCALANTE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended September 30, 2024

<u>Federal Grantor/Pass-through grantor Program Title</u>	<u>Assistance Listing number</u>	<u>Additional Award ID</u>	<u>Grant/FAIN number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Veterans Affairs</u></b>				
<i>Direct:</i>				
VA Homeless Providers Grant and Per Diem Program	64.024	N/A	ESPE588-3965-678-PD-24	\$ <u>994,690</u>

**NOTE 1: Basis of presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Organization under programs of federal, state and local governments for the year ended September 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**NOTE 2: Summary of significant accounting policies**

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The Organization has elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3: Other information**

No amounts were paid to subrecipients, and no Assistance Listing numbers belonged to part of a cluster.

**ESPERANZA EN ESCALANTE**  
**SUMMARY OF PRIOR YEAR FINDINGS**  
Year ended September 30, 2024

**FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS**

The following represents a significant deficiency in internal controls in accordance with *Government Auditing Standards* and over compliance in accordance with the Uniform Guidance.

<b>Finding:</b> 2023-001	Program: ALN 64.024, <i>VA Homeless Providers Grant and Per Diem Program</i>	<b>Questioned Cost:</b> NONE
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**Condition:** Numerous data entry errors occurred during the year where incorrect check numbers were entered into the accounting system. There were also multiple gaps in sequence in the check register. This should have been discovered during the bank reconciliation process (review of canceled check images) but was not. Bank statements were not reconciled correctly on a timely basis, and lists of outstanding checks were not included with the approved bank reconciliations.

**Criteria:** The Code of Federal Regulations (CFR) § 200.303 requires the organization to establish and maintain effective internal control that provides reasonable assurance that the organization is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

**Cause:** The Organization experienced significant staff turnover during the year.

**Effect:** Internal controls over operating cash were deficient. Bank reconciliations had to be reperformed after year-end by the new Accountant.

**Recommendation:** Bank reconciliations should include details (list of outstanding items) and be reviewed on a monthly basis. Any gaps in check sequence, stale-dated items and other unusual items should be followed up on and investigated. Bank reconciliations should be done in a timely manner (generally within 30-45 days after month-end).

**Views of Responsible Officials:** Management concurs.

**Current year status:** Resolved.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See Finding 2023-001 description in the above section.



**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
 FYE 09/30/2024

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2024-001	<p><b><u>Cash Receipts:</u></b></p> <p>Most governmental contract cash receipts are received via ACH.</p> <p>The main cash receipts received through the mail are donations.</p> <p>Mail is delivered to the office and sorted by the Admin Asst. She opens everything except the bills and bank statements, which she gives to the CEO to open. She observes the CEO opening the mail for dual custody. Checks are restrictively endorsed immediately by the Admin Asst. upon opening the mail. For program fee receipts, the Admin Asst. writes out a two-part receipt for all payments received. The receipt books are kept long term. The Admin Asst. copies all checks and receipts and uploads scanned images to Sharepoint for backup to deposit entry in Fund EZ. The original checks and copies of check and receipt are put in the safe by the CEO or Accountant and are there until the CEO prepares the deposit. The CEO gives the deposit slips, a log and the checks to the Accountant, who reviews for accuracy. Once reviewed, the CEO or the Accountant takes the deposit to the bank and the Accountant uses the log as the basis for reconciling the checks (receipts) to Fund EZ. The deposits are made at a minimum of once a month. The Accountant enters receipts to Fund EZ at least once a week.</p> <p>Deposits are made at a minimum of once a month.</p>	On Going as of 01/13/2025	Robert Hayes or Suzanne Bond

**Esperanza En Escalante**  
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