

HUSHABYE NURSERY

Financial Statements
Independent Auditors' Report, and
Single Audit Report

December 31, 2023
(with comparative totals for 2022)

CONTENTS

Independent Auditors' Report.....	1 - 3
Financial Statements:	
Statement of Financial Position.....	4
Statement of Activities.....	5
Statement of Functional Expenses.....	6
Statement of Cash Flows.....	7 - 8
Notes to Financial Statements.....	9 - 18
Supplementary Information:	
Schedule of Expenditures of Federal Awards.....	19
Notes to the Schedule of Expenditures of Federal Awards.....	20
Single Audit Reports:	
Independent Auditor's Report on Compliance for Each Major Program and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22
Independent Auditor's Report on Compliance for Each Major Federal Programs and on Internal Control over Compliance Required by the Uniform Guidance....	23-25
Schedule of Findings and Questioned Costs.....	26-27



Independent Auditors' Report

To the Board of Directors of
Hushabye Nursery, Inc.
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hushabye Nursery, Inc. (a nonprofit organization, the Organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 29, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

July 18, 2024

HUSHABYE NURSERY

Statement of Financial Position

December 31, 2023

(with comparative financial information as of December 31, 2022)

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash	\$ 1,502,721	\$ 864,409
Investments	33,232	
Grants receivable	142,047	366,655
Contributions receivable	58,094	323,750
Accounts receivable, net	485,225	332,156
Prepaid expenses	<u>93,958</u>	<u>60,513</u>
Total current assets	2,315,277	1,947,483
Other assets:		
Deposits	51,079	51,079
Restricted cash	186,567	100,000
Property and equipment, net	892,273	742,362
Operating lease - right-of-use-asset	<u>311,137</u>	<u>352,552</u>
Total assets	<u><u>\$ 3,756,333</u></u>	<u><u>\$ 3,193,476</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 55,331	\$ 89,266
Accrued expenses	372,598	320,399
Deferred revenue	125,200	
Operating lease liability, current portion	43,067	40,972
Note payable, current portion	<u>46,611</u>	<u>45,100</u>
Total current liabilities	642,807	495,737
Operating lease liability, net current portion	306,884	349,951
Note payable, noncurrent portion	<u>343,347</u>	<u>390,317</u>
Total liabilities	1,293,038	1,236,005
Net assets:		
Without donor restrictions	1,514,463	1,359,969
With donor restrictions	<u>948,832</u>	<u>597,502</u>
Total net assets	<u><u>2,463,295</u></u>	<u><u>1,957,471</u></u>
Total liabilities and net assets	<u><u>\$ 3,756,333</u></u>	<u><u>\$ 3,193,476</u></u>

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

HUSHABYE NURSERY

Statement of Activities

Year Ended December 31, 2023

(with comparative financial information for the year ended December 31, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022
Public support and revenue:				
Grants and contributions	\$ 1,213,985	\$ 1,475,149	\$ 2,689,134	\$ 2,104,513
Government grants	1,111,221		1,111,221	1,376,302
Special event revenue, net of direct expenses of \$36,748	73,568		73,568	
Healthcare services revenue	1,875,273		1,875,273	1,056,232
In-kind contributions	137,423		137,423	
Interest and dividends	12,765		12,765	1,130
Other revenue	16,636		16,636	17,334
Net assets released from restrictions	<u>1,123,819</u>	<u>(1,123,819)</u>		
Total public support and revenue	5,564,690	351,330	5,916,020	4,555,511
Expenses:				
Program services	4,664,616		4,664,616	3,255,580
Management and general	551,924		551,924	619,217
Fundraising	<u>380,223</u>		<u>380,223</u>	<u>267,085</u>
Total expenses	<u>5,596,763</u>		<u>5,596,763</u>	<u>4,141,882</u>
Change in net assets, before capital grant	(32,073)	351,330	319,257	413,629
Capital grant	<u>186,567</u>		<u>186,567</u>	<u>100,000</u>
Change in net assets	154,494	351,330	505,824	513,629
Net assets, beginning of year	<u>1,359,969</u>	<u>597,502</u>	<u>1,957,471</u>	<u>1,443,842</u>
Net assets, end of year	<u>\$ 1,514,463</u>	<u>\$ 948,832</u>	<u>\$ 2,463,295</u>	<u>\$ 1,957,471</u>

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

HUSHABYE NURSERY

Statement of Functional Expenses

Year Ended December 31, 2023

(with comparative financial information for the year ended December 31, 2022)

	Program Services			Supporting Services			
	Healthcare Services	Community Outreach	Total Program Services	Management and General	Fundraising	Totals	2022
Salaries and personnel costs	\$ 3,168,394	\$ 52,933	\$ 3,221,327	\$ 316,038	\$ 305,347	\$ 3,842,712	\$ 3,049,030
Direct program expenses	134,613	2,879	137,492			137,492	97,191
Supplies	11,514	374	11,888	2,318	2,125	16,331	7,399
Travel	2,303	12,559	14,862	953		15,815	16,610
Insurance	55,055		55,055	6,253	164	61,472	126,440
Bank and credit card fees				661	7,131	7,792	6,169
Marketing	132,692	2,110	134,802	13,079	11,990	159,871	60,821
Professional services	354,502	4,370	358,872	81,325	24,827	465,024	105,065
Facility and equipment	477,329		477,329	84,849	14,237	576,415	508,903
Depreciation	95,260		95,260	16,933	2,841	115,034	113,247
Software	36,491	580	37,071	3,597	3,297	43,965	26,625
Interest				15,223		15,223	17,699
Miscellaneous	2,084	49	2,133	1,984	277	4,394	6,683
In-kind	117,119	1,406	118,525	8,711	7,987	135,223	
Total expenses	<u>\$ 4,587,356</u>	<u>\$ 77,260</u>	<u>\$ 4,664,616</u>	<u>\$ 551,924</u>	<u>\$ 380,223</u>	<u>\$ 5,596,763</u>	<u>\$ 4,141,882</u>

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

HUSHABYE NURSERY

Statement of Cash Flows

Year Ended December 31, 2023

(with comparative financial information for the year ended December 31, 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 505,824	\$ 513,629
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Capital grant	(186,567)	(100,000)
Depreciation	115,034	113,247
Net change in operating lease - right-of-use asset and operating lease liability	443	38,371
Changes in:		
Grants receivable	224,608	(283,726)
Contributions receivable	265,656	(315,000)
Accounts receivable	(153,069)	(82,508)
Prepaid expenses	(33,445)	(13,073)
Deposits		3,927
Accounts payable	(33,935)	(16,645)
Accrued expenses	52,199	62,531
Deferred revenue	<u>125,200</u>	
Net cash provided (used) by operating activities	<u>881,948</u>	<u>(79,247)</u>
Cash flows from investing activities:		
Purchases of investments	(35,482)	
Proceeds from sale of investments	2,250	
Purchases of property and equipment	<u>(264,945)</u>	<u>(25,788)</u>
Net cash used by investing activities	<u>(298,177)</u>	<u>(25,788)</u>
Cash flows from financing activities:		
Proceeds from capital grant	186,567	100,000
Principal payments on long term debt	<u>(45,459)</u>	<u>(43,292)</u>
Net cash provided by financing activities	<u>141,108</u>	<u>56,708</u>
Change in cash	724,879	(48,327)
Cash, beginning of year	<u>964,409</u>	<u>1,012,736</u>
Cash, end of year	<u><u>\$ 1,689,288</u></u>	<u><u>\$ 964,409</u></u>
Cash and restricted cash:		
Cash	1,502,721	864,409
Restricted Cash	<u>186,567</u>	<u>100,000</u>
	<u><u>\$ 1,689,288</u></u>	<u><u>\$ 964,409</u></u>

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

HUSHABYE NURSERY

Statement of Cash Flows - Continued

Year Ended December 31, 2023

(with comparative financial information for the year ended December 31, 2022)

	<u>2023</u>	<u>2022</u>
<u>Supplemental disclosures:</u>		
Cash paid during the year for interest	\$ 15,223	\$ 17,699
<u>Supplemental disclosures of noncash investing and financing activities</u>		
Leased asset obtained in exchange for new operating lease liability		\$ 426,781

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

HUSHABYE NURSERY
NOTES TO FINANCIAL STATEMENTS

December 31, 2023
(with comparative financial information as of and for the year ended December 31, 2022)

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 803 infants suffering from Neonatal Abstinence Syndrome (NAS) from inception through December 31, 2023. 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 outcomes that validate our care protocol:

NAS infants treated with morphine	36.5%
NAS infants average length of stay	8.4 days
Infants safely discharged to a biological parent	60.2%

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.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

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.

Restricted Cash: Restricted cash consists of unspent proceeds from a capital grant.

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, 2023 and 2022.

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, 2023 and 2022, the Organization considers the balances 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. Receivables are considered by management to be fully collectible at December 31, 2023 and 2022, and accordingly, an allowance for doubtful accounts has not been recorded.

Prepaid Expenses: Prepaid expenses consist of goods and/or services purchased before December 31, 2023 and 2022 that are to be used subsequent to year end.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

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

Deposits: Deposits consist of required lease and utility deposits.

Investments: The Organization follows provisions of FASB ASC's topic of Not-for-Profit Entities regarding its investments. Management has estimated the fair value of its investments using available market information and other valuation methodologies as described in Note 3. The estimates are based on pertinent information available to management as of December 31, 2023. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from the amounts in the financial statements.

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.

Deferred Revenue: Payments received for claims paid in a subsequent fiscal year are recorded as deferred revenue when received, and recognized as revenue in the period in which the claims are paid.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

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

In-kind contributions/expenses: Donated supplies are valued based on amounts estimated by donors that would otherwise be paid at retail prices. Donated services are valued based on hourly rates that would be paid for professionals in an open market and are recognized in the financial statements at their estimated fair value if the following criteria are met:

1. The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or
2. The services enhance or create an long-lived asset.

Functional Expenses: The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include: depreciation, insurance, and facility and equipment, which are allocated on a square footage basis; salaries and personnel costs, professional services, supplies, travel, marketing, and software are allocated on the basis of estimates of time and effort.

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.

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.

Reclassifications: Certain reclassifications were made to the 2022 financial statements to conform to the 2023 presentation.

Subsequent Events: The Organization has evaluated subsequent events through July 18, 2024, the date the Organization's financial statements were available to be issued. Management has concluded that no events have occurred since the year ended December 31, 2023 that would require an adjustment to, or disclosure in, the financial statements.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

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 included in current assets:	2023	2022
Cash	\$ 1,502,721	\$ 864,409
Investments	33,232	
Grants receivable	142,047	366,655
Contributions receivable	58,094	323,750
Accounts receivable, net	<u>485,225</u>	<u>332,156</u>
Total financial assets included in current assets	2,221,319	1,886,970
Less amounts unavailable for general expenditure within one year:		
Net assets with donor restrictions	<u>948,832</u>	<u>597,502</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,272,487</u>	<u>\$ 1,289,468</u>

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.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value measurements are determined based on assumptions that market participants would use in pricing assets and liabilities. GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions and the Organization's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are the Organization's own assumptions about what market participants would assume based on the best information available in the circumstance.

Level 1 inputs – A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs – These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1.

Level 3 inputs – These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Organization did not have any investments valued based on Level 3 inputs at December 31, 2023.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023.

Equity fund securities / pooled investments: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.

The fair value of assets measured as Level 1 and Level 2 inputs on a recurring basis at December 31, 2023 were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equity fund securities	\$ 8,051		\$ 8,051
AZ Community Foundation Reserve		\$ 25,181	25,181
Total investments	<u>\$ 8,051</u>	<u>\$ 25,181</u>	<u>\$ 33,232</u>

There were no assets measured at fair value at December 31, 2022.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31,

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 1,141,922	\$ 854,389
Furniture	20,448	20,448
Equipment	74,450	74,450
Software	23,000	30,488
Construction in progress		15,100
	<u>1,259,820</u>	<u>994,875</u>
Less accumulated depreciation	<u>(367,547)</u>	<u>(252,513)</u>
Total property and equipment, net	<u>\$ 892,273</u>	<u>\$ 742,362</u>

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

During the years ended December 31, 2023 and 2022, the Organization received \$1,475,149 and \$320,000, respectively, in restricted contributions. Net assets with donor restrictions at December 31, were restricted for the following purposes:

	<u>2023</u>	<u>2022</u>
Capital	\$ 186,567	\$ 100,000
Personnel	354,762	55,962
Operations	342,243	79,469
Transportation	10,748	38,321
Time-restricted	54,512	323,750
	<u>\$ 948,832</u>	<u>\$ 597,502</u>

Net assets released from restrictions for the year ended December 31, 2023, and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Capital	\$ 260,433	\$ 145,000
Personnel	272,150	69,455
Operations	239,913	120,531
Transportation	27,573	4,623
Time-restricted	323,750	8,750
	<u>\$ 1,123,819</u>	<u>\$ 348,359</u>

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 6 - IN-KIND CONTRIBUTIONS AND EXPENSES

In-kind support for the Organization included the following for the year ended December 31, 2023:

Professional services	\$ 99,239
Supplies	<u>38,184</u>
	<u>\$ 137,423</u>

The Organization did not have in-kind contributions that were required to be recognized in the financial statements for the year ended December 31, 2022.

NOTE 7 - NOTE PAYABLE

The Organization has a \$500,000 loan, secured by real property. The stated interest rate on the loan is 3.3% with principal and interest payments of \$14,732 due quarterly until maturity on April 1, 2032.

Future maturities of long-term debt are as follows:

2024	\$ 46,611
2025	48,169
2026	49,778
2027	51,441
2028	53,160
Thereafter	<u>140,799</u>
	<u>\$ 389,958</u>

Under the loan agreement the Organization is required to comply with certain financial covenants. December 31, 2023 and 2022, the Organization was in compliance with these covenants.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 8 - OPERATING LEASE

The Organization entered into a lease agreement for its main site under a non-cancelable agreement expiring January 2031. Rent expense was \$58,458 and \$63,651 for the years ended December 31, 2023 and 2022, respectively, and is included in facility and equipment on the statement of functional expenses.

Supplemental information for the statement of activities for the years ended December 31, related to the lease were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease right-of-use asset	\$ 311,137	\$ 352,552
Operating lease liability	349,951	390,923
Weighted average remaining lease term:		
Operating leases	7 years	8 years

During the years ended December 31, the Organization had the following cash and non-cash activities associated with leases:

Cash paid for amounts included in the measurement of lease liabilities:	<u>2023</u>	<u>2022</u>
Operating cash flows from operating leases	\$ 46,977	\$ 45,608
Non-cash investing and financing activities		
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		\$ 426,781

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2023

(with comparative financial information as of and for the year ended December 31, 2022)

NOTE 6 - OPERATING LEASE - CONTINUED

Future minimum operating lease commitments are as follows:

Year ending December 31,	
2024	\$ 48,386
2025	49,837
2026	51,333
2027	52,873
2028	54,459
Thereafter	<u>113,867</u>
	370,755
Less: interest	<u>(20,804)</u>
	<u><u>\$ 349,951</u></u>

Because the Organization does not have access to the rate implicit in the lease, the Organization utilizes the appropriate US Treasury Bill rate relative to the lease terms as the discount rate. As of December 31, 2023, the weighted average discount rate on the operating lease was 1.63%.

NOTE 9 - CONDITIONAL GRANTS AND CONTRIBUTIONS

The Organization received conditional grants and contributions during the years ended December 31, 2023 and 2022. 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, 2023 and 2022, amounts awarded but not yet earned totaled \$2,045,016 and \$731,108, respectively. While management believes that the Organization will meet these conditions, they had not been met as of the years ended December 31, 2023 and 2022. Accordingly, no amount has been recorded for these conditional grants and contributions as a receivable in these financial statements.

NOTE 10 - RETIREMENT PLAN

During the year ended December 31, 2022, the Organization established a 403(b) retirement plan for its employees. The Organization matches each employee's plan contribution to a maximum of 1% of the employees compensation. The Organization's contributions vest based on years of service. During the year ended December 31, 2023 and 2022, the Organization's contributions to the plan were \$15,955 and \$11,715, respectively.

HUSHABYE NURSERY

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Assistance Listings Number	Federal Program Name	Cluster Title	Pass-Through Grantor	Pass-Through Grantor's Number	Program Expenditures
U.S. Department of Treasury					
21.027	COVID-19: Coronavirus State and Local Fiscal Recovery Funds	N/A	Arizona Council of Human Service Providers	None	<u>\$ 25,000</u>
Total U.S. Department of Treasury					<u>25,000</u>
U.S. Department of Health and Human Services					
93.391	Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crisis	N/A	Maricopa County Department of Public Health	C-86-22-100-X-00	187,101
93.788	Opioid STR	N/A	Mercy Care	None	247,603
93.959	Block Grants for Prevention and Treatment of Substance Abuse	N/A	State of Arizona, Governor's Office of Youth, Faith and Family	SABG-DSG-20-100120-10	87,194
93.959	Block Grants for Prevention and Treatment of Substance Abuse	N/A	Mercy Care	None	<u>320,980</u>
Total 93.959					<u>408,174</u>
Total U.S. Department of Health and Human Services					<u>842,878</u>
Corporation for National and Community Service					
94.006	Americorps State and National 94.006	N/A	State of Arizona, Governor's Office of Youth, Faith and Family	AC-VSG-21-090121-10	<u>252,659</u>
Total Corporation for National and Community Service					<u>252,659</u>
Total Expenditures of Federal Awards					<u><u>\$ 1,120,537</u></u>

The accompanying notes are an integral part of this schedule.

HUSHABYE NURSERY

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hushabye Nursery, Inc. (a nonprofit organization, the Organization), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

NOTE 2 - FEDERAL ASSISTANCE LISTINGS NUMBER

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2023 Federal Assistance Listings. When no Federal Assistance Listings numbers had been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two digit federal agency identifier and the word "unknown" were used.

NOTE 3 - INDIRECT COST RATE

The Organization has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

The Organization did not pass any funds on to subrecipients during the year ended December 31, 2023.



**Independent Auditors' 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***

The Board of Directors of
Hushabye Nursery, Inc.
Phoenix, Arizona

We have audited, in accordance with the 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 Hushabye Nursery, Inc. (a nonprofit organization, the Organization), which comprise the statement of financial position as of December 31, 2023, 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 our report thereon dated July 18, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a 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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Fester & Chapman, PLLC

July 18, 2024



Independent Auditors' Report on Compliance for Each Major Federal Program and Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors of
Hushabye Nursery, Inc.
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hushabye Nursery, Inc.'s (a nonprofit organization, the Organization), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2023. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our 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 Award* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the Organization. Our audit does not provide a legal determination of the Organization'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 each major federal program.

Auditors' Responsibilities for the Audit of Compliance

Our 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 the Organization's compliance based on our 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 compliance about the Organization's compliance with the requirements of the federal program as a whole.

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

- 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 the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization'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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are 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 we 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.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section 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 our audit we did not identify any deficiencies in internal control over compliance that we 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.

Our 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 our 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.

Fester & Chapman, PLLC

July 18, 2024

HUSHABYE NURSERY

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	<u>Unmodified</u>	
	Yes	No
Is a going concern emphasis-of-matter paragraph included in the auditors' report?	_____	<u>X</u>
Internal control over financial reporting:		
Material weakness(es) identified?	_____	<u>X</u>
Significant deficiency(ies) identified?	_____	<u>X</u> (none reported)
Noncompliance material to the financial statements noted?	_____	<u>X</u>

Federal Awards:

Internal control over major federal programs:		
Material weakness(es) identified?	_____	<u>X</u>
Significant deficiency(ies) identified?	_____	<u>X</u> (none reported)
Type of auditors' report issued on compliance for major federal programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	<u>X</u>

Identification of major programs:

<u>Federal Assistance Listings Number</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Treatment and Prevention of Substance Abuse
93.788	Opioid STR

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	_____ <u>X</u>

Other Matters:

	Yes	No
Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR 200.511(b)?	_____	<u>X</u>

HUSHABYE NURSERY

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2023

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.