

**EDUCARE ARIZONA
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023**



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Educare Arizona
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Educare Arizona, which comprise the statement of financial position as of June 30, 2023, the related statement 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 Educare Arizona as of June 30, 2023, and the results of 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Educare Arizona and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility 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 Educare Arizona's ability to continue as a going concern for one year after the date 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 GAAS 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 GAAS and *Government Auditing Standards*, we:

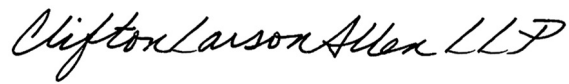
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, 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 Educare Arizona'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 Educare Arizona'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.

Board of Directors
Educare Arizona

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2024, on our consideration of Educare Arizona’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 Educare Arizona’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 Educare Arizona’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 25, 2024

EDUCARE ARIZONA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 245,401
Accounts Receivable, Net	300
Pledges Receivable	25,000
Total Current Assets	<u>270,701</u>

NONCURRENT ASSETS

Pledges Receivable, Less Current	25,000
Property and Equipment, Net	7,197,865
Total Noncurrent Assets	<u>7,197,865</u>

Total Assets	<u><u>\$ 7,493,566</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accrued Payroll and Employee Benefits	\$ 31,973
Total Liabilities	<u>31,973</u>

NET ASSETS

Without Donor Restrictions	7,320,778
With Donor Restrictions	140,815
Total Net Assets	<u>7,461,593</u>

Total Liabilities and Net Assets	<u><u>\$ 7,493,566</u></u>
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See accompanying Notes to Financial Statements.

**EDUCARE ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
REVENUE AND SUPPORT			
Contributions and Donations	\$ 28,015	\$ 289,891	\$ 317,906
Charges for Services	35,621	-	35,621
Net Assets Released from Restrictions	<u>331,888</u>	<u>(331,888)</u>	<u>-</u>
Total Revenue and Support	395,524	(41,997)	353,527
EXPENSES			
Program Services:			
Child and Family Support Services-CDA	301,942	-	301,942
Child and Family Support Services-Extended Day	171,374	-	171,374
Child and Family Support Services-STEM	42,000	-	42,000
Journey Through Books	47,442	-	47,442
Supporting Services:			
Management and General	23,607	-	23,607
Fundraising	<u>9,115</u>	<u>-</u>	<u>9,115</u>
Total Expenses	<u>595,480</u>	<u>-</u>	<u>595,480</u>
CHANGES IN NET ASSETS	(199,956)	(41,997)	(241,953)
Net Assets - Beginning of Year	<u>7,520,734</u>	<u>182,812</u>	<u>7,703,546</u>
NET ASSETS - END OF YEAR	<u>\$ 7,320,778</u>	<u>\$ 140,815</u>	<u>\$ 7,461,593</u>

See accompanying Notes to Financial Statements.

**EDUCARE ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023**

	Program Services				Supporting Services			Total Expenses
	Child and Family Support Services - CDA	Child and Family Support Services - Extended Day	Child and Family Support Services - STEM	Journey Through Books	Total Program Services	Management and General	Fundraising	
Salaries and Wages	\$ 104,739	\$ 63,405	\$ -	\$ 17,531	\$ 185,675	\$ 5,274	\$ -	\$ 190,949
Employee Related Expenses	25,556	15,020	-	4,576	45,152	1,572	-	46,724
Professional Fees	-	-	42,000	-	42,000	11,827	9,115	62,942
Travel	102	-	-	-	102	-	-	102
Occupancy	31,229	18,905	-	5,227	55,361	-	-	55,361
Rental & Maintenance of Equipment	304	270	-	-	574	37	-	611
Communications	415	80	-	-	495	4,299	-	4,794
Supplies	1,090	969	-	-	2,059	-	-	2,059
Training	18,371	-	-	-	18,371	-	-	18,371
Other Operating Exepenses	-	-	-	-	-	10	-	10
Bank Fees and Charges	-	-	-	-	-	588	-	588
Depreciation	120,136	72,725	-	20,108	212,969	-	-	212,969
Total Expenses by Function	\$ 301,942	\$ 171,374	\$ 42,000	\$ 47,442	\$ 562,758	\$ 23,607	\$ 9,115	\$ 595,480

See accompanying Notes to Financial Statements.

**EDUCARE ARIZONA
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Fees, Grants, and Contributions	\$ 329,327
Cash Paid to Employees for Services	(237,673)
Cash Paid to Suppliers for Goods and Services	<u>(112,865)</u>
Net Cash Used by Operating Activities	(21,211)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	<u>(15,597)</u>
Net Cash Used by Investing Activities	<u>(15,597)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (36,808)

Cash and Cash Equivalents - Beginning of Year 282,209

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 245,401

**RECONCILIATION OF CHANGES IN NET ASSETS TO
NET CASH USED BY OPERATING ACTIVITIES**

Changes in Net Assets	\$ (241,953)
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	212,969
(Increase) Decrease in Assets:	
Accounts Receivable	800
Pledges Receivable	(25,000)
Increase (Decrease) in Liabilities:	
Accrued Payroll and Employee Benefits	<u>31,973</u>
Net Cash Used by Operating Activities	<u><u>\$ (21,211)</u></u>

See accompanying Notes to Financial Statements.

EDUCARE ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 NATURE OF OPERATIONS

Educare Arizona (Educare or Organization) is an organization whose mission is to ensure vulnerable young children and their families are successful in school and life by providing high quality early learning, family support, and health care while also working to improve early childhood practice and policy.

Funding is provided through foundations, corporations, and individual donations.

On February 1, 2019, the board of directors of Educare Arizona amended its bylaws to give Southwest Human Development (SWHD) the right to appoint eight of nine board of directors to its board.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to nonprofit organizations.

Net assets, revenues, and support are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Organization and changes are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Designated amounts represent amounts which the board has set aside for a particular purpose. There were no designated amounts at June 30, 2023.

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. We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, 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.

Grants are reflected within net assets without donor restriction class, since these funds are received and spent during the same year.

EDUCARE ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly-liquid investments that are both (a) readily convertible to known amounts of cash; and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

Pledges Receivable

Unconditional promises to give are recognized as revenues in the period the promise is received, and as assets, decreases of liabilities or expense is recognized depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are to be collected within one year are recorded at net realizable value, which approximates fair value. Unconditional promises to give that are expected to be collected in future year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates as determined by management that are applicable to the year in which the promises are made. Amortization of the discounts is included in contribution support.

Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual promises to give. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to receivables. Management has determined that no allowance for uncollectible promises to give is required as of June 30, 2023.

Property and Equipment

Purchases of property and equipment over \$5,000 are initially recorded at cost. Assets donated to the Organization are recorded at their estimated fair value at the date of the gift. Depreciation on property and equipment is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 year. Expenses associated with the repair or maintenance of property and equipment are not capitalized and are recognized in the statement of activities in the fiscal year incurred. When property and equipment is sold or otherwise disposed of, the asset account and the related accumulated depreciation account are relieved, and any gain or loss is included in operations. Any leasehold improvements are amortized using the straight-line method over the remaining lease terms or asset lives, whichever is shorter.

EDUCARE ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators were present at June 30, 2023.

Contributions

Contributions are recognized as either with or without donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, donor-restricted net assets are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from donor restrictions. Contributions other than cash are recorded at their estimated fair value. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenue.

Functional Expenses

The costs of providing program, administrative expenses, and fundraising are reported on a functional basis. Costs are allocated between the program and support services on an actual basis, where available or based upon reasonable methods. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Tax Status

The Organization has been granted tax-exempt status as a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes has been provided in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the IRC. Management believes that no uncertain tax positions exist for the Organization as of June 30, 2023.

Subsequent Events

We have evaluated subsequent events through January 9, 2024, the date the financial statements were available to be issued.

Adoption of New Accounting Standards

The Organization changed accounting policies related to leases by adopting Financial Accounting Standards Board (FASB) *Accounting Standards Codification Topic 842, Leases*, during the fiscal year. Accordingly, the accounting change has been applied to the beginning of the period of adoption. The change in accounting policy did not impact fund balances nor changes in fund balances.

EDUCARE ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of June 30, 2023 available to meet general expenditures within one year of the statement of financial position date.

Total Assets	\$ 7,493,566
Less Assets not Available for Expenditures:	
Property and Equipment, Net	(7,197,865)
Less Donor-Imposed Restrictions:	
Restricted Funds	<u>(140,815)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 154,886</u></u>

The Organization operates under various grants and contracts for programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability, 2) maintaining adequate liquid assets to fund near-term operating needs, and 3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Organization's best practice is to maintain current financial assets less liabilities at a minimum of 60 days operating expenses. The Organization is prudent to target a year-end balance of reserves of undesignated net assets to meet 3 months of expected expenditures. To achieve these targets, the Organization forecasts its future cash flows and monitors its liquidity and reserves monthly. During the year ended June 30, 2023, the level of liquidity and reserves was managed within these targets.

NOTE 4 PLEDGES RECEIVABLE

Pledges receivables consist of the following unconditional promise to give at June 30:

Receivable in Less Than One Year	<u>\$ 25,000</u>
Total Pledges Receivable	50,000
Less: Current Maturities	<u>25,000</u>
Noncurrent Maturities	<u><u>\$ 25,000</u></u>

EDUCARE ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30 follows:

Building and Improvements	\$ 8,066,647
Furniture, Equipment, and Vehicles	38,592
Construction in Progress	-
Total	<u>8,105,239</u>
Less: Accumulated Depreciation:	
Building and Improvements	(890,651)
Less: Accumulated Depreciation Furniture, Equipment, and Vehicles	<u>(16,723)</u>
Property and Equipment, Net	<u><u>\$ 7,197,865</u></u>

Depreciation expense was \$212,970 for the year ended June 30, 2023.

NOTE 6 NET ASSETS

The following is a summary of net assets with donor restrictions at June 30:

General Support	\$ 50,000
STEM	43,478
Extended Day Program	39,187
Journey Through Books	8,150
Total Net Assets With Donor Restrictions	<u><u>\$ 140,815</u></u>

Net assets of \$331,888 were released from restrictions for the year ended June 30, 2023, respectively. These releases were related to program and time restricted restrictions.

NOTE 7 CONCENTRATION OF CREDIT RISK

The Organization places its cash and temporary cash investments with financial institutions. At times, such balances may be in excess of the FDIC insured limits. The Organization has not experienced any losses from such accounts, and management believes the Organization is not exposed to significant credit risk related to bank deposit accounts.

EDUCARE ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 7 CONCENTRATION OF CREDIT RISK (CONTINUED)

The Organization defines major funding sources as those whose promises to give were in excess of 10% of the Organization's total support and revenue. During the year ended June 30, 2023, the Organization had \$201,000 (approximately 63%) of its total support and revenue from four donors and \$50,000 (approximately 100%) of its total pledges receivables was from one donor.

NOTE 8 RELATED PARTY TRANSACTIONS

In September 2011, the SWHD began operating some of its Head Start classrooms in the facility completed by the Organization. SWHD makes purchases and pays for the employees on behalf of the Organization to be reimbursed by the Organization. During the year ended June 30, 2023, SWHD billed the Organization \$382,511,382,511. At June 30, 2023, the Organization has an outstanding liability to SWHD of \$31,973 31,973 .

NOTE 9 NEW ACCOUNTING STANDARDS

The Organization changed accounting policies related to leases by adopting Financial Accounting Standards Board (FASB) *Accounting Standards Codification Topic 842, Leases*, in 2022. Accordingly, the accounting change has been applied to the beginning of the period of adoption. The change in accounting policy did not impact net assets nor changes in net assets for the year ended June 30, 2023.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Educare Arizona
Phoenix, Arizona

We have audited, 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, the financial statements of Educare Arizona, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Educare Arizona'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 Educare Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of Educare Arizona'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 a 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.

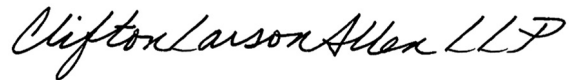
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educare Arizona’s financial statements are free from 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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 25, 2024



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