

SOUTHWEST HUMAN DEVELOPMENT, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES**

YEAR ENDED JUNE 30, 2023



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAcconnect.com

**SOUTHWEST HUMAN DEVELOPMENT, INC.
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2023**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENT OF ACTIVITIES	5
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENT OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8
SUPPLEMENTARY INFORMATION	
CONSOLIDATING STATEMENT OF FINANCIAL POSITION	24
CONSOLIDATING STATEMENT OF ACTIVITIES	25
STATEMENT OF FUNCTIONAL EXPENSES – SOUTHWEST HUMAN DEVELOPMENT, INC.	26
STATEMENT OF CASH FLOWS – SOUTHWEST HUMAN DEVELOPMENT, INC.	27



INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwest Human Development, Inc.
Phoenix, Arizona

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Southwest Human Development, Inc., which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Human Development, Inc., as of June 30, 2023, 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 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 Consolidated Financial Statements section of our report. We are required to be independent of Southwest Human Development, Inc. 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwest Human Development, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated 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 consolidated 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 Southwest Human Development, Inc.'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwest Human Development, Inc.'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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, consolidating statement of activities, statement of functional expenses - Southwest Human Development, Inc., and the statement of cash flows - Southwest Human Development, Inc. are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 December 7, 2023, on our consideration of Southwest Human Development, Inc.'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 Southwest Human Development, Inc.'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 Southwest Human Development, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
December 7, 2023

**SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 7,285,873
Accounts Receivable, Net	7,586,138
Pledges Receivable	138,121
Prepaid Expenses	534,093
Investments, Short-term	5,824,836
Total Current Assets	21,369,061

NONCURRENT ASSETS

Pledges Receivable, Less Current	130,000
Unemployment Reserves	685,958
Property and Equipment, Net	18,381,109
Right-of-Use Asset - Operating Lease, Net	1,931,292
Deposits	39,691
Investments, Long-term	18,175,300
Investment in Deferred Compensation Plan	199,362
Total Noncurrent Assets	39,542,712

Total Assets	\$ 60,911,773
--------------	---------------

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 1,176,875
Accrued Payroll and Employee Benefits	2,378,043
Compensated Absences Payable	1,432,110
Deferred Revenue	1,134,675
Operating Lease Liabilities, Short-term	683,058
Total Current Liabilities	6,804,761

NONCURRENT LIABILITIES

Deferred Compensation Liability	201,303
Operating Lease Liabilities, Long-term	1,220,210
Total Liabilities	8,226,274

NET ASSETS

Without Donor Restrictions	48,381,215
With Donor Restrictions	4,304,284
Total Net Assets	52,685,499

Total Liabilities and Net Assets	\$ 60,911,773
----------------------------------	---------------

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE AND SUPPORT			
Fees and Grants from Governments	\$ 63,221,930	\$ -	\$ 63,221,930
Charges for Services	2,222,856	-	2,222,856
Contributions and Donations	1,933,260	3,737,949	5,671,209
Donated Facilities, Services, and Goods	1,703,847	-	1,703,847
Interest	919,915	-	919,915
Miscellaneous Income	119,655	-	119,655
Investment Income, Net of Fees	1,026,615	-	1,026,615
Net Assets Released from Restrictions	2,823,798	(2,823,798)	-
Total Revenue and Support	73,971,876	914,151	74,886,027
EXPENSES			
Program Services:			
Head Start and Early Head Start	19,636,358	-	19,636,358
Family Support Services and Child Welfare	11,455,350	-	11,455,350
Services for Children with Disabilities	5,823,971	-	5,823,971
Mental Health and Child Development	5,426,308	-	5,426,308
Professional Development Training and Institute	15,114,334	-	15,114,334
Supporting Services:			
Management and General	9,356,881	-	9,356,881
Fundraising	772,526	-	772,526
Total Expenses	67,585,728	-	67,585,728
CHANGES IN NET ASSETS	6,386,148	914,151	7,300,299
Net Assets - Beginning of Year	41,995,067	3,390,133	45,385,200
NET ASSETS - END OF YEAR	\$ 48,381,215	\$ 4,304,284	\$ 52,685,499

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Program Services					Total Program Services	Supporting Services		Total Expenses
	Head Start and Early Head Start	Family Support Services and Child Welfare	Services for Children With Disabilities	Mental Health and Child Development	Professional Development Training and Institute		Management and General	Fundraising	
Salaries and Wages	\$ 11,032,639	\$ 8,814,114	\$ 4,433,106	\$ 3,620,444	\$ 8,252,391	\$ 36,152,694	\$ 3,320,951	\$ 368,976	\$ 39,842,621
Employee Related Expenses	2,486,941	2,090,573	1,037,683	843,190	1,906,886	8,365,273	778,385	90,899	9,234,557
Donated Facilities, Services, and Goods	1,677,760	-	-	-	300	1,678,060	7,937	-	1,685,997
Professional Fees	488,635	14,139	109,295	765,007	1,208,362	2,585,438	1,111,051	25,206	3,721,695
Travel	112,689	212,523	43,820	125,185	327,085	821,302	32,802	132	854,236
Occupancy	1,125,716	6,824	51,601	6,471	28,708	1,219,320	1,074,005	-	2,293,325
Rental and Maintenance of Equipment	20,246	25,318	14,776	5,250	27,359	92,949	1,045,783	3,955	1,142,687
Supplies	1,283,034	60,234	29,732	24,454	300,628	1,698,082	241,157	104,043	2,043,282
Communication	436,464	113,872	28,722	29,607	52,290	660,955	399,427	6,709	1,067,091
Training	293,383	44,582	71,173	1,659	136,523	547,320	78,063	-	625,383
Insurance	7,585	-	-	-	-	7,585	217,954	-	225,539
Bank Fees and Charges	17,871	-	-	-	-	17,871	23,190	14,184	55,245
Bad Debt Expense	-	-	-	-	-	-	105,801	-	105,801
Other	57,336	65,849	4,063	5,041	133,515	265,804	440,339	158,422	864,565
Donations and Contributions	-	-	-	-	-	-	3,500	-	3,500
Childcare Center Materials	-	-	-	-	2,720,179	2,720,179	-	-	2,720,179
Parent and Family Assistance	24,121	7,322	-	-	-	31,443	56,299	-	87,742
Depreciation	571,938	-	-	-	20,108	592,046	420,237	-	1,012,283
Total Expenses by Function	\$ 19,636,358	\$ 11,455,350	\$ 5,823,971	\$ 5,426,308	\$ 15,114,334	\$ 57,456,321	\$ 9,356,881	\$ 772,526	\$ 67,585,728

See accompanying Notes to Consolidated Financial Statements.

**SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Fees, Grants, and Contributions	\$ 72,936,940
Interest Income Received	726,704
Cash Paid to Employees for Services	(49,359,914)
Cash Paid to Suppliers for Goods and Services	(17,095,768)
Net Cash Provided by Operating Activities	<u>7,207,962</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in Unemployment Reserve	63,591
Purchases of Property and Equipment	(4,214,197)
Purchase of Investments	(7,412,723)
Sale of Investments	7,508,027
Net Cash Used by Investing Activities	<u>(4,055,302)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

3,152,660

Cash and Cash Equivalents - Beginning of Year

4,133,213

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 7,285,873

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

Changes in Net Assets	\$ 7,300,299
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	1,012,283
Lease Cost Adjustment	(85,229)
Unrealized Loss on Unemployment Reserve	86,788
Unrealized and Realized Gain on Investments	(1,196,461)
Donated Goods Recorded in Prepaid Expenses	(20,000)
Donated Prepaid Gift Cards - Used	2,300
Bad Debt Expense	105,801
(Increase) Decrease in Assets:	
Accounts Receivable	1,183,756
Pledges Receivable	133,839
Prepaid Expenses	(111,025)
Investment in Deferred Compensation Plan	(93,217)
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,282,365)
Accrued Payroll and Employee Benefits	(587,036)
Compensated Absences Payable	304,300
Deferred Revenue	358,771
Deferred Compensation Liability	95,158
Net Cash Provided by Operating Activities	<u><u>\$ 7,207,962</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Property and Equipment in Accounts Payable	<u><u>\$ 138,316</u></u>
--	--------------------------

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 NATURE OF OPERATIONS

Southwest Human Development, Inc. (SWHD) is a nonprofit corporation that provides comprehensive services to young children and their families in Arizona. SWHD strengthens the foundation Arizona's children need for a great start in life. Our early childhood professionals invest their time in research-driven programs to benefit young children and their families. We understand that a child's earliest experiences and relationships establish the foundation for all future development – intellectual, social, emotional, physical, and behavioral. That's why we work to prepare the whole child through more than 40 programs in the following areas:

Head Start and Early Head Start – The program works with income-eligible families to provide a variety of educational, health, dental, nutritional and social service resources. Head Start provides children with high-quality preschool education, along with health screenings, social services and parent training. Early Head Start helps parents with child development, parenting and life skills during the prenatal period and in years before their baby is eligible for the preschool program. Each of these programs help families learn how to make sure their children are ready for kindergarten success and to sustain their development and learning process.

Family Support Services and Child Welfare – SWHD offers an array of education and support services to help parents and caregivers as they raise their children. We believe that all caregivers have the desire to improve their parenting skills, while promoting positive parent-child interactions, enhancing their child's health and development, and increasing their family's economic well-being. Our programs include Direct Support Services, Foster Care and Adoptions Studies, Healthy Families, and Kinship Care and Adoptions.

Services for Children with Disabilities – SWHD provides a comprehensive list of services for children with disabilities and their families Southwest Human Development's Birth to Five Center of Excellence (COE) provides comprehensive disabilities and mental health services and support for young children. The COE is focused on the health and well-being of children birth to five with complex developmental disabilities (autism, feeding disorders, abuse and trauma) by providing state-of-the-art, comprehensive assessment, treatment planning, and intervention services. Our integrated model, which blends medical, developmental, and behavioral/mental health approaches, reflects best-practice in the field of early childhood. Additional services/programs include our ADAPT Shop, Smooth Way Home Fragile Infant Program, Newborn Intensive Care Program, High Risk Perinatal Program, Nurse-Family Partnership and the Inclusion Program for early care and education providers.

Mental Health and Child Development – Programs include the Birth to Five Helpline/Fussy Baby Program, a free, statewide question line, available Monday through Friday 8 a.m. to 8 p.m., for parents, caregivers and professionals with questions or concerns about children birth to 5. We also provide mental health consultation to early care and education programs and providers throughout the state through our Smart Support program. Our Harris Infant and Early Childhood Mental Health Training Institute offers two intensive training programs for mental health clinicians and other professionals working with young children.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 NATURE OF OPERATIONS (CONTINUED)

Professional Development Training and Institute – The Organization offers nationally recognized education and training programs to professionals and organizations working with young children across Arizona, the U.S. and internationally. The Organization is committed to training that is interactive and applicable to everyday work with children and families. Key elements include group participation, discussion of real-life problems and implementation of ideas learned during the training experience. Core Programs include *AzSteps*: Statewide Expulsion Prevention Training Program, Language and Literacy Communities, and Quality First Assessment and Coaching. Also central to this work is the Professional Development Institute (PDI) at Educare Arizona which was founded in 2018 with the vision to act as the state’s leading early learning professional workforce development entity. Its goal is to improve early childhood education teacher quality and practice, which will lead to better outcomes for children, including preparation for kindergarten and beyond. A centralized institute at Educare Arizona brings all of the components needed for high-quality early childhood education professional development to one place acting as a living laboratory and providing the opportunity for direct observation of high-quality teaching practices and environments and hands-on learning focused on individual teacher and/or director professional development needs.

Educare Arizona 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 for both organizations is provided through federal, state, and local government, corporations, and individual donations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

The consolidated financial statements include the accounts of SWHD and Educare Arizona, because SWHD has both control and an economic interest in Educare Arizona. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, the consolidated entities are hereinafter referred to as “the Organization.”

Basis of Presentation

The accompanying consolidated 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.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 consolidated statement of activities as net assets released from restrictions.

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

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated 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 consolidated 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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect under the terms of the service contracts and agreements. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based on its assessment of the current status of individual contracts.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable (Continued)

Account balances with invoices over one year old are considered delinquent. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reduction of receivables.

Pledges Receivable

Unconditional promises to give (pledges receivable) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Monies received pursuant to conditional promises are reflected as deferred revenue. Unconditional promises to give that are to be collected within one year are recorded at net realizable 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 probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based on its assessment of the current status of individual pledges. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction of receivables. Pledges receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts was not provided at 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 5 to 30 years. Expenses associated with the repair or maintenance of property and equipment are not capitalized and are recognized in the consolidated 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.

Donations of property and equipment are recorded as contributions at its estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding its use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED 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.

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and provides a fair value hierarchy that priorities the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation includes:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted process that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the asset (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observation inputs and minimize the use of unobservable inputs.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Benefits

Effective September 1, 2020, the Organization has a partially self-insured health benefit program covering medical and prescription claims. The plan includes a stop-loss provision that insures claims exceeding \$175,000.

The Plan offers health benefits to regular, full-time employees working 30 or more hours per week and their beneficiaries and covered dependents once a 30-day waiting period is met. The cost of health care services is recognized as a deduction in the period in which it is provided to participants. Liabilities for health claims incurred but not reported are estimated based on historical claims and industry trends. At June 30, 2023, the change in estimate was \$26,100 and it was recorded in employee related benefits in the consolidated statement of functional expenses.

Program Service Revenue and Deferred Revenue

Program service revenues consist of governmental fee and grant reimbursements for various programs. Revenue from certain grants is unearned until eligible expenses have been incurred or program performance has been met. These amounts are deferred and recognized over the periods in which the associated grant expenses occur. Cash collected in advance of the earned revenue is recorded as deferred revenue. None of the deferred revenues as of year-end were from governmental grants. Conditional governmental grants – 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 met. As of June 30, 2023, conditional governmental grants approximating \$10,692,182 have not been recognized in the accompanying consolidated statement of activities.

Charges for Services – Patient Services

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party after the services are performed. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charges for Services – Patient Services (Continued)

The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Generally, performance obligations satisfied over time relate to patients receiving services in our behavioral health and medical/therapy programs, which includes a majority of the Organization's charges for services revenue.

The Organization determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors or the established rates of the government entities. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with patients.

Agreements with third-party payors provide for payments that may differ from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates, per occasion of service, or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates and discounts from established charges.

Laws and regulations concerning government programs, including Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care companies have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in companies entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient services.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charges for Services – Patient Services (Continued)

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved.

Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments were not considered material for the year ended June 30, 2023. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicaid, managed care or other insurance, patient) have different reimbursement/payment methodologies
- Length of the patient's service of care
- Method of reimbursement (fee for service or capitation)
- Organization's line of business that provided the service

Advertising Expenses

Advertising costs are expensed when incurred. Advertising costs were \$333,507 for the year ended June 30, 2023.

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 consolidated 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.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the requirements of the guidance effective July 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

The Organization elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022 a lease liability of \$2,640,048, which represents the present value of the remaining operating lease payments discounted using the applicable risk free rate and ROU assets of \$2,640,048.

The standard had a material impact on the consolidated statement of financial position but did not have an impact on the consolidated statement of activities and changes in net assets or consolidated statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Subsequent Events

We have evaluated subsequent events through December 7, 2023, the date the consolidated financial statements were available to be issued.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 LIQUIDITY AND AVAILABILITY

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

Total Assets	\$ 60,911,773
Less Assets not Available for Expenditures:	
Prepaid Expenses	(534,093)
Unemployment Reserves, Net of Expected Annual Expense of \$50,000	(635,958)
Property and Equipment, Net	(18,381,109)
Right-of-Use Asset - Operating Lease, Net	(1,931,292)
Deposits	(39,691)
Investment in Deferred Compensation Plan	(199,362)
Total	<u>(21,721,505)</u>
Donor-Imposed Restrictions:	
Restricted Funds	<u>(4,304,284)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 34,885,984</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 three 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 were managed within these targets.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2023 consisted of amounts from the following sources:

Government	\$ 7,481,065
Private	193,441
Total	<u>7,674,506</u>
Less: Allowance for Doubtful Accounts	(88,368)
Accounts Receivable, Net	<u><u>\$ 7,586,138</u></u>

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 ACCOUNTS RECEIVABLE (CONTINUED)

Accounts receivable amounts are stated at the amount management expects to collect from outstanding balances. An allowance has been provided for specific doubtful accounts. Management anticipates all other amounts to be fully collectible. If an amount becomes uncollectable, it will be written off at that time.

NOTE 5 PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give at June 30, 2023:

Receivable in Less Than One Year	\$ 138,121
Receivable in One to Five Years	130,000
Total Pledges Receivable	<u>268,121</u>
Less: Current Maturities	138,121
Noncurrent Maturities	<u><u>\$ 130,000</u></u>

Two donors made up 97% of the pledges receivable balance at June 30, 2023.

NOTE 6 UNEMPLOYMENT RESERVES

The Organization has an agreement with an agency, 501(c) Agency Trust, to manage the Organization's unemployment claims. If the agreement is terminated, the Organization will be refunded the amount available in the reserves less any fees. Management believes that the reserve balance would cover any future claims of unemployment; therefore, a liability was not recorded at June 30, 2023.

NOTE 7 PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2023 follows:

Building and Improvements	\$ 21,004,574
Furniture, Equipment, and Vehicles	2,812,071
Construction in Progress	3,626,051
Art Work	16,600
Total	<u>27,459,296</u>
Less: Accumulated Depreciation	
Building and Improvements	(7,564,726)
Less: Accumulated Depreciation Furniture	
Equipment and Vehicles	<u>(1,513,461)</u>
Property and Equipment, Net	<u><u>\$ 18,381,109</u></u>

Depreciation expense was \$1,012,283 for the year ended June 30, 2023.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 7 PROPERTY AND EQUIPMENT (CONTINUED)

Property and equipment purchased with grant funds are owned by the Organization while used in the program for which they were purchased or in other future programs. However, the funding source retains a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as ownership of any proceeds therefrom, is subject to funding source regulations. The net book value of property and equipment purchased with grant funds was \$3,916,310 as of June 30, 2023.

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below analyzes financial instruments measured at fair value on June 30, 2023 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statements of financial position. All fair value measurements below are recurring.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities:				
Common Stock:	\$ 323,062	\$ -	\$ -	\$ 323,062
Mutual Funds - Common Stock	6,130,543	-	-	6,130,543
Mutual Funds - Equity ETF	4,533,197	-	-	4,533,197
Fixed Income:				
Mutual Funds - Corporate Bonds	1,380,289	-	-	1,380,289
Mutual Funds - Fixed Income ETF	9,251,943	-	-	9,251,943
Mutual Funds - Government Agencies	1,487,299	-	-	1,487,299
Real Estate:				
Mutual Funds - Real Estate	57,414	-	-	57,414
Cash and Short-term Investments	836,389	-	-	836,389
Deferred Compensation Plan Assets	-	199,362	-	199,362
Total Assets At Fair Value	<u>\$ 24,000,136</u>	<u>\$ 199,362</u>	<u>\$ -</u>	<u>\$ 24,199,498</u>

NOTE 9 OPERATING LEASES

The Organization leases office space and equipment. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and operating lease liabilities on the consolidated statement of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As most of leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 9 OPERATING LEASES (CONTINUED)

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets on the consolidated statement of financial position.

The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

The following table provides quantitative information concerning the Organization's leases:

Lease Cost:	
Operating Lease Cost	\$ 774,161
Short-Term Lease Cost	<u>45,437</u>
Total Lease Cost	<u><u>\$ 819,598</u></u>
Other Information:	
Right of Use Assets Obtained in Exchange For New Operating Lease Liabilities:	\$ 2,640,048
Operating Cash Flows From Operating Leases	\$ 802,178
Weighted-Average Remaining Lease Term - Operating Leases	2.8 Years
Weighted-Average Discount Rate - Operating Leases	2.88%

The Organization classifies the total undiscounted lease payments that are due in the next 12 months as current.

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

<u>Year Ending December 31,</u>	<u>Operating</u>
2024	\$ 728,666
2025	660,578
2026	522,307
2027	<u>71,016</u>
Undiscounted Cash Flows	1,982,567
(Less) Imputed Interest	<u>(79,299)</u>
Total Present Value	<u><u>\$ 1,903,268</u></u>

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10 DONATED FACILITIES, SERVICES, AND GOODS

The Organization receives significant in-kind contributions of time and pro bono services from members of the community related to management operations. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

During the year ended June 30, 2023, the Organization received contributions of the use of facilities. The Organization also received donated services for legal consultation and donated goods for supplies. The following table represents a breakout of the donated facilities, services, and goods for the year ended June 30, 2023:

<u>Program or Support Services</u>	<u>Donated Space</u>	<u>Donated Services</u>	<u>Donated Goods</u>	<u>Total</u>
Head Start	\$ 1,498,342	\$ -	\$ 179,418	\$ 1,677,760
Management and General	-	1,340	6,897	8,237
	<u>\$ 1,498,342</u>	<u>\$ 1,340</u>	<u>\$ 186,315</u>	<u>\$ 1,685,997</u>

All donated services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Donated space is valued at the fair value of similar properties available in commercial real estate listings. Every three years, the value of the properties are appraised. Donated legal services included in management and general are valued at the standard hourly rates charged for those services. Donated goods are valued at the wholesale prices that would be received for selling similar products.

SWHD receives donated space from Educare for the use of the building. The donated space is not recognized on the books due to the controlling interest SWHD has in Educare. The amount would have been equal to the depreciation recorded on the building in the amount of \$200,000.

The Organization receives donated services from a variety of unpaid volunteers and parents assisting the Organization in the operation of our Head Start program. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Services valued at \$148,111 have not been recognized in the accompanying statements of activities for the year ended June 30, 2023, as they do not meet the requirements for recognition.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 11 NET ASSETS

The following is a summary of net assets with donor restrictions at June 30, 2023:

Head Start and Early Head Start	\$ 1,373,636
Family Support Services and Child Welfare	8,662
Services for Children with Disabilities	1,253,148
Mental Health and Child Development	396,736
Professional Development and Training Institute	1,019,961
Senior Volunteers	152,595
Family Assistance and Other	99,546
Total Net Assets With Donor Restrictions	<u>\$ 4,304,284</u>

Net assets of \$2,823,798 were released from restriction for the year ended June 30, 2023. These releases were related to program and time restricted restrictions.

NOTE 12 RETIREMENT PLANS

Full-time employees of the Organization are eligible to participate in a defined contribution retirement plan established in accordance with Section 401(k) of the IRC. The Organization is not required to contribute to the plan during the year, but may contribute if funds are available. For the year ended June 30, 2023, the Organization contributed \$2,011,944 to the plan.

The Organization established a deferred compensation plan for the benefit of certain eligible employees, which qualify under Section 457(b) of the IRC. The Organization holds investments for the sole purpose of funding deferred compensation liabilities. According to the terms of the deferred compensation agreement, all earnings or losses on the deferred compensation amounts to be invested will be allocated directly to the participants in the plan and are recorded to the deferred compensation liability. The investment in the deferred compensation plan balance was \$199,362 as of June 30, 2023. During the year ended June 30, 2023, the Organization made employer contributions to the deferred compensation plan of \$50,000.

NOTE 13 CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, and cash equivalents. The Organization places its cash with high-credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit of \$250,000. Management believes there are no unusual risks associated with current depository institutions.

The Organization maintains cash balances at one primary financial institution. Cash equivalents consist of highly-liquid debt instruments purchased with original maturities of three months or less. The bank at which the funds are deposited (Wells Fargo) is a large commercial bank. Management periodically evaluates the risk associated with concentration of deposits. It is the opinion of management that solvency of the referenced financial institution is not of concern at this time.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 14 COMMITMENTS AND CONTINGENCIES

From time-to-time, the Organization is contingently liable in respect to claims incidental to the ordinary course of its operations. In the opinion of management, the effect of such matters will not have a material adverse effect on the Organization's financial position, results of operations, or liquidity. Therefore, no provision has been made in the accompanying consolidated financial statements for losses, if any, that might result from the ultimate outcome of these matters.

The Organization participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, the Organization's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures or fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although the Organization's management expects such amounts, if any, to be immaterial.

The Organization entered into an Employment Agreement with the CEO. The agreement is dated February 4, 2022 and became effective July 1, 2021. The agreement set compensation for fiscal year ended June 30, 2022, stated that a bonus could be established based on predetermined performance measures, and established a retention benefit upon retirement. For the year ended June 30, 2023, there was no bonus established. The retention benefit will be paid upon the CEO's retirement over a three-year period. The amount of the benefit will be determined based on the current salary at the time of retirement and will increase 10% each year.

NOTE 15 REVENUE AND RECEIVABLE CONCENTRATION

The Organization received approximately 33% of its revenue from one federal government contract and 66% of its revenue was from the state of Arizona during the year ended June 30, 2023. Approximately 96% of the accounts receivable balance was due from two government funders as of June 30, 2023.

NOTE 16 FUNCTIONAL ALLOCATIONS

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Salaries and employee related expenses are allocated based on the department that the employee works. Expenses, other than salaries and employee related expenses, which are not directly identifiable by program or supporting services, are allocated based on allocation of salaries and related expenses.

SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	<u>SWHD</u>	<u>Educare Arizona</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 7,040,472	\$ 245,401	\$ -	\$ 7,285,873
Accounts Receivable, Net	7,617,810	300	(31,972)	7,586,138
Pledges Receivable, Current	113,121	25,000	-	138,121
Prepaid Expenses	534,093	-	-	534,093
Investments, Short-Term	5,824,836	-	-	5,824,836
Total Current Assets	<u>21,130,332</u>	<u>270,701</u>	<u>(31,972)</u>	<u>21,369,061</u>
NONCURRENT ASSETS				
Pledges Receivable, Less Current	105,000	25,000	-	130,000
Unemployment Reserves	685,958	-	-	685,958
Investment in Educare Arizona	8,167,380	-	(8,167,380)	-
Property and Equipment, Net	11,183,244	7,197,865	-	18,381,109
Right-of-Use Asset - Operating Lease, Net	1,931,292	-	-	1,931,292
Deposits	39,691	-	-	39,691
Investments, Long-term	18,175,300	-	-	18,175,300
Investment in Deferred Compensation Plan	199,362	-	-	199,362
Total Noncurrent Assets	<u>40,487,227</u>	<u>7,222,865</u>	<u>(8,167,380)</u>	<u>39,542,712</u>
Total Assets	<u>\$ 61,617,559</u>	<u>\$ 7,493,566</u>	<u>\$ (8,199,352)</u>	<u>\$ 60,911,773</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 1,176,875	\$ -	\$ -	\$ 1,176,875
Accrued Payroll and Employee Benefits	2,378,043	31,973	(31,973)	2,378,043
Compensated Absences Payable	1,432,110	-	-	1,432,110
Deferred Revenue	1,134,675	-	-	1,134,675
Operating Lease Liabilities, Short-term	683,058	-	-	683,058
Total Current Liabilities	<u>6,804,761</u>	<u>31,973</u>	<u>(31,973)</u>	<u>6,804,761</u>
NONCURRENT LIABILITIES				
Deferred Compensation Liability	201,303	-	-	201,303
Operating Lease Liabilities, Long-term	1,220,210	-	-	1,220,210
Total Liabilities	<u>8,226,274</u>	<u>31,973</u>	<u>(31,973)</u>	<u>8,226,274</u>
NET ASSETS				
Without Donor Restrictions	49,087,001	7,320,778	(8,026,564)	48,381,215
With Donor Restrictions	4,304,284	140,815	(140,815)	4,304,284
Total Net Assets	<u>53,391,285</u>	<u>7,461,593</u>	<u>(8,167,379)</u>	<u>52,685,499</u>
Total Liabilities and Net Assets	<u>\$ 61,617,559</u>	<u>\$ 7,493,566</u>	<u>\$ (8,199,352)</u>	<u>\$ 60,911,773</u>

SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023
(SEE INDEPENDENT AUDITORS' REPORT)

	SWHD	Educare Arizona	Eliminations	Consolidated
REVENUE AND SUPPORT				
Fees and Grants from Governments	\$ 63,221,930	\$ -	\$ -	\$ 63,221,930
Charges for Services	2,222,856	-	-	2,222,856
Contributions and Donations	5,353,303	317,906	-	5,671,209
Donated Facilities, Services, and Goods	1,703,847	-	-	1,703,847
Interest	919,915	-	-	919,915
Miscellaneous Income	84,034	35,621	-	119,655
Investment Losses, Net of Fees	1,026,615	-	-	1,026,615
Loss of Educare Arizona	(241,955)	-	241,955	-
Total Revenue and Support	<u>74,290,545</u>	<u>353,527</u>	<u>241,955</u>	<u>74,886,027</u>
EXPENSES				
Program Services:				
Head Start and Early Head Start	19,121,042	515,316	-	19,636,358
Family Support Services and Child Welfare	11,455,350	-	-	11,455,350
Services for Children with Disabilities	5,823,971	-	-	5,823,971
Mental Health and Child Development	5,426,308	-	-	5,426,308
Professional Development Training and Institute	15,066,892	47,442	-	15,114,334
Supporting Services:				
Management and General	9,333,274	23,607	-	9,356,881
Fundraising	763,411	9,115	-	772,526
Total Expenses	<u>66,990,248</u>	<u>595,480</u>	<u>-</u>	<u>67,585,728</u>
CHANGES IN NET ASSETS	7,300,297	(241,953)	241,955	7,300,299
Net Assets - Beginning of Year	<u>46,090,988</u>	<u>7,703,546</u>	<u>(8,409,334)</u>	<u>45,385,200</u>
NET ASSETS - END OF YEAR	<u><u>\$ 53,391,285</u></u>	<u><u>\$ 7,461,593</u></u>	<u><u>\$ (8,167,379)</u></u>	<u><u>\$ 52,685,499</u></u>

SOUTHWEST HUMAN DEVELOPMENT, INC.
STATEMENT OF FUNCTIONAL EXPENSES – SOUTHWEST HUMAN DEVELOPMENT, INC.
YEAR ENDED JUNE 30, 2023
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services					Total Program Services	Supporting Services		Total Expenses
	Head Start and Professional Development Institute	Family Support Services and Child Welfare	Service for Children With Disabilities	Mental Health and Child Development	Professional Development Training and Institute		Management and General	Fundraising	
Salaries and Wages	\$ 10,864,495	\$ 8,814,114	\$ 4,433,106	\$ 3,620,444	\$ 8,234,860	\$ 35,967,019	\$ 3,315,677	\$ 368,976	\$ 39,651,672
Employee Related Expenses	2,446,365	2,090,573	1,037,683	843,190	1,902,310	8,320,121	776,813	90,899	9,187,833
Donated Facilities, Services, and Goods	1,677,760	-	-	-	300	1,678,060	7,937	-	1,685,997
Professional Fees	446,635	14,139	109,295	765,007	1,208,362	2,543,438	1,099,224	16,091	3,658,753
Travel	112,587	212,523	43,820	125,185	327,085	821,200	32,802	132	854,134
Occupancy	1,075,582	6,824	51,601	6,471	23,481	1,163,959	1,074,005	-	2,237,964
Rental and Maintenance of Equipment	19,672	25,318	14,776	5,250	27,359	92,375	1,045,746	3,955	1,142,076
Supplies	1,280,975	60,234	29,732	24,454	300,628	1,696,023	241,157	104,043	2,041,223
Communication	435,969	113,872	28,722	29,607	52,290	660,460	395,128	6,709	1,062,297
Training	275,012	44,582	71,173	1,659	136,523	528,949	78,063	-	607,012
Insurance	7,585	-	-	-	-	7,585	217,954	-	225,539
Bank Fees and Charges	17,871	-	-	-	-	17,871	22,602	14,184	54,657
Bad Debt Expense	-	-	-	-	-	-	105,801	-	105,801
Other	57,336	65,849	4,063	5,041	133,515	265,804	440,329	158,422	864,555
Donations and Contributions	-	-	-	-	-	-	3,500	-	3,500
Childcare Center Materials	-	-	-	-	2,720,179	2,720,179	-	-	2,720,179
Parent and Family Assistance	24,121	7,322	-	-	-	31,443	56,299	-	87,742
Depreciation	379,077	-	-	-	-	379,077	420,237	-	799,314
Total Expenses by Function	\$ 19,121,042	\$ 11,455,350	\$ 5,823,971	\$ 5,426,308	\$ 15,066,892	\$ 56,893,563	\$ 9,333,274	\$ 763,411	\$ 66,990,248

SOUTHWEST HUMAN DEVELOPMENT, INC.
STATEMENT OF CASH FLOWS – SOUTHWEST HUMAN DEVELOPMENT, INC.
YEAR ENDED JUNE 30, 2023
(SEE INDEPENDENT AUDITORS' REPORT)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Fees, Grants, and Contributions	\$ 72,576,740
Interest Income Received	726,704
Cash Paid to Employees for Services	(49,122,091)
Cash Paid to Suppliers for Goods and Services	(16,952,180)
Net Cash Provided by Operating Activities	<u>7,229,173</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in Unemployment Reserve	63,591
Purchases of Property and Equipment	(4,198,600)
Purchase of Investments	(7,412,723)
Proceeds from Sale of Investments	7,508,027
Net Cash Used by Investing Activities	<u>(4,039,705)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	3,189,468
Cash and Cash Equivalents - Beginning of Year	<u>3,851,004</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 7,040,472</u></u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Changes in Net Assets	\$ 7,300,297
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	799,314
Operating Lease Cost Adjustment	(85,230)
Unrealized Loss on Unemployment Reserve	86,788
Unrealized Gain on Investments	(1,196,461)
Donated Goods Recorded in Prepaid Expenses	(20,000)
Donated Prepaid Gift Cards - Used	2,300
Bad Debt Expenses	105,801
Loss of Educare Arizona	241,955
(Increase) Decrease in Assets:	
Accounts Receivable	1,152,084
Pledges Receivable	158,839
Prepaid Expenses	(111,025)
Investment in Deferred Compensation Plan	(93,217)
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,283,465)
Accrued Payroll and Employee Benefits	(587,036)
Compensated Absences Payable	304,300
Deferred Revenue	358,771
Deferred Compensation Liability	95,158
Net Cash Provided by Operating Activities	<u><u>\$ 7,229,173</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Property and Equipment in Accounts Payable	<u><u>\$ 138,316</u></u>



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.