# Cicatelli Associates, Inc.

## Independent Auditor's Report and Financial Statements

June 30, 2023 and 2022

## Contents

# Independent Auditor's Report

Board of Directors
Cicatelli Associates, Inc.
New York, New York

### Opinion

We have audited the financial statements of Cicatelli Associates, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, 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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of Matter

As described in Note 5 to the financial statements, in 2023, the Organization adopted new accounting guidance for accounting for leases. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

FORVIS, LLP

**New York, New York**
**March 20, 2024**

**Cicatelli Associates, Inc.**
**Statements of Financial Position**
**June 30, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 658,595 | $ 642,510 |
| Contracts and other receivables | 4,246,483 | 4,421,842 |
| Security deposits and other assets | 538,471 | 705,224 |
| Right-of-use assets - operating leases | 12,075,961 | - |
| Property and equipment, net | 402,429 | 118,983 |
| Total assets | $ 17,921,939 | $ 5,888,559 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities** | | |
| Accounts payable and accrued expenses | $ 1,873,615 | $ 1,570,940 |
| Accrued vacation | 695,523 | 591,842 |
| Unearned revenue | 123,952 | 179,052 |
| Line of credit | 344,371 | 149,371 |
| Operating lease liabilities | 12,814,026 | - |
| Deferred rent payable | - | 176,555 |
| Deferred lease incentive | - | 69,244 |
| Subordinate debt - officer loan | 475,000 | 535,000 |
| Loans payable | 23,213 | 31,918 |
| Total liabilities | 16,349,700 | 3,303,922 |
| **Net Assets Without Donor Restrictions** | 1,572,239 | 2,584,637 |
| Total liabilities and net assets | $ 17,921,939 | $ 5,888,559 |

**Cicatelli Associates, Inc.**
**Statements of Activities**
**Years Ended June 30, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **Revenues and Other Support** | | |
| Contract and grant revenues | $ 31,917,487 | $ 27,622,752 |
| Registration fees | 131,000 | 76,050 |
| Rental income | 3,234 | - |
| Other income | 26,453 | 48,269 |
| Total revenues and other support | 32,078,174 | 27,747,071 |
| **Operating Expenses** | | |
| Program services | | |
| Training and technical assistance | 26,945,433 | 22,026,288 |
| Supporting services | | |
| Management and general | 6,145,139 | 5,616,209 |
| Total operating expenses | 33,090,572 | 27,642,497 |
| **Change in Net Assets** | (1,012,398) | 104,574 |
| **Net Assets Without Donor Restrictions, Beginning of Year** | 2,584,637 | 2,480,063 |
| **Net Assets Without Donor Restrictions, End of Year** | $ 1,572,239 | $ 2,584,637 |

**Cicatelli Associates, Inc.**
**Statements of Functional Expenses**
**Years Ended June 30, 2023 and 2022**

| | 2023 | | |
|---|---|---|---|
| | Training and Technical Assistance Program | Management and General | Total |
| Personnel expenses | $ 12,816,603 | $ 2,503,491 | $ 15,320,094 |
| Fringe benefits | 2,763,114 | 551,981 | 3,315,095 |
| Consultants | 3,244,784 | 261,616 | 3,506,400 |
| Subcontractor | 5,915,170 | 131,000 | 6,046,170 |
| Professional fees | 18,242 | 137,660 | 155,902 |
| Interest expense | - | 23,439 | 23,439 |
| Continue Education Unit expense | 136,083 | 10,583 | 146,666 |
| Staff and consultant travel | 670,089 | 72,260 | 742,349 |
| Supplies | 107,265 | 64,698 | 171,963 |
| Communication | 18,609 | 158,362 | 176,971 |
| Postage and shipping | 102,630 | 3,662 | 106,292 |
| Occupancy | 302,772 | 1,535,862 | 1,838,634 |
| Service contract | 15,750 | - | 15,750 |
| Equipment rental | 23,389 | 128,254 | 151,643 |
| Conferences, conventions, and meetings | 285,183 | 63,525 | 348,708 |
| Printing and publications | 155,464 | 29,666 | 185,130 |
| Website | 15,355 | 53,966 | 69,321 |
| Dues and subscriptions | 31,474 | 38,178 | 69,652 |
| Training materials | 19,260 | 3,571 | 22,831 |
| Automobile expenses | 12,297 | 27,720 | 40,017 |
| Furniture, equipment, and health product | 11,985 | - | 11,985 |
| Advertisement | 138,453 | 16,303 | 154,756 |
| Training space | 64,010 | - | 64,010 |
| Software licensing fee | 77,378 | 85,873 | 163,251 |
| Bank charges | - | 11,511 | 11,511 |
| Insurance expenses | - | 122,498 | 122,498 |
| Other expenses | 74 | 34,426 | 34,500 |
| Depreciation | - | 75,034 | 75,034 |
| Total expenses | $ 26,945,433 | $ 6,145,139 | $ 33,090,572 |

## Cicatelli Associates, Inc.
## Statements of Functional Expenses (Continued)
## Years Ended June 30, 2023 and 2022

| | 2022 | | |
|---|---|---|---|
| | Training and Technical Assistance Program | Management and General | Total |
| Personnel expenses | $ 11,319,801 | $ 2,336,507 | $ 13,656,308 |
| Fringe benefits | 2,441,457 | 483,333 | 2,924,790 |
| Consultants | 1,736,550 | 328,086 | 2,064,636 |
| Subcontractor | 5,294,161 | 152,041 | 5,446,202 |
| Professional fees | - | 137,760 | 137,760 |
| Interest expense | - | 9,247 | 9,247 |
| Continue Education Unit expense | 229,950 | 10,000 | 239,950 |
| Staff and consultant travel | 74,587 | 35,182 | 109,769 |
| Supplies | 111,510 | 20,571 | 132,081 |
| Communication | - | 158,561 | 158,561 |
| Postage and shipping | 78,307 | 1,672 | 79,979 |
| Occupancy | 195,811 | 1,372,313 | 1,568,124 |
| Service contract | 15,594 | 55,478 | 71,072 |
| Equipment rental | 3,333 | 92,830 | 96,163 |
| Conferences, conventions, and meetings | 78,266 | 69,108 | 147,374 |
| Printing and publications | 110,603 | 1,765 | 112,368 |
| Website | 34,859 | 30,913 | 65,772 |
| Dues and subscriptions | 19,068 | 33,430 | 52,498 |
| Training materials | 25,537 | 380 | 25,917 |
| Automobile expenses | 10,495 | 26,138 | 36,633 |
| Furniture, equipment, and health product | 108,978 | - | 108,978 |
| Advertisement | 72,646 | 18,400 | 91,046 |
| Training space | 8,323 | 18 | 8,341 |
| Software licensing fee | 56,452 | 71,023 | 127,475 |
| Bank charges | - | 12,958 | 12,958 |
| Insurance expenses | - | 89,308 | 89,308 |
| Other expenses | - | 5,649 | 5,649 |
| Depreciation | - | 63,538 | 63,538 |
| Total expenses | $ 22,026,288 | $ 5,616,209 | $ 27,642,497 |

**Cicatelli Associates, Inc.**
**Statements of Cash Flows**
**Years Ended June 30, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ (1,012,398) | $ 104,574 |
| Items not requiring (providing) operating cash flows | | |
| Depreciation and amortization | 75,034 | 63,538 |
| Noncash operating lease expense | 492,266 | - |
| Changes in | | |
| Contracts and other receivable | 175,359 | (1,015,275) |
| Security deposits and other assets | 166,753 | (90,171) |
| Accounts payable and accrued expenses | 302,675 | 568,023 |
| Accrued vacation | 103,681 | 90,380 |
| Unearned revenue | (55,100) | (117,419) |
| Deferred rent payable | - | 133,579 |
| Deferred lease incentive | - | (103,867) |
| Net cash provided by (used in) operating activities | 248,270 | (366,638) |
| **Investing Activities** | | |
| Purchase of property and equipment | (358,480) | (1,711) |
| Net cash used in investing activities | (358,480) | (1,711) |
| **Financing Activities** | | |
| Borrowings on line of credit | 395,000 | - |
| Payments on line of credit | (200,000) | (100,000) |
| Principal payments on subordinate debt | (60,000) | (60,000) |
| Payments on loans payable | (8,705) | (17,827) |
| Principal payments on long-term debt | - | (75,100) |
| Net cash provided by (used in) financing activities | 126,295 | (252,927) |
| **Net Change in Cash** | 16,085 | (621,276) |
| **Cash, Beginning of Year** | 642,510 | 1,263,786 |
| **Cash, End of Year** | $ 658,595 | $ 642,510 |
| **Supplemental Cash Flows Information** | | |
| Interest paid | $ 23,439 | $ 9,247 |
| ROU assets obtain in exchange for operating lease liabilities | 1,846,939 | - |

## Note 1. Nature of Organization and Summary of Significant Accounting Policies

Cicatelli Associates, Inc. (the Organization) is a 501(c)(3) nonprofit organization. Incorporated in 1979, the mission of the Organization is to use the transformative power of education and research to foster a more aware, healthy, compassionate, and equitable world. The Organization develops training programs, which include in-person instruction as well as web-based learning strategies with established and proven practices, to help providers increase the efficiency and quality of health care and social services. This includes the development of customized curricula and training materials, conducting research and evaluation, and the provision of expert technical assistance to help agencies assess current operations and integrate evidence based approaches to achieve higher quality, enhance program outcomes, and increase cost efficiencies.

The Organization administers and is supported primarily by governmental contracts in such areas as HIV/AIDS, trauma, community and population-based health, tobacco and substance use prevention, mental health, family planning, maternal/child health, and more.

The Organization's primary headquarters is in New York City, and it has permanent offices in Albany and Buffalo, NY, Atlanta, GA, Denver, CO, and Los Angeles, CA. The Organization also has a satellite office in the Dominican Republic.

### *Basis of Accounting*

The financial statements are prepared on the accrual basis of accounting.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash*

At June 30, 2023, the Organization's cash accounts exceeded federally insured limits by approximately $452,500.

### *Grants and Contracts Receivable*

Accounts receivable are stated at the amount of consideration from grantors and contractors, of which the Organization has an unconditional right to receive plus any accrued and unpaid interest. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. As of June 30, 2023 and 2022, no allowance was deemed necessary.

### *Property and Equipment*

Property and equipment acquisitions over $25,000 are stated at cost, less accumulated depreciation, and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

| | |
|---|---|
| Leasehold improvements | 3–10 years |
| Machinery, equipment, and transportation equipment | 5–7 years |
| Furniture and fixtures | 7 years |

### *Long-Lived Asset Impairment*

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2023 and 2022.

### *Unearned Revenue*

Revenue from fees for contracts is deferred and recognized over the periods to which the fees relate.

### *Net Assets*

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor restrictions.

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

### *Contributions*

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

| Nature of the Gift | Value Recognized |
|---|---|
| *Conditional gifts, with or without restriction* | |
| Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds | Not recognized until the gift becomes unconditional, *i.e.*, the donor-imposed barrier is met |
| *Unconditional gifts, with or without restriction* | |
| Received at date of gift – cash and other assets | Fair value |
| Received at date of gift – property, equipment, and long-lived assets | Estimated fair value |
| Expected to be collected within one year | Net realizable value |
| Collected in future years | Initially reported at fair value determined using the discounted present value of estimated future cash flows technique |

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, 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. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

### *Revenue Recognition*

Revenue from cost-reimbursement contracts is recognized when the Organization has expended the program costs in accordance with the grant agreements. Advances received from grantor agencies under cost-reimbursement grants prior to the Organization's expenditures of the specified program costs are reflected in the accompanying statements of financial position as unearned revenue.

Revenue from performance-based contracts is recognized when performance is completed. Registration fees are earned upon completion of the event.

The Organization periodically sublets some of its operating space for which rental income is recognized as it is earned.

### *Income Taxes*

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

### *Government Grants*

Support funded by grants is recognized as the Organization meets the conditions prescribed by the grant agreement, performs the contracted services, or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

### *Functional Allocation of Expenses*

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program and management and general based on time spent and other methods.

## Note 2. Future Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30, 2023 have been recorded as receivables. The future commitments will be recognized into revenue as allowable expenses are incurred. The following are the grant commitments that extend beyond June 30, 2023:

| Grant | Term | Grant Amount | Earned or Forfeited Through 2023 | Funding Available |
|---|---|---|---|---|
| Department of Health and Human Services | Various 9/2018 - 9/2026 | $ 52,104,281 | $ 36,175,342 | $ 15,928,939 |
| Department of Health | Various 7/2019 - 5/2027 | 15,485,866 | 3,767,886 | 11,717,980 |
| Health Resources and Services Administration | Various 7/2020 - 6/2025 | 34,870,000 | 14,495,833 | 20,374,167 |
| Health Research Inc. | Various 2/2021 - 4/2026 | 13,595,945 | 6,610,604 | 6,985,341 |
| Other | Various 11/2020 - 5/2029 | 5,780,665 | 3,528,091 | 2,252,574 |
| | | $ 121,836,757 | $ 64,577,756 | $ 57,259,001 |

## Note 3. Property and Equipment

Property and equipment at June 30, 2023 and 2022 consists of:

| | 2023 | 2022 |
|---|---|---|
| Leasehold improvements | $ 1,609,834 | $ 1,251,354 |
| Machinery, equipment, and transportation equipment | 198,146 | 198,146 |
| Furniture and fixtures | 387,329 | 387,329 |
| | 2,195,309 | 1,836,829 |
| Less accumulated depreciation and amortization | (1,792,880) | (1,717,846) |
| | $ 402,429 | $ 118,983 |

The Organization purchased equipment with funds received from governmental entities which may be required to be returned if the program for which the assets were used were to be discontinued.

## Note 4. Long-Term Debt

| | 2023 | 2022 |
|---|---|---|
| Subordinated debt (A) | $ 475,000 | $ 535,000 |
| Line of credit (B) | 344,371 | 149,371 |
| Loans payable (C) | 23,213 | 31,918 |
| | $ 842,584 | $ 716,289 |

(A) The president of the Organization advanced $700,000 to the Organization in prior years. The loan is subordinate to the line of credit and term loan and is unsecured and non-interest-bearing. The terms of the agreement were revised during 2020 and a repayment was established of $5,000 per month for 140 months starting in October 2019.

(B) The Organization has a $950,000 revolving line of credit. At June 30, 2023, there was $344,371 borrowed against this line. The line is collateralized by substantially all of the Organization's assets. Interest is at a variable rate which is based on the bank's prime rate or subject to a floor as defined by the agreement. Interest charged was 8.5% and 5% for the years ended June 30, 2023 and 2022, respectively. The Organization must maintain a ratio of Debt Service Coverage in excess of 1.250 to 1.000.

(C) The Organization has loan agreements to purchase vehicles, which are secured by the underlying assets. The 2020 loan matured in July 2022, it had monthly payments of $844, and an interest rate of 3.49%. During 2021, the Organization exchanged the vehicle with monthly payment of $631, and an interest rate of 2.99% and financed another vehicle under a loan agreement that matures in March 2026, has monthly payments of $725, and no interest rate.

Combined payments over the next five years, and thereafter, at June 30, 2023 are as follows:

| | Long-Term Debt |
|---|---|
| 2024 | $ 413,076 |
| 2025 | 68,705 |
| 2026 | 65,803 |
| 2027 | 60,000 |
| 2028 | 60,000 |
| Thereafter | 175,000 |
| | $ 842,584 |

## Note 5. Leases

### *Changes in Accounting Principles*

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Organization adopted Topic 842 on July 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Organization elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Organization has lease agreements with nonlease components that relate to the lease components. The Organization elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component. Also, the Organization elected to keep short-term leases with an initial term of 12 months or less off the statements of financial position. The Organization did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of $11,670,360 and $11,916,159, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect the statements of activities, changes in net assets, functional expenses, and cash flows.

### *Accounting Policies*

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

The Organization combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities for all of its leases.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of 12 months or less on the statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

## *Nature of Leases*

The Organization has entered into the following lease arrangements:

### *Operating Leases*

The Organization has leases for office space and equipment that expire in various years through 2031. Lease payments have an escalating fee schedule. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

### *All Leases*

The Organization has no material related-party leases.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

## *Quantitative Disclosures*

The lease cost and other required information for the year ended June 30, 2023 are:

| | | |
|---|---|---|
| Lease cost | | |
| Operating lease cost | $ | 1,879,531 |
| Short-term lease cost | | 133,825 |
| Variable lease cost | | 108,362 |
| Total lease cost | $ | 2,121,718 |
| Other information | | |
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from operating leases | $ | 1,297,484 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | | 1,846,939 |
| Weighted-average remaining lease term | | |
| Operating leases | | 8.2 years |
| Weighted-average discount rate | | |
| Operating leases | | 2.98% |

Future minimum lease payments and reconciliation to the statements of financial position at June 30, 2023 are as follows:

| | Operating Leases |
|---|---|
| 2024 | $ 1,642,894 |
| 2025 | 1,666,942 |
| 2026 | 1,675,763 |
| 2027 | 1,689,001 |
| 2028 | 1,694,178 |
| Thereafter | 6,137,064 |
| Total future undiscounted lease payments | 14,505,842 |
| Less interest | (1,691,816) |
| Lease liabilities | $ 12,814,026 |

### *Prior Year Future Disclosures Under Topic 840*

Noncancelable operating leases for office space expire in various years through 2032. These leases generally require the Organization to pay all executory costs (property taxes, maintenance, and insurance).

Future minimum lease payments at June 30, 2022 were as follows:

| | |
|---|---|
| 2023 | $ 1,430,101 |
| 2024 | 1,342,295 |
| 2025 | 1,390,757 |
| 2026 | 1,439,957 |
| 2027 | 1,466,673 |
| Thereafter | 6,643,765 |
| | $ 13,713,548 |

### *Deferred Lease Incentive*

During the year ended June 30, 2018, the Organization received a $560,500 payment (the Lease Incentive) from a vendor in return for entering into a new 63-month operating lease for office equipment. The unamortized balance of this Lease Incentive is $69,244 as of June 30, 2022, which is reflected as a deferred lease incentive on the accompanying statements of financial position.

## Note 6. Pension Plan

The Organization maintains a 401(k) plan (the Plan) for the benefit of its employees. The Plan provides for discretionary employer matching contributions in a percentage determined by the Organization on an annual basis. Employees may make annual contributions of up to 75% of their eligible pay, but not over the annual Internal Revenue Service dollar limit. The Organization matched employee contributions amounting to $322,816 and $232,433 for the years ended June 30, 2023 and 2022, respectively.

## Note 7. Related-Party Transactions

The president of the Organization advanced $700,000 to the Organization in prior years. The loan is subordinate to the line of credit and term loan and is unsecured and non-interest-bearing.

## Note 8. Liquidity and Availability

The Organization's financial assets available within one year of June 30, 2023 and 2022 for general expenditure are:

| | 2023 | 2022 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | $ 658,595 | $ 642,510 |
| Contracts and other receivables | 4,246,483 | 4,421,842 |
| Financial assets available to meet general expenditures within one year | $ 4,905,078 | $ 5,064,352 |

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 4, the Organization also has a committed line of credit in the amount of $950,000, of which $344,371 is already committed, which it could draw upon in the event of an unanticipated liquidity level.

## Note 9. Significant Estimates and Concentrations

### *Concentrations*

Approximately 65% and 63% of all contract revenues were received from two contractors in 2023 and 2022, respectively.

## Note 10. Subsequent Events

Subsequent events have been evaluated through March 20, 2024, which is the date the financial statements were available to be issued.