ESPERANZA EN ESCALANTE AND AFFILIATE

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS AND SCHEDULES
Years ended September 30, 2025 and 2024

JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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Years ended September 30, 2025 and 2024

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JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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, 2025 and 2024, 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, 2025 and 2024, 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 April 8, 2026 on my consideration of Esperanza En Escalante and Affiliate’s internal control over financial reporting 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.

Jennifer J Phillips, CPA, PLLC

JENNIFER J. PHILLIPS, CPA, PLLC
Tucson, Arizona

April 8, 2026

ESPERANZA EN ESCALANTE AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2025 and 2024

	2025	2024
ASSETS		
Cash and cash equivalents	$ 233,673	$ 280,366
Grants receivable	126,098	105,617
Other receivables	6,956	5,490
Prepaid expenses and other assets	14,750	12,986
Due from related organizations - Note 7	13,813	13,411
Property and equipment - Note 6	3,051,066	3,091,219
	$ 3,446,356	$ 3,509,089
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 69,770	$ 62,674
Accrued expenses	17,443	42,529
	87,213	105,203
Net assets:		
Without donor restrictions:		
Available for operations	240,945	279,938
Expended for property and equipment	3,051,066	3,091,219
	3,292,011	3,371,157
With donor restrictions - Note 9	67,132	32,729
	3,359,143	3,403,886
	$ 3,446,356	$ 3,509,089

See Accompanying Notes.

ESPERANZA EN ESCALANTE AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended September 30, 2025

	Without donor restrictions	With donor restrictions	Total
Public support and revenues:			
Government grants and contracts	$ 1,160,951	$ -	$ 1,160,951
Resident service fees	118,603	-	118,603
Contributions	174,105	60,000	234,105
In-kind contributions - Note 8	86,263	-	86,263
Special event revenue, net of direct donor benefit costs of $0	-	-	-
Other revenues	5,184	-	5,184
	1,545,106	60,000	1,605,106
Net assets released from restrictions	25,597	(25,597)	-
Total public support and revenues	1,570,703	34,403	1,605,106
Expenses:			
Program service	1,391,063	-	1,391,063
Management and general	253,836	-	253,836
Fundraising	4,950	-	4,950
Total expenses	1,649,849	-	1,649,849
Change in net assets	(79,146)	34,403	(44,743)
Net assets, beginning of year	3,371,157	32,729	3,403,886
Net assets, end of year	$ 3,292,011	$ 67,132	$ 3,359,143

See Accompanying Notes.

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

	Without donor restrictions	With donor restrictions	Total
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
In-kind contributions - Note 8	-	-	-
Special event revenue, net of direct donor benefit costs of $1,352	6,472	-	6,472
Other revenues	14,494	-	14,494
	1,239,928	62,864	1,302,792
Net assets released from restrictions	30,927	(30,927)	-
Total public support and revenues	1,270,855	31,937	1,302,792
Expenses:			
Program service	1,187,080	-	1,187,080
Management and general	212,325	-	212,325
Fundraising	4,202	-	4,202
Total expenses	1,403,607	-	1,403,607
Change in net assets	(132,752)	31,937	(100,815)
Net assets, beginning of year	3,503,909	792	3,504,701
Net assets, end of year	$ 3,371,157	$ 32,729	$ 3,403,886

See Accompanying Notes.

ESPERANZA EN ESCALANTE AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended September 30, 2025

	Program service	Management and general	Fundraising	Total
Salaries and wages	$ 589,093	$ 136,810	$ -	$ 725,903
Employee related expenses	72,815	30,973	-	103,788
	661,908	167,783	-	829,691
Auto expense	4,255	-	-	4,255
Bad debt expense	11,684	17,875	-	29,559
Depreciation expense	114,641	24,033	-	138,674
Direct donor benefit costs	-	-	-	-
Information technology	44,376	7,500	-	51,876
Insurance	44,824	3,009	-	47,833
Office expenses	10,296	5,768	4,300	20,364
Other expenses	-	2,668	-	2,668
Permits and fees	7,043	-	-	7,043
Professional fees	5,014	11,590	650	17,254
Repairs and maintenance	66,394	-	-	66,394
Resident programs and aid	135,623	-	-	135,623
Security services	142,485	-	-	142,485
Staff training	1,185	-	-	1,185
Telephone	2,870	2,874	-	5,744
Travel	26,966	-	-	26,966
Utilities	111,499	10,736	-	122,235
Total functional expenses	1,391,063	253,836	4,950	1,649,849
Less: direct donor benefit costs netted against special events revenue	-	-	-	-
Total expenses	$ 1,391,063	$ 253,836	$ 4,950	$ 1,649,849

See Accompanying Notes.

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

	Program service	Management and general	Fundraising	Total
Salaries and wages	$ 491,901	$ 139,559	$ -	$ 631,460
Employee related expenses	81,173	14,708	-	95,881
	573,074	154,267	-	727,341
Auto expense	7,432	-	-	7,432
Bad debt expense (recovery)	-	(3,707)	-	(3,707)
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	-	6,109	-	6,109
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	1,187,080	212,325	5,554	1,404,959
Less: direct donor benefit costs netted against special events revenue	-	-	(1,352)	(1,352)
Total expenses	$ 1,187,080	$ 212,325	$ 4,202	$ 1,403,607

See Accompanying Notes.

ESPERANZA EN ESCALANTE AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended September 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Change in net assets	$ (44,743)	$ (100,815)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	138,674	142,785
(Increase) decrease in operating assets:		
Grants receivable	(20,481)	(24,870)
Other receivables	(1,466)	(4,659)
Prepaid expenses and other assets	(1,764)	(8,790)
Due from related organizations	(402)	(237)
Increase (decrease) in operating liabilities:		
Accounts payable	7,096	23,575
Accrued expenses	(25,086)	3,382
Net cash provided by operating activities	51,828	30,371
Cash flows (used in) investing activities -		
Purchases of property and equipment	(98,521)	-
Net change in cash and cash equivalents	(46,693)	30,371
Cash and cash equivalents, beginning of year	280,366	249,995
Cash and cash equivalents, end of year	$ 233,673	$ 280,366

Supplemental disclosure:
No cash paid for interest or income taxes in 2025 or 2024.

See Accompanying Notes.

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 exclusively by the for-profit developer.

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, 2025 and 2024.

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, 2025 or 2024.

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.

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, 2025 and 2024, 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, 2025 and 2024, 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, 2025 or 2024.

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

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, 2025 or 2024.

In-kind contributions

Contributed non-financial assets may include donated professional services, donated food, and other in-kind contributions which are recorded at the respective fair values of the goods or services received (See Note 8). Esperanza does not sell donated gifts-in-kind. Contributed goods are recorded at fair value at the date of donation.

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.

Management believes that the allocation base most equitable is based on a proportional distribution of personnel time and effort.

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.

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, 2025 or 2024.

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, 2025, there was no 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.

Reclassifications

Certain prior-year amounts have been reclassified for consistency with current year presentation. These reclassifications had no impact on the reported change in net assets or cash flows.

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, 2025 and 2024, 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:

	2025	2024
Cash and cash equivalents	$ 166,542	$ 247,637
Grants receivable	126,098	105,617
Other receivables	6,956	5,490
	$ 299,596	$ 358,744

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 line of credit was closed during the year ended September 30, 2024. The line was secured by inventory, receivables and equipment.

NOTE 6 – Property and equipment

Property and equipment consisted of the following at September 30, 2025 and 2024:

	2025	2024
Land	$ 442,013	$ 442,013
Buildings	578,469	563,885
Housing units	2,871,812	2,787,874
Improvements	1,172,482	1,172,482
Furniture, fixtures and equipment	58,648	58,648
Vehicles	65,989	110,040
	5,189,413	5,134,942
Less accumulated depreciation	(2,138,347)	(2,043,723)
	$ 3,051,066	$ 3,091,219

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, 2025 are summarized as follows:

Project	Expiration	Amount
Infrastructure improvements	2042	$ 941,282
VA women's units	2034	244,075
ADOH units	2032	610,048
		$ 1,795,405

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 $50,941 and $49,457 under these agreements during the years ended September 30, 2025 and 2024, 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, 2025 and 2024:

	2025	2024
EEE Supportive I, LLC	$ 44,733	$ 33,049
EEE Supportive II, LLC	13,813	13,411
	58,546	46,460
Allowance for uncollectible accounts	(44,733)	(33,049)
	$ 13,813	$ 13,411

NOTE 7 – Related party transactions – continued

In addition, Esperanza received cash flow distributions in the amount of $1,367 and $12,482 from EEE Supportive II, LLC during the years ended September 30, 2025 and 2024, respectively, included in other revenues in the consolidated statements of activities.

NOTE 8 – In-kind contributions

In-kind contributions for the year ended September 30, 2025 consisted of food donations in the amount of $86,263, included in resident programs and aid in the statement of functional expenses.

Esperanza applies a "prevailing value per pound" benchmark to establish the fair market value of food donations, included in resident programs and aid in the statements of functional expenses. For the year ended September 30, 2025, Esperanza utilized the official national benchmark of $1.78 per pound, as established by Feeding America for 2024. All donated food was utilized in Esperanza's programs.

NOTE 9 – Net assets with donor restrictions

Net assets with donor restrictions were as follows for the year ended September 30, 2025:

	Beginning balance	Additions	Releases	Ending balance
Purpose restrictions:				
Capital needs	$ 25,759	$ 60,000	$ (18,627)	$ 67,132
Garden project	4,970	-	(4,970)	-
Veterans services	-	-	-	-
Other	2,000	-	(2,000)	-
	$ 32,729	$ 60,000	$ (25,597)	$ 67,132

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

	Beginning balance	Additions	Releases	Ending balance
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
	$ 792	$ 62,864	$ (30,927)	$ 32,729

NOTE 10 – Subsequent events

Management has evaluated subsequent events through April 8, 2026 which is the date the financial statements were available to be issued.

JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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 financial statements of Esperanza En Escalante and Affiliate (collectively referred to as Esperanza), which comprise the statement of financial position as of September 30, 2025, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated April 8, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing my audit of the 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 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 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. However, material weaknesses and significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Esperanza's 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.*

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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

JENNIFER J. PHILLIPS, CPA, PLLC

Tucson, Arizona
April 8, 2026

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 and Affiliate
Tucson, Arizona

Report on Compliance for Each Major Federal Program

Opinion on each major federal program

I have audited Esperanza En Escalante and Affiliate'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, 2025. 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, 2025.

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

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.

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. Given these limitations, during my audit I did not identify

any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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

JENNIFER J. PHILLIPS, CPA, PLLC

Tucson, Arizona
April 8, 2026

ESPERANZA EN ESCALANTE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended September 30, 2025

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.
No significant deficiencies identified.

No noncompliance material to financial statements noted.

Federal awards

Internal control over major programs:
No material weaknesses identified.
No significant deficiencies identified.

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: $1,000,000

Auditee qualified as a low-risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

ESPERANZA EN ESCALANTE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended September 30, 2025

Federal Grantor/Pass-through grantor Program Title	Assistance Listing number	Additional Award ID	Grant/FAIN number	Federal Expenditures
U.S. Department of Veterans Affairs				
Direct:				
VA Homeless Providers Grant and Per Diem Program	64.024	N/A	ESPE588-3965-678-PD-24	$ 1,160,951

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, 2025. 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 15 percent de minimis 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, 2025

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.

Finding: 2024-001	Program: ALN 64.024, *VA Homeless Providers Grant and Per Diem Program*	**Questioned Cost:** NONE

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.

Current year status: Resolved.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2024-001 description in the above section.