# HUSHABYE NURSERY

Financial Statements and
Independent Auditors' Report

December 31, 2020

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FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Hushabye Nursery
Mesa, Arizona

**Report on the Financial Statements**

We have audited the accompanying financial statements of Hushabye Nursery (the Organization, an Arizona nonprofit corporation), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hushabye Nursery as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, in the year ended December 31, 2020, Hushabye Nursery adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities* (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which clarifies and improves the scope and the accounting guidance for contributions received and made by not-for-profit organizations. Our opinion is not modified with respect to this matter.

Fester & Chapman, PLLC

June 16, 2021

HUSHABYE NURSERY

Statement of Financial Position

December 31, 2020

ASSETS

| | |
|---|---|
| Current assets: | |
| Cash | $ 894,055 |
| Grants receivable | 306,314 |
| Contributions receivable | 55,000 |
| Accounts receivable | 13,950 |
| Prepaid expenses | 91,531 |
| Total current assets | 1,360,850 |
| Deposits | 55,006 |
| Property and equipment, net | 935,808 |
| Total assets | $ 2,351,664 |

LIABILITIES AND NET ASSETS

| | |
|---|---|
| Current liabilities: | |
| Accounts payable | $ 135,276 |
| Accrued expenses | 116,550 |
| Total current liabilities | 251,826 |
| Note payable | 300,000 |
| Total liabilities | 551,826 |
| Net assets: | |
| Without donor restrictions | 1,139,874 |
| With donor restrictions | 659,964 |
| Total net assets | 1,799,838 |
| Total liabilities and net assets | $ 2,351,664 |

The accompanying notes are an integral part of these financial statements.

# HUSHABYE NURSERY

## Statement of Activities

### Year Ended December 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Public support and revenue: | | | |
| Grants and contributions | $ 662,589 | $ 259,214 | $ 921,803 |
| Government grants | 578,958 | | 578,958 |
| Healthcare services revenue | 13,950 | | 13,950 |
| Interest and dividends | 2,183 | | 2,183 |
| Other revenue | 353 | | 353 |
| Net assets released from restrictions | 538,295 | (538,295) | |
| Total public support and revenue | 1,796,328 | (279,081) | 1,517,247 |
| Expenses: | | | |
| Healthcare services | 583,623 | | 583,623 |
| Management and general | 247,583 | | 247,583 |
| Fundraising | 103,246 | | 103,246 |
| Total expenses | 934,452 | | 934,452 |
| Change in net assets, before capital grant | 861,876 | (279,081) | 582,795 |
| Capital grant | 163,094 | | 163,094 |
| Change in net assets | 1,024,970 | (279,081) | 745,889 |
| Net assets, beginning of year | 114,904 | 939,045 | 1,053,949 |
| Net assets, end of year | $ 1,139,874 | $ 659,964 | $ 1,799,838 |

The accompanying notes are an integral part of these financial statements.

HUSHABYE NURSERY

Statement of Functional Expenses

Year Ended December 31, 2020

| | Healthcare Services | Supporting Services: Management and General | Supporting Services: Fundraising | Total |
|---|---|---|---|---|
| Salaries and personnel costs | $ 415,729 | $ 166,368 | $ 93,709 | $ 675,806 |
| Direct program expenses | 31,280 | | | 31,280 |
| Supplies | 10,514 | 462 | 1,928 | 12,904 |
| Travel | 1,627 | 1,845 | 646 | 4,118 |
| Insurance | 13,405 | 8,739 | 74 | 22,218 |
| Bank and credit card fees | | | 3,001 | 3,001 |
| Marketing | 4,665 | 38 | 570 | 5,273 |
| Professional services | 19,265 | 42,427 | 2,146 | 63,838 |
| Facility and equipment | 68,334 | 27,704 | 1,172 | 97,210 |
| Depreciation | 18,804 | | | 18,804 |
| Total expenses | $ 583,623 | $ 247,583 | $ 103,246 | $ 934,452 |

The accompanying notes are an integral part of these financial statements.

# HUSHABYE NURSERY

## Statement of Cash Flows

### Year Ended December 31, 2020

| | |
|---|---|
| Cash flows from operating activities: | |
| Change in net assets | $ 745,889 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Capital grant | (163,094) |
| Depreciation | 18,804 |
| Changes in: | |
| Grants receivable | (233,769) |
| Contributions receivable | (55,000) |
| Accounts receivable | (13,950) |
| Prepaid expenses | (91,531) |
| Deposits | (55,006) |
| Accounts payable | 21,972 |
| Accrued expenses | 116,550 |
| Net cash provided by operating activities | 290,865 |
| Cash flows from investing activities: | |
| Purchases of property and equipment | (841,308) |
| Net cash used by investing activities | (841,308) |
| Cash flows from financing activities: | |
| Proceeds from capital grant | 163,094 |
| Proceeds from note payable | 300,000 |
| Net cash provided by financing activities | 463,094 |
| Change in cash | (87,349) |
| Cash, beginning of year | 981,404 |
| Cash, end of year | $ 894,055 |
| <u>Supplemental disclosures:</u> | |
| Cash paid during the year for interest | $ 0 |
| Purchases of property and equipment included in accounts payable | $ 113,304 |

The accompanying notes are an integral part of these financial statements.

## NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hushabye Nursery, Inc. (the "Organization") is a nonprofit corporation dedicated to embracing substance exposed babies and their caregivers with compassionate, evidence-based care that changes the course of their entire lives. Formed on August 11, 2017, the Organization's purpose is to offer a safe and inclusive space where mothers, fathers, family members and babies can receive integrative care and therapeutic support that offers each child the best possible life outcomes. The inaugural programs, including prenatal and postpartum support groups, inpatient nursery services and outpatient therapies, commenced operations in a newly renovated 12-bed facility in mid-November 2020.

The Organization, a first of its kind in Arizona, has served 78 infants suffering from Neonatal Abstinence Syndrome (NAS) prior to the publication of these audited financial statements. Hushabye Nursery conducts a soothing, non-medication care protocol to support infants through substance withdrawal which can be taught to caregivers. The Organization has achieved impressive outcomes that validate our care protocol and are remarkable for a newly established entity:

| | |
|---|---|
| NAS infants treated with morphine | 18% |
| NAS infants average length of stay | 6 days |
| Infants who took majority of feeds from breast | 44% |
| Infants safely discharged to a biological parent | 69% |

The Organization collaborates extensively with hospitals, neonatologists, specialty physicians (pediatrics and OB/GYN) as well as Arizona's Department of Child Safety to intake infants to our program and achieve family cohesion.

The significant accounting policies of the Organization are as follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*, requiring the Organization to report information regarding its financial position and activities according to the following net asset classifications:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) 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 resources be maintained in perpetuity.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Grants Receivable: Grants receivable represent amounts awarded by various government agencies. Grants receivable are due within one year and are recorded at their net realizable value. Management estimates an allowance for uncollectible government grants receivable based on current economic conditions, historical trends, and current and past experience with the individual grantors. Management determined that no allowance was necessary at December 31, 2020.

Contributions Receivable: Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable 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. In subsequent years, amortization of the discount is included in contribution revenue in the statement of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. At December 31, 2020, the Organization considers the balance to be fully collectible within one year, and accordingly no allowance for uncollectible amounts has been recorded in the financial statements.

Accounts Receivable: Accounts receivable are stated at the amount management expects to collect under the terms of the contract agreements with third parties. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables.

Prepaid Expenses: Prepaid expenses consist of goods and/or services purchased before December 31, 2020 that are to be used subsequent to year end.

Deposits: Deposits consist of required lease and utility deposits.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment: Purchased property and equipment of $2,500 or greater are recorded at cost, or if donated, at estimated fair value at the date of gift. Depreciation is computed using the straight-line method based on estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold improvements | Lesser of the estimated useful life or remaining term of the applicable lease |
| Furniture | 7 years |
| Equipment | 1 - 5 years |
| Software | 4 - 10 years |

Contributions and Grants: Contributions and grants are reported in accordance with the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions and grants received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a donor restriction expires, that is, when a 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 statement of activities as net assets released from restrictions.

Healthcare Services Revenue: Healthcare services revenue consists of revenue earned as exchange transactions from program services provided.

Functional Expenses: The costs of providing various program and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of facility usage and the estimated percentage of payroll costs benefiting the program or supporting services.

Income Taxes: The Organization is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Financial Impact of COVID-19: In March 2020, the World Health Organization declared COVID-19 a pandemic. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Organization's financial position, operations and cash flows. Possible effects may include, but are not limited to a potential decrease in contributions in subsequent years.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Concentration of Credit Risk: The Organization maintains its cash accounts at financial institutions that may at times exceed the limits insured by the Federal Deposit Insurance Corporation (FDIC). The Organization has not incurred losses related to uninsured balances, and manages this risk by maintaining its deposits in a national financial institution.

Change in Accounting Principle: On June 21, 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The update provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction by clarifying how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The Organization is an early-stage non-profit endeavoring to achieve sustainability primarily through healthcare services revenue. The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. The Organization has the following financial assets that could readily be made available within one year of its fiscal year end to fund expenses without limitations:

| | |
|---|---|
| Financial assets: | |
| Cash | $ 894,055 |
| Grants receivable | 306,314 |
| Contributions receivable | 55,000 |
| Accounts receivable | 13,950 |
| Total financial assets | 1,269,319 |
| Less amounts unavailable for general expenditure within one year: | |
| Net assets with donor restrictions | 659,964 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 609,355 |

In addition to financial assets available to meet general expenditures over the year, the Organization operates with a balanced budget and anticipates covering its general expenditures by collecting grants and contributions, healthcare services revenue, and other revenues.

## NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31, 2020:

| | |
|---|---|
| Leasehold improvements | $ 851,088 |
| Furniture | 19,285 |
| Equipment | 64,239 |
| Software | 20,000 |
| | 954,612 |
| Less accumulated depreciation | (18,804) |
| Total property and equipment, net | $ 935,808 |

## NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS

During the year ended December 31, 2020, the Organization received $259,214 in restricted contributions. Net assets with donor restrictions at December 31, 2020, were restricted for the following purposes:

| | |
|---|---|
| Parental education | $ 32,000 |
| Personnel | 185,020 |
| Operations | 400,000 |
| Transportation | 42,944 |
| | $ 659,964 |

Net assets released from restrictions for the year ended December 31, 2020, were as follows:

| | |
|---|---|
| Personnel | $ 136,295 |
| Operations | 402,000 |
| | $ 538,295 |

## NOTE 5 - NOTE PAYABLE

On December 23, 2020, the Organization received a $300,000 unsecured note payable. The stated interest rate is 0.00%, with full principal payment due on May 1, 2021.

## NOTE 6 - OPERATING LEASE

In March 2020, the Organization entered into a lease agreement for it's main site under a non-cancelable agreement expiring January 2031. Rent expense was $54,938 for the year ended December 31, 2020 and is included in facility and equipment on the Statement of Functional Expenses. Future minimum operating lease commitments are as follows:

| Year ending December 31, | |
|---|---|
| 2021 | $ 38,772 |
| 2022 | 45,497 |
| 2023 | 46,862 |
| 2024 | 48,268 |
| 2025 | 49,716 |
| Thereafter | 276,705 |
| | $ 505,820 |

The Organization accounts for rent abatement contained in its lease on the straight-line method over the lease term for which rent is paid. Deferred rent was $22,162 as of December 31, 2020 and is included in accrued expenses on the Statement of Financial Position.

## NOTE 7 - CONDITIONAL GRANTS AND CONTRIBUTIONS

The Organization received conditional grants and contributions during the year ended December 31, 2020. Conditional grants and contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. When conditions are met in the same fiscal year that the revenue is recognized, conditional contributions and grants are presented as net assets without donor restrictions in the statement of activities. As of December 31, 2020, amounts awarded but not yet earned totaled $557,795. While management believes that the Organization will meet these conditions, they had not been met as of the year ended December 31, 2020. Accordingly, no amount has been recorded for these conditional grants and contributions as a receivable in these financial statements.

## NOTE 8 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 16, 2021, the date the Organization's financial statements were available to be issued.

On March 16, 2021, the Organization received $91,360 in loan funding related to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. The Organization expects that a substantial portion of the loan will be forgiven within a 24 week window.

On April 1, 2021, the Organization entered into a $500,000 note payable that accrues interest at a rate of 3.3% annually. Principal and interest payments are due quarterly with the note maturing on April 1, 2031. A portion of the proceeds were used to pay off the existing $300,000 note payable (see Note 5). The note is secured by all current and future accounts receivable.