HUSHABYE NURSERY

Financial Statements
Independent Auditors' Report, and
Single Audit Report

December 31, 2022
(with comparative totals for 2021)

CONTENTS

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2022, 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, 2022, 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.

Emphasis of Matter

As discussed in Note 6 to the financial statements, in the year ended December 31, 2022, the Organization changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended using the modified retrospective approach. Our opinion is not modified with respect to this matter.

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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 June 29, 2023, 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 15, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Fester & Chapman, PLLC

June 29, 2023

HUSHABYE NURSERY

Statement of Financial Position

December 31, 2022
(with comparative financial information as of December 31, 2021)

	2022	2021
ASSETS		
Current assets:		
Cash	$ 864,409	$ 1,012,736
Grants receivable	366,655	82,929
Contributions receivable	323,750	8,750
Accounts receivable, net	332,156	249,648
Prepaid expenses	60,513	47,440
Total current assets	1,947,483	1,401,503
Other assets:		
Deposits	51,079	55,006
Restricted cash	100,000	
Property and equipment, net	742,362	829,821
Operating lease - right-of-use-asset	352,552	
Total assets	$ 3,193,476	$ 2,286,330
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 89,266	$ 105,911
Accrued expenses	320,399	257,868
Operating lease liability, current portion	40,972	
Note payable, current portion	45,100	43,646
Total current liabilities	495,737	407,425
Operating lease liability, net current portion	349,951	
Note payable, noncurrent portion	390,317	435,063
Total liabilities	1,236,005	842,488
Net assets:		
Without donor restrictions	1,674,969	1,132,981
With donor restrictions	282,502	310,861
Total net assets	1,957,471	1,443,842
Total liabilities and net assets	$ 3,193,476	$ 2,286,330

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

HUSHABYE NURSERY

Statement of Activities

Year Ended December 31, 2022
(with comparative financial information for the year ended December 31, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Public support and revenue:				
Grants and contributions	$ 1,784,513	$ 320,000	$ 2,104,513	$ 1,372,746
Government grants	1,376,302		1,376,302	812,654
Paycheck Protection Program				91,360
Healthcare services revenue	1,056,232		1,056,232	353,309
Interest and dividends	1,130		1,130	1,019
Other revenue	17,334		17,334	2,500
Net assets released from restrictions	348,359	(348,359)		
Total public support and revenue	4,583,870	(28,359)	4,555,511	2,633,588
Expenses:				
Healthcare services	3,255,580		3,255,580	2,387,130
Management and general	619,217		619,217	581,498
Fundraising	267,085		267,085	140,956
Total expenses	4,141,882		4,141,882	3,109,584
Change in net assets, before capital grant	441,988	(28,359)	413,629	(475,996)
Capital grant	100,000		100,000	120,000
Change in net assets	541,988	(28,359)	513,629	(355,996)
Net assets, beginning of year	1,132,981	310,861	1,443,842	1,799,838
Net assets, end of year	$ 1,674,969	$ 282,502	$ 1,957,471	$ 1,443,842

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

HUSHABYE NURSERY

Statement of Functional Expenses

Year Ended December 31, 2022

	Healthcare Services	Supporting Services: Management and General	Supporting Services: Fundraising	Totals
Salaries and personnel costs	$ 2,367,524	$ 447,631	$ 233,875	$ 3,049,030
Direct program expenses	97,191			97,191
Supplies	5,016	1,584	799	7,399
Travel	1,479	15,131		16,610
Insurance	119,184	7,021	235	126,440
Bank and credit card fees		2,796	3,373	6,169
Marketing	3,274	47,759	9,788	60,821
Professional services	64,609	34,219	6,237	105,065
Facility and equipment	462,862	37,363	8,678	508,903
Depreciation	111,747	1,500		113,247
Software	20,716	3,886	2,023	26,625
Interest		17,699		17,699
Miscellaneous	1,978	2,628	2,077	6,683
Total expenses	$ 3,255,580	$ 619,217	$ 267,085	$ 4,141,882

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

HUSHABYE NURSERY

Statement of Functional Expenses

Year Ended December 31, 2021

	Healthcare Services	Supporting Services: Management and General	Supporting Services: Fundraising	Totals
Salaries and personnel costs	$ 1,583,593	$ 479,929	$ 127,038	$ 2,190,560
Direct program expenses	133,259			133,259
Supplies	10,831	3,874	822	15,527
Travel	34	170		204
Insurance	102,321	9,026	761	112,108
Bank and credit card fees		115	3,580	3,695
Marketing	3,826	24,607		28,433
Professional services	22,439	17,343	1,783	41,565
Facility and equipment	392,312	25,164	4,216	421,692
Depreciation	120,087	375		120,462
Software	15,609	4,728	1,252	21,589
Interest		9,873		9,873
Miscellaneous	2,819	6,294	1,504	10,617
Total expenses	$ 2,387,130	$ 581,498	$ 140,956	$ 3,109,584

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

HUSHABYE NURSERY

Statement of Cash Flows

Year Ended December 31, 2022
(with comparative financial information for the year ended December 31, 2021)

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 513,629	$ (355,996)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Capital grant	(100,000)	(120,000)
Depreciation	113,247	120,462
Net change in operating lease - right-of-use asset and operating lease liability	38,371	
Changes in:		
Grants receivable	(283,726)	223,385
Contributions receivable	(315,000)	46,250
Accounts receivable	(82,508)	(235,698)
Prepaid expenses	(13,073)	44,091
Deposits	3,927	
Accounts payable	(16,645)	83,939
Accrued expenses	62,531	141,318
Net cash used by operating activities	(79,247)	(52,249)
Cash flows from investing activities:		
Purchases of property and equipment	(25,788)	(127,779)
Net cash used by investing activities	(25,788)	(127,779)
Cash flows from financing activities:		
Proceeds from capital grant	100,000	120,000
Proceeds from note payable		500,000
Retirement of bridge loan		(300,000)
Principal payments on long term debt	(43,292)	(21,291)
Net cash provided by financing activities	56,708	298,709
Change in cash	(48,327)	118,681
Cash, beginning of year	1,012,736	894,055
Cash, end of year	$ 964,409	$ 1,012,736
Cash at December 31, 2022 consisted of:		
Cash	864,409	1,012,736
Restricted Cash	100,000	
	$ 964,409	$ 1,012,736

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

HUSHABYE NURSERY

Statement of Cash Flows - Continued

Year Ended December 31, 2022
(with comparative financial information for the year ended December 31, 2021)

	2022	2021
Supplemental disclosures:		
Cash paid during the year for interest	$ 17,699	$ 9,873
Supplemental disclosures of noncash investing and financing activities		
Leased asset obtained in exchange for new operating lease liability	$ 426,781	$

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 427 infants suffering from Neonatal Abstinence Syndrome (NAS) from inception through December 31, 2022. 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	30%
NAS infants average length of stay	8 days
Infants safely discharged to a biological parent	63%

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:

<u>Basis of Presentation:</u> 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. 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, 2022 and 2021.

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, 2022 and 2021, 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, 2022 and 2021, the allowance for doubtful accounts receivable was $0 and $101,885, respectively.

Prepaid Expenses: Prepaid expenses consist of goods and/or services purchased before December 31, 2022 and 2021 that are to be used subsequent to year end.

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

Deposits: Deposits consist of required lease and utility deposits.

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.

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

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

Subsequent Events: The Organization has evaluated subsequent events through June 29, 2023, 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, 2022 that would require an adjustment to, or disclosure in, the financial statements.

Change in Accounting Principle: In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights of obligations created by leases that extended more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Organization has elected the package of practical expedients permitted in ASU 2016-02. Accordingly, the Organization accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASU 2016-02, (b) whether classification of the operating leases would be different in accordance with ASU 2016-02, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2015) would have met the definition of initial direct costs in ASU 2016-02 at lease commencement. No changes to beginning net assets were necessary as the Organization implemented this change in accounting principle on a modified retrospective basis.

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:	2022	2021
Cash	$ 864,409	$ 1,012,736
Grants receivable	366,655	82,929
Contributions receivable	323,750	8,750
Accounts receivable, net	332,156	249,648
Total financial assets included in current assets	1,886,970	1,354,063
Less amounts unavailable for general expenditure within one year:		
Net assets with donor restrictions	282,502	310,861
Financial assets available to meet cash needs for general expenditures within one year	$ 1,604,468	$ 1,043,202

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,

	2022	2021
Leasehold improvements	$ 854,389	$ 851,189
Furniture	20,448	20,448
Equipment	74,450	74,450
Software	30,488	23,000
Construction in progress	15,100	
	994,875	969,087
Less accumulated depreciation	(252,513)	(139,266)
Total property and equipment, net	$ 742,362	$ 829,821

NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS

During the years ended December 31, 2022 and 2021, the Organization received $320,000 and $381,610, respectively, in restricted contributions. Net assets with donor restrictions at December 31, were restricted for the following purposes:

	2022	2021
Capital	$ 100,000	$ 120,000
Personnel	64,712	47,917
Operations	79,469	100,000
Transportation	38,321	42,944
	$ 282,502	$ 310,861

Net assets released from restrictions for the year ended December 31, 2022, and 2021 were as follows:

	2022	2021
Capital	$ 145,000	
Personnel	78,205	$ 310,713
Operations	120,531	400,000
Transportation	4,623	20,000
	$ 348,359	$ 730,713

NOTE 5 - 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:

2023	$ 45,100
2024	46,611
2025	48,169
2026	49,778
2027	51,441
Thereafter	194,318
	$ 435,417

NOTE 5 - NOTE PAYABLE - CONTINUED

Under the loan agreement the Organization is required to comply with certain financial convenants. December 31, 2022 and 2021, the Organization was in compliance with these covenants.

NOTE 6 - OPERATING LEASE

The Organization entered into a lease agreement for it's main site under a non-cancelable agreement expiring January 2031. Rent expense was $63,651 and $54,715 for the years ended December 31, 2022 and 2021, respectively, and is included in facility and equipment on the statement of functional expenses.

Supplemental information for the statement of activities for the year ended December 31, 2022 related to lease was as follows:

Operating lease right-of-use asset	$	352,552
Operating lease liability	$	390,923
Weighted average remaining lease term:		
Operating leases		8 years

During the year ended December 31, 2022, the Organization had the following cash and non-cash activities associated with leases:

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

NOTE 6 - OPERATING LEASE - CONTINUED

Future minimum operating lease commitments are as follows:

Year ending December 31,	
2023	$ 46,977
2024	48,386
2025	49,837
2026	51,333
2027	52,873
Thereafter	168,326
	417,732
Less: interest	(26,809)
	$ 390,923

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, 2022, the weighted average discount rate on the operating lease was 1.63%.

NOTE 7 - CONDITIONAL GRANTS AND CONTRIBUTIONS

The Organization received conditional grants and contributions during the years ended December 31, 2022 and 2021. 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, 2022 and 2021, amounts awarded but not yet earned totaled $731,108 and $506,972, respectively. While management believes that the Organization will meet these conditions, they had not been met as of the years ended December 31, 2022 and 2021. Accordingly, no amount has been recorded for these conditional grants and contributions as a receivable in these financial statements.

NOTE 8 - 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, 2022, the Organization's contributions to the plan were $11,715.

HUSHABYE NURSERY

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

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	$ 195,847
93.788	Opiod STR	N/A	Mercy Care	None	242,784
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	115,016
93.959	Block Grants for Prevention and Treatment of Substance Abuse	N/A	Mercy Care	None	582,277
	Total 93.959				697,293
	Total U.S. Department of Health and Human Services				1,135,924
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	165,634
	Total Expenditures of Federal Awards				$ 1,301,558

HUSHABYE NURSERY

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

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 2022 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, 2022.

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, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2023.

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

June 29, 2023

FESTER & CHAPMAN PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards 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, 2022. 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, 2022.

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

June 29, 2023

HUSHABYE NURSERY

Schedule of Findings and Questioned Costs

Year Ended December 31, 2022

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

	Yes	No	
Type of auditors' report issued:	Unmodified		
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
93.959	Block Grants for Treatment and Prevention of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

	Yes	No
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

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2022

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted