HUSHABYE NURSERY

Financial Statements
Independent Auditors' Report, and
Single Audit Report

December 31, 2024
(with comparative totals for 2023)

CONTENTS

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 corporation, the Organization), which comprise the statement of financial position as of December 31, 2024, 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, 2024, 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 opinion.

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 May 21, 2025, 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 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 18, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

May 21, 2025

HUSHABYE NURSERY

Statement of Financial Position

December 31, 2024
(with comparative financial information as of December 31, 2023)

	2024	2023
ASSETS		
Current assets:		
Cash	$ 1,352,351	$ 1,502,721
Investments	25,662	33,232
Grants receivable	200,566	142,047
Contributions receivable	273,825	58,094
Accounts receivable, net	588,195	485,225
Prepaid expenses	96,462	93,958
Total current assets	2,537,061	2,315,277
Other assets:		
Deposits	51,079	51,079
Inventory	76,627	
Restricted cash	87,001	186,567
Property and equipment, net	867,064	892,273
Operating lease - right-of-use-asset	269,036	311,137
Total assets	$ 3,887,868	$ 3,756,333
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 52,069	$ 55,331
Accrued expenses	512,337	372,598
Deferred revenue	312,500	125,200
Operating lease liability, current portion	45,238	43,067
Note payable, current portion	48,169	46,611
Total current liabilities	970,313	642,807
Operating lease liability, net current portion	261,646	306,884
Note payable, noncurrent portion	295,178	343,347
Total liabilities	1,527,137	1,293,038
Net assets:		
Without donor restrictions	1,762,539	1,514,463
With donor restrictions	598,192	948,832
Total net assets	2,360,731	2,463,295
Total liabilities and net assets	$ 3,887,868	$ 3,756,333

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

HUSHABYE NURSERY

Statement of Activities

Year Ended December 31, 2024
(with comparative financial information for the year ended December 31, 2023)

	Without Donor Restrictions	With Donor Restrictions	Total	2023
Public support and revenue:				
Healthcare services revenue	$ 2,279,146		$ 2,279,146	$ 1,875,273
Grants and contributions	743,666	$ 762,300	1,505,966	2,689,134
Government grants	1,967,245	100,003	2,067,248	1,111,221
Special event revenue, net of direct donor benefit expenses of $4,488 and $36,748, respectively	318,816		318,816	73,568
In-kind contributions	211,882		211,882	137,423
Interest and dividends	40,665		40,665	12,765
Other revenue	48,466		48,466	16,636
Net assets released from restrictions	1,212,943	(1,212,943)		
Total public support and revenue	6,822,829	(350,640)	6,472,189	5,916,020
Expenses:				
Program services	4,783,083		4,783,083	4,664,616
Management and general	1,427,919		1,427,919	551,924
Fundraising	363,751		363,751	380,223
Total expenses	6,574,753		6,574,753	5,596,763
Change in net assets, before capital grant	248,076	(350,640)	(102,564)	319,257
Capital grant				186,567
Change in net assets	248,076	(350,640)	(102,564)	505,824
Net assets, beginning of year	1,514,463	948,832	2,463,295	1,957,471
Net assets, end of year	$ 1,762,539	$ 598,192	$ 2,360,731	$ 2,463,295

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

HUSHABYE NURSERY

Statement of Functional Expenses

Year Ended December 31, 2024
(with comparative financial information for the year ended December 31, 2023)

	Program Services			Supporting Services				
	Healthcare Services	Community Outreach	Total Program Services	Management and General	Fundraising	Direct Donor Benefit	Totals	2023
Salaries and personnel costs	$ 3,050,171	$ 161,479	$ 3,211,650	$ 853,936	$ 140,998		$ 4,206,584	$ 3,842,712
Direct program expenses	169,851	1,658	171,509				171,509	137,492
Supplies	2,802	94	2,896	16,999	431		20,326	16,331
Travel	911	8,359	9,270	1,425			10,695	15,815
Insurance	59,454		59,454	19,215	3,308		81,977	61,472
Bank and credit card fees				221	10,082		10,303	7,792
Marketing	916	97,234	98,150	3,073	20,524		121,747	159,871
Professional services	202,287	71	202,358	405,255	155,366		762,979	465,024
Facility and equipment	492,018	13,249	505,267	84,133	17,006		606,406	576,415
Depreciation	131,307		131,307	9,941	1,473		142,721	115,034
Software	19,296		19,296	16,592	14,293		50,181	43,965
Interest				14,216			14,216	15,223
Special events - direct donor benefit:								
Meals and entertainment						$ 4,488	4,488	36,748
Bad debt expense	159,515		159,515				159,515	
Miscellaneous	529		529	2,913	270		3,712	2,194
In-kind	211,882		211,882				211,882	137,423
Total	4,500,939	282,144	4,783,083	1,427,919	363,751	4,488	6,579,241	5,633,511
Less: expenses netted against revenue on the Statement of Activities:								
Special events - direct donor benefit						(4,488)	(4,488)	(36,748)
Total expenses	$ 4,500,939	$ 282,144	$ 4,783,083	$ 1,427,919	$ 363,751	$	$ 6,574,753	$ 5,596,763

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

HUSHABYE NURSERY

Statement of Cash Flows

Year Ended December 31, 2024
(with comparative financial information for the year ended December 31, 2023)

	2024	2023
Cash flows from operating activities:		
Change in net assets	$ (102,564)	$ 505,824
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Capital grant		(186,567)
Depreciation	142,721	115,034
Noncash operating lease expense	42,101	41,415
Donated inventory	(76,627)	
Changes in:		
Grants receivable	(58,519)	224,608
Contributions receivable	(215,731)	265,656
Accounts receivable	(102,970)	(153,069)
Prepaid expenses	(2,504)	(33,445)
Accounts payable	(3,262)	(33,935)
Accrued expenses	139,739	52,199
Operating lease liability	(43,067)	(40,972)
Deferred revenue	187,300	125,200
Net cash (used) provided by operating activities	(93,383)	881,948
Cash flows from investing activities:		
Purchases of investments		(35,482)
Proceeds from sale of investments	7,570	2,250
Purchases of property and equipment	(117,512)	(264,945)
Net cash used by investing activities	(109,942)	(298,177)
Cash flows from financing activities:		
Proceeds from capital grant		186,567
Principal payments on long term debt	(46,611)	(45,459)
Net cash (used) provided by financing activities	(46,611)	141,108
Change in cash	(249,936)	724,879
Cash, beginning of year	1,689,288	964,409
Cash, end of year	$ 1,439,352	$ 1,689,288
Cash and restricted cash:		
Cash	$ 1,352,351	$ 1,502,721
Restricted Cash	87,001	186,567
	$ 1,439,352	$ 1,689,288
Supplemental disclosures:		
Cash paid during the year for interest	$ 14,216	$ 15,223

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 901 infants suffering from Neonatal Abstinence Syndrome (NAS) from inception through December 31, 2024. 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	35.6%
NAS infants average length of stay	8.5 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.

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 when eligible costs have been incurred or services have been provided. A receivable is recorded when grant expenses are incurred or contracted services have been provided, but reimbursement has not yet been received by the Organization. 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, 2024 and 2023.

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, 2024 and 2023, 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.

Inventory: Inventory consists of donated equipment and supplies on hand at year end.

Prepaid Expenses: Prepaid expenses consist of goods and/or services purchased before December 31, 2024 and 2023 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

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, 2024 and 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

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.

Revenue Recognition: The Organization recognizes its federal and state grants on a over the service period for certain grants or to the extent of expenses. The Organization recognizes contract revenue as healthcare services are rendered under unit of service contracts and as expenses are incurred under cost reimbursement contracts. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, and discounted charges. Healthcare services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, 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. Conditional contributions and grants are recorded as net assets without restrictions if donor-imposed restrictions are met in the same fiscal period in which the conditional contributions and grants are received.

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

Revenue Recognition (Continued): FASB ASC 606 requires the disclosure of contract assets and liabilities as the beginning of the reporting period. The Organization's contract assets include accounts receivable, net. The balance as of December 31, 2023 and 2022, was $485,225 and $332,156, respectively. See Note 3.

The Center did not have contract liabilities as defined by FASB ASC 606 at December 31, 2022 through 2024.

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 and investment accounts at financial institutions that may at times exceed the limits insured by the Federal Deposit Insurance Corporation (FDIC) or covered by Securities Investor Protection Corporation (SIPC). 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 2023 financial statements to conform to the 2024 presentation.

Subsequent Events: The Organization has evaluated subsequent events through May 21, 2025, 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, 2024 that would require an adjustment to, or disclosure in, the financial statements.

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

New Accounting Standard: In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 were accounts receivable, net.

The Organization adopted the standard effective January 1, 2024. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

NOTE 2 - LIQUIDITY AND AVAILABILITY

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:	2024	2023
Cash	$ 1,352,351	$ 1,502,721
Investments	25,662	33,232
Grants receivable	200,566	142,047
Contributions receivable	273,825	58,094
Accounts receivable, net	588,195	485,225
Total financial assets included in current assets	2,440,599	2,221,319
Less amounts unavailable for general expenditure within one year:		
Net assets with donor restrictions	598,192	948,832
Financial assets available to meet cash needs for general expenditures within one year	$ 1,842,407	$ 1,272,487

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 - ACCOUNTS RECEIVABLE, NET

The Organization provides inpatient nursery services and outpatient therapies and its accounts receivable are primarily derived from patients and insurance companies for services rendered. At each statement of financial position date, the Organization recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. The allowance estimate is derived from a review of the Organization's historical losses based on the aging of receivables. This estimate is adjusted for management's assessments of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Organization. The Organization believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Organization.

The following is a summary of accounts receivable, net at December 31:

	2024	2023
Accounts receivable	$ 747,710	$ 485,225
Less allowance for doubtful accounts	(159,515)	
Accounts receivable, net	$ 588,195	$ 485,225

No allowance for doubtful accounts was considered necessary at December 31, 2023, as the Organization did not have enough historical collections information to adequately estimate the allowance at that time.

NOTE 4 - 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. The Organization did not have any investments valued based on Level 1 inputs at December 31, 2024.

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, 2024 and 2023.

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

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, 2024.

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 2 inputs on a recurring basis at December 31, 2024 were as follows:

AZ Community Foundation Reserve	$ 25,662

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

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

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	2024	2023
Leasehold improvements	$ 1,246,867	$ 1,141,922
Furniture	20,448	20,448
Equipment	77,437	74,450
Software	23,000	23,000
Construction in progress	9,580	
	1,377,332	1,259,820
Less accumulated depreciation	(510,268)	(367,547)
Total property and equipment, net	$ 867,064	$ 892,273

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

During the years ended December 31, 2024 and 2023, the Organization received $862,303 and $1,475,149, respectively, in restricted contributions. Net assets with donor restrictions at December 31, were restricted for the following purposes:

	2024	2023
Capital	$ 87,001	$ 186,567
Personnel	47,956	354,762
Operations	387,307	342,243
Transportation	836	10,748
Time-restricted	75,092	54,512
	$ 598,192	$ 948,832

Net assets released from restrictions for the year ended December 31, 2024, and 2023 were as follows:

	2024	2023
Capital	$ 16,913	$ 260,433
Personnel	492,955	272,150
Operations	589,092	239,913
Transportation	9,911	27,573
Time-restricted	104,072	323,750
	$ 1,212,943	$ 1,123,819

NOTE 7 - IN-KIND CONTRIBUTIONS AND EXPENSES

In-kind support for the Organization included the following for the years ended December 31:

	2024	2023
Professional services	$ 117,035	$ 99,239
Supplies	94,847	38,184
	$ 211,882	$ 137,423

NOTE 8 - 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:

2025	$ 48,169
2026	49,778
2027	51,441
2028	53,160
2029	54,936
Thereafter	85,863
	$ 343,347

Under the loan agreement the Organization is required to comply with certain financial covenants. As of December 31, 2024 and 2023, the Organization was in compliance with those covenants.

NOTE 9 - OPERATING LEASE

The Organization entered into a lease agreement for its main site under a non-cancelable agreement expiring January 2031. Rent expense was $62,119 and $58,458 for the years ended December 31, 2024 and 2023, 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:

	2024	2023
Operating lease right-of-use asset	$ 269,036	$ 311,137
Operating lease liability:		
Current portion of long-term debt	45,238	43,067
Long-term debt	261,646	306,884

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:	2024	2023
Operating cash flows from operating leases	$ 48,386	$ 46,977

Future minimum operating lease commitments are as follows:

Year ending December 31,	
2025	$ 49,837
2026	51,333
2027	52,873
2028	54,459
2029	56,093
Thereafter	57,775
	322,370
Less: interest	(15,486)
	$ 306,884

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, 2024 and 2023, the discount rate on the operating lease was 1.63%.

NOTE 10 - CONDITIONAL GRANTS AND CONTRIBUTIONS

The Organization received conditional grants and contributions during the years ended December 31, 2024 and 2023. 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, 2024 and 2023, amounts awarded but not yet earned totaled $1,302,266 and $2,045,016, respectively. While management believes that the Organization will meet these conditions, they had not been met as of the years ended December 31, 2024 and 2023. Accordingly, no amount has been recorded for these conditional grants and contributions as a receivable in these financial statements.

NOTE 11 - RETIREMENT PLAN

The Organization has a 403(b) retirement plan available to its employees. The Organization matches each employee's contribution to a maximum of 1% of the employees compensation. The Organization's contributions vest based on years of service. During the years ended December 31, 2024 and 2023, the Organization's contributions to the plan were $16,814 and $15,955, respectively.

HUSHABYE NURSERY

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2024

Federal Assistance Listings Number	Federal Program Name	Cluster Title	Pass-Through Grantor	Pass-Through Grantor's Number	Program Expenditures
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	122,979
93.788	Opiod STR	N/A	Mercy Care	None	357,149
93.959	Block Grants for Prevention and Treatment of Substance Abuse	N/A	Mercy Care	None	883,141
	Total U.S. Department of Health and Human Services				1,363,269
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	311,421
	Total Corporation for National and Community Service				311,421
	Total Expenditures of Federal Awards				$ 1,674,690

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, 2024

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 2024 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, 2024.

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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 corporation, the Organization), which comprise the statement of financial position as of December 31, 2024, 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 May 21, 2025.

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.

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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

May 21, 2025

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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 corporation, 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, 2024. 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, 2024.

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.

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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

May 21, 2025

HUSHABYE NURSERY

Schedule of Findings and Questioned Costs

Year Ended December 31, 2024

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

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

Federal Awards:

	Yes	No	
Internal control over major federal programs:			
Material weakness(es) identified?		X	
Significant deficiency(ies) identified?		X	(none reported)
Type of auditors' report issued on compliance for major federal programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		X	

Identification of major programs:

Federal Assistance Listings Number	Name of Federal Program or Cluster
93.788	Opiod STR

	Yes	No
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X	

Other Matters:

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

HUSHABYE NURSERY

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2024

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.