EDUCARE ARIZONA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

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YEAR ENDED JUNE 30, 2021

INDEPENDENT AUDITORS' REPORT

Board of Directors
Educare Arizona
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Educare Arizona, which comprise the statement of financial position as of June 30, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Educare Arizona

Opinion

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, 2021, and the changes in its net assets and its cash flows for the yeas then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2021, 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

CliftonLarsonAllen LLP

Phoenix, Arizona
November 8, 2021

EDUCARE ARIZONA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 359,050
Pledges Receivable	50,000
Total Current Assets	409,050
NONCURRENT ASSETS	
Property and Equipment, Net	7,571,144
Total Noncurrent Assets	7,571,144
Total Assets	$ 7,980,194

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accrued Payroll and Employee Benefits	$ 40,269
Total Liabilities	40,269
NET ASSETS	
Without Donor Restrictions	7,763,972
With Donor Restrictions	175,953
Total Net Assets	7,939,925
Total Liabilities and Net Assets	$ 7,980,194

See accompanying Notes to Financial Statements.

EDUCARE ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE AND SUPPORT			
Contributions and Donations	$ 63,427	$ 243,453	$ 306,880
Interest	(3)	-	(3)
Net Assets Released from Restrictions	101,855	(101,855)	-
Total Revenue and Support	165,279	141,598	306,877
EXPENSES			
Program Services:			
Child and Family Support Services	444,811	-	444,811
Supporting Services:			
Management and General	10,814	-	10,814
Fundraising	8,500	-	8,500
Total Expenses	464,125	-	464,125
CHANGES IN NET ASSETS	(298,846)	141,598	(157,248)
Net Assets - Beginning of Year	8,062,818	34,355	8,097,173
NET ASSETS - END OF YEAR	$ 7,763,972	$ 175,953	$ 7,939,925

See accompanying Notes to Financial Statements.

EDUCARE ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	Program Services	Supporting Services		
	Child and Family Support Services	Management and General	Fundraising	Total Expenses
Salaries and Wages	$ 123,877	$ -	$ -	$ 123,877
Employee Related Expenses	31,995	-	-	31,995
Professional Fees	50	7,451	8,500	16,001
Travel	4	-	-	4
Occupancy	82,004	-	-	82,004
Rental and Maintenance of Equipment	374	498	-	872
Supplies	5,031	832	-	5,863
Training	190	390	-	580
Bank Fees and Charges	-	1,425	-	1,425
Other	-	218	-	218
Depreciation	201,286	-	-	201,286
Total Expenses by Function	$ 444,811	$ 10,814	$ 8,500	$ 464,125

See accompanying Notes to Financial Statements.

EDUCARE ARIZONA
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Fees, Grants, and Contributions	$ 291,235
Interest Income Received	(3)
Cash Paid to Employees for Services	(157,314)
Cash Paid to Suppliers for Goods and Services	(106,967)
Net Cash Provided by Operating Activities	26,951
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(55,764)
Net Cash Used by Investing Activities	(55,764)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,813)
Cash and Cash Equivalents - Beginning of Year	387,863
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 359,050
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Changes in Net Assets	$ (157,248)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	201,286
(Increase) Decrease in Assets:	
Pledges Receivable	(15,645)
Increase (Decrease) in Liabilities:	
Accrued Payroll and Employee Benefits	(1,442)
Net Cash Provided (Used) by Operating Activities	$ 26,951

See accompanying Notes to Financial Statements.

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, 2021.

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.

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 years 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 years 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 uncollectable promises to give is required as of June 30, 2021.

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 years. 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.

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, 2021.

Contributions

Contributions are recognized as either with or without donor-restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, with donor-restricted net assets are reclassified to without donor-restricted net assets and reported in the statement of activities as net assets released from with 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, 2021.

Subsequent Events

We have evaluated subsequent events through October 28, 2021, the date the financial statements were available to be issued.

NOTE 3 LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of June 30, 2021 available to meet general expenditures within one year of the statement of financial position date.

Total Assets	$ 7,980,194
Less Assets not Available for Expenditures:	
Property and Equipment, Net	(7,571,144)
Less Donor-Imposed Restrictions:	
Restricted Funds	(175,953)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 233,097

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 discharges.

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, 2021, the level of liquidity and reserves was managed within these targets.

NOTE 4 PLEDGES RECEIVABLE

Pledges receivable consists of the following unconditional promise to give at June 30, 2021:

Receivable in Less Than One Year	$ 50,000
Receivable in One to Five Years	-
Total Pledges Receivable	50,000
Less: Current Maturities	50,000
Noncurrent Maturities	$ -

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2021 follows:

Building and Improvements	$ 8,000,000
Furniture, Equipment, and Vehicles	38,592
Construction in Progress	17,171
Total	8,055,763
Less: Accumulated Depreciation	
Building and Improvements	(483,333)
Less: Accumulated Depreciation Furniture	
Equipment and Vehicles	(1,286)
Property and Equipment, Net	$ 7,571,144

Depreciation expense was $201,286 for the year ended June 30, 2021.

NOTE 6 NET ASSETS

The following is a summary of net assets with donor restrictions at June 30, 2021:

Child Development Associate	$ 33,333
COVID	20,000
STEM	17,230
Diversity, Equity and Inclusion	3,723
Extended Day Program	56,667
Tenant Improvements	45,000
Total Net Assets With Donor Restrictions	$ 175,953

Net assets of $101,855 were released from restrictions for the year ended June 30, . 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.

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, 2021, the Organization had $136,000 (approximately 44%) of its total support and revenue from three donors and $50,000 (approximately 100%) of its total pledges receivables was from one donor.

NOTE 8 RELATED PARTY TRANSACTIONS

In September 2011, 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, 2021, SWHD billed the Organization $261,413. At June 30, 2021, the Organization has an outstanding liability to SWHD of $40,269.

NOTE 9 NEW ACCOUNTING STANDARDS

In February 2016, the Financial Accounting Standards Board (FASB) issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's financial statements.

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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 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 Educare Arizona, which comprise the statement of financial position as of June 30, 2021, 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 November 8, 2021.

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 may exist that have not been identified.

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

CliftonLarsonAllen LLP

Phoenix, Arizona
November 8, 2021