

HUSHABYE NURSERY

Financial Statements and
Independent Auditors' Report

December 31, 2021
(with comparative totals for 2020)

CONTENTS

Independent Auditors' Report.....	1 - 2
Financial Statements:	
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7 - 12



Independent Auditors' Report

To the Board of Directors of
Hushabye Nursery
Phoenix, Arizona

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, 2021, 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, 2021, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted 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.

Report on Summarized Comparative Information

We have previously audited the Organization 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

June 15, 2022

HUSHABYE NURSERY

Statement of Financial Position

December 31, 2021

(with comparative financial information as of December 31, 2020)

	2021	2020
ASSETS		
Current assets:		
Cash	\$ 1,012,736	\$ 894,055
Grants receivable	82,929	306,314
Contributions receivable	8,750	55,000
Accounts receivable, net	249,648	13,950
Prepaid expenses	47,440	91,531
Total current assets	1,401,503	1,360,850
Deposits	55,006	55,006
Property and equipment, net	829,821	935,808
Total assets	\$ 2,286,330	\$ 2,351,664
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 105,911	\$ 135,276
Accrued expenses	257,868	116,550
Note payable, current portion	43,646	
Total current liabilities	407,425	251,826
Note payable, noncurrent portion	435,063	300,000
Total liabilities	842,488	551,826
Net assets:		
Without donor restrictions	1,132,981	1,139,874
With donor restrictions	310,861	659,964
Total net assets	1,443,842	1,799,838
Total liabilities and net assets	\$ 2,286,330	\$ 2,351,664

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

HUSHABYE NURSERY

Statement of Activities

Year Ended December 31, 2021
(with comparative financial information as of December 31, 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Public support and revenue:				
Grants and contributions	\$ 991,136	\$ 381,610	\$ 1,372,746	\$ 921,803
Government grants	812,654		812,654	578,958
Paycheck Protection Program	91,360		91,360	
Healthcare services revenue	353,309		353,309	13,950
Interest and dividends	1,019		1,019	2,183
Other revenue	2,500		2,500	353
Net assets released from restrictions	<u>730,713</u>	<u>(730,713)</u>		
Total public support and revenue	2,982,691	(349,103)	2,633,588	1,517,247
Expenses:				
Healthcare services	2,387,130		2,387,130	583,623
Management and general	581,498		581,498	247,583
Fundraising	<u>140,956</u>		<u>140,956</u>	<u>103,246</u>
Total expenses	<u>3,109,584</u>		<u>3,109,584</u>	<u>934,452</u>
Change in net assets, before capital grant	(126,893)	(349,103)	(475,996)	582,795
Capital grant	<u>120,000</u>		<u>120,000</u>	<u>163,094</u>
Change in net assets	(6,893)	(349,103)	(355,996)	745,889
Net assets, beginning of year	<u>1,139,874</u>	<u>659,964</u>	<u>1,799,838</u>	<u>1,053,949</u>
Net assets, end of year	<u>\$ 1,132,981</u>	<u>\$ 310,861</u>	<u>\$ 1,443,842</u>	<u>\$ 1,799,838</u>

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

HUSHABYE NURSERY

Statement of Functional Expenses

Year Ended December 31, 2021

(with comparative financial information as of December 31, 2020)

	2021			Totals	2020
	Healthcare Services	Supporting Services Management and General	Fundraising		
Salaries and personnel costs	\$ 1,583,593	\$ 479,929	\$ 127,038	\$ 2,190,560	\$ 675,806
Direct program expenses	133,259			133,259	31,280
Supplies	10,831	3,874	822	15,527	11,242
Travel	34	170		204	4,118
Insurance	102,321	9,026	761	112,108	22,218
Bank and credit card fees		115	3,580	3,695	3,001
Marketing	3,826	24,607		28,433	5,273
Professional services	22,439	17,343	1,783	41,565	63,838
Facility and equipment	392,312	25,164	4,216	421,692	97,210
Depreciation	120,087	375		120,462	18,804
Software	15,609	4,728	1,252	21,589	1,662
Interest		9,873		9,873	
Miscellaneous	2,819	6,294	1,504	10,617	
 Total expenses	 <u>\$ 2,387,130</u>	 <u>\$ 581,498</u>	 <u>\$ 140,956</u>	 <u>\$ 3,109,584</u>	 <u>\$ 934,452</u>

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

HUSHABYE NURSERY

Statement of Cash Flows

Year Ended December 31, 2021
(with comparative financial information as of December 31, 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (355,996)	\$ 745,889
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Capital grant	(120,000)	(163,094)
Depreciation	120,462	18,804
Changes in:		
Grants receivable	223,385	(233,769)
Contributions receivable	46,250	(55,000)
Accounts receivable	(235,698)	(13,950)
Prepaid expenses	44,091	(91,531)
Deposits		(55,006)
Accounts payable	83,939	21,972
Accrued expenses	141,318	116,550
Net cash (used) provided by operating activities	(52,249)	290,865
Cash flows from investing activities:		
Purchases of property and equipment	(127,779)	(841,308)
Net cash used by investing activities	(127,779)	(841,308)
Cash flows from financing activities:		
Proceeds from capital grant	120,000	163,094
Proceeds from note payable	500,000	300,000
Retirement of bridge loan	(300,000)	
Principal payments on long term debt	(21,291)	
Net cash provided by financing activities	298,709	463,094
Change in cash	118,681	(87,349)
Cash, beginning of year	894,055	981,404
Cash, end of year	\$ 1,012,736	\$ 894,055
<u>Supplemental disclosures:</u>		
Cash paid during the year for interest	\$ 9,873	\$ 0
Purchases of property and equipment included in accounts payable	\$ 0	\$ 113,304

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

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of December 31, 2020)

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 199 infants suffering from Neonatal Abstinence Syndrome (NAS) from inception through December 31, 2021. 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	25%
NAS infants average length of stay	7 days
Infants safely discharged to a biological parent	77%

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, 2021

(with comparative financial information as of December 31, 2020)

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

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grants Receivable: Grants receivable represent amounts awarded by various government agencies. Grants receivable are due within one year and are recorded at their net realizable value. Management estimates an allowance for uncollectible government grants receivable based on current economic conditions, historical trends, and current and past experience with the individual grantors. Management determined that no allowance was necessary at December 31, 2021 and 2020.

Contributions Receivable: Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discount is included in contribution revenue in the statement of activities. Management determines the allowance for contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. At December 31, 2021 and 2020, 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. At December 31, 2021 and 2020, the allowance for doubtful accounts receivable was \$101,885 and \$0, respectively.

Prepaid Expenses: Prepaid expenses consist of goods and/or services purchased before December 31, 2021 and 2020 that are to be used subsequent to year end.

Deposits: Deposits consist of required lease and utility deposits.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of December 31, 2020)

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

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

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

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

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

Functional Expenses: The 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.

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of December 31, 2020)

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:	<u>2021</u>	<u>2020</u>
Cash	\$ 1,012,736	\$ 894,055
Grants receivable	82,929	306,314
Contributions receivable	8,750	55,000
Accounts receivable	<u>249,648</u>	<u>13,950</u>
Total financial assets	1,354,063	1,269,319
Less amounts unavailable for general expenditure within one year:		
Net assets with donor restrictions	<u>310,861</u>	<u>659,964</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,043,202</u></u>	<u><u>\$ 609,355</u></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.

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31,

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 851,189	\$ 851,088
Furniture	20,448	19,285
Equipment	74,450	64,239
Software	<u>23,000</u>	<u>20,000</u>
	969,087	954,612
Less accumulated depreciation	<u>(139,266)</u>	<u>(18,804)</u>
Total property and equipment, net	<u><u>\$ 829,821</u></u>	<u><u>\$ 935,808</u></u>

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of December 31, 2020)

NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS

During the years ended December 31, 2021 and 2020, the Organization received \$381,610 and \$259,214, respectively, in restricted contributions. Net assets with donor restrictions at December 31, were restricted for the following purposes:

	<u>2021</u>	<u>2020</u>
Capital	\$ 120,000	
Personnel	47,917	\$ 217,020
Operations	100,000	400,000
Transportation	42,944	42,944
	<u>\$ 310,861</u>	<u>\$ 659,964</u>

Net assets released from restrictions for the year ended December 31, 2021, and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Personnel	\$ 310,713	136,295
Operations	400,000	402,000
Transportation	20,000	
	<u>\$ 730,713</u>	<u>\$ 538,295</u>

NOTE 5 - NOTE PAYABLE

On December 23, 2020, the Organization received a \$300,000 unsecured note payable. The stated interest rate is 0.00%, with full principal payment due on May 1, 2021. The note was paid in full in April 2021 with 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 the maturity date of April 1, 2032.

Future maturities of long-term debt are as follows:

2022	\$ 43,646
2023	45,089
2024	46,600
2025	48,161
2026	49,776
Thereafter	<u>245,437</u>
	<u>\$ 478,709</u>

HUSHABYE NURSERY

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

(with comparative financial information as of December 31, 2020)

NOTE 6 - OPERATING LEASE

In March 2020, the Organization entered into a lease agreement for its main site under a non-cancelable agreement expiring January 2031. Rent expense was \$54,715 and \$54,938 for the years ended December 31, 2021 and 2020, respectively, and is included in facility and equipment on the statement of functional expenses. Future minimum operating lease commitments are as follows:

Year ending December 31,	
2022	\$ 45,497
2023	46,862
2024	48,268
2025	49,716
2026	51,207
Thereafter	<u>225,498</u>
	<u>\$ 467,048</u>

The Organization accounts for rent abatement contained in its lease on the straight-line method over the lease term for which rent is paid. Deferred rent was \$34,922 and \$22,162 as of December 31, 2021 and 2020, respectively, and is included in accrued expenses on the statement of financial position.

NOTE 7 - CONDITIONAL GRANTS AND CONTRIBUTIONS

The Organization received conditional grants and contributions during the years ended December 31, 2021 and 2020. Conditional grants and contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. When conditions are met in the same fiscal year that the revenue is recognized, conditional contributions and grants are presented as net assets without donor restrictions in the statement of activities. As of December 31, 2021 and 2020, amounts awarded but not yet earned totaled \$506,972 and \$557,795, respectively. While management believes that the Organization will meet these conditions, they had not been met as of the years ended December 31, 2021 and 2020. Accordingly, no amount has been recorded for these conditional grants and contributions as a receivable in these financial statements.

NOTE 8 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 15, 2022, 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, 2021 that would require an adjustment to, or disclosure in, the financial statements.