SOUTHWEST HUMAN DEVELOPMENT, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2019

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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
Southwest Human Development, Inc.

Opinion

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, 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, 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

CliftonLarsonAllen LLP

Phoenix, Arizona
October 21, 2019

SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$ 7,714,303
Accounts Receivable, Net	7,224,093
Pledges Receivable, Current	208,455
Total Current Assets	15,146,851
NONCURRENT ASSETS	
Pledges Receivable, Less Current	104,998
Unemployment Reserves	555,116
Property and Equipment, Net	11,857,304
Deposits	64,105
Total Noncurrent Assets	12,581,523
Total Assets	$ 27,728,374

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable	$ 1,326,556
Accrued Payroll and Employee Benefits	1,705,845
Compensated Absences Payable	950,252
Agency Funds	97,636
Accrued Rent and Lease Incentives, Current Portion	56,700
Deferred Revenue	1,324,993
Total Current Liabilities	5,461,982
NONCURRENT LIABILITIES	
Accrued Rent and Lease Incentives, Less Current Portion	45,239
Total Liabilities	5,507,221
NET ASSETS	
Without Donor Restrictions	19,824,094
With Donor Restrictions	2,397,059
Total Net Assets	22,221,153
Total Liabilities and Net Assets	$ 27,728,374

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE AND SUPPORT			
Fees and Grants from Governments	$ 58,897,428	$ -	$ 58,897,428
Charges for Services	3,366,217	-	3,366,217
Contributions and Donations	1,655,996	1,181,299	2,837,295
Donated Facilities	1,892,624	-	1,892,624
Interest	114,705	-	114,705
Miscellaneous Income	472,944	-	472,944
Excess of Assets Acquired Over Liabilities Assumed of Educare Arizona	8,433,164	74,437	8,507,601
Net Assets Released from Restrictions	1,684,329	(1,684,329)	-
Total Revenue and Support	76,517,407	(428,593)	76,088,814
EXPENSES			
Program Services:			
Head Start and Professional Development Institute	20,567,193	-	20,567,193
Family Support Services	17,383,803	-	17,383,803
Services for Children with Disabilities	4,829,962	-	4,829,962
Mental Health	6,351,914	-	6,351,914
Professional Development and Training	10,061,940	-	10,061,940
Supporting Services:			
Management and General	6,376,614	-	6,376,614
Fundraising	619,328	-	619,328
Total Expenses	66,190,754	-	66,190,754
CHANGES IN NET ASSETS	10,326,653	(428,593)	9,898,060
Net Assets - Beginning of Year	9,497,441	2,825,652	12,323,093
NET ASSETS - END OF YEAR	$ 19,824,094	$ 2,397,059	$ 22,221,153

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services						Supporting Services		
	Head Start and Professional Development Institute	Family Support Services	Services for Children With Disabilities	Mental Health	Professional Development and Training	Total Program Services	Management and General	Fundraising	Total Expenses
EXPENSES									
Salaries and Wages	$ 10,134,874	$ 13,303,285	$ 3,469,026	$ 4,205,851	$ 5,302,357	$ 36,415,393	$ 2,633,726	$ 356,384	$ 39,405,503
Employee Related Expenses	2,397,101	3,062,086	797,958	965,293	1,218,971	8,441,409	565,839	72,145	9,079,393
Donated Facilities	1,892,624	-	-	-	-	1,892,624	-	-	1,892,624
Professional Fees	1,996,131	16,891	265,338	665,588	406,048	3,349,996	873,059	12,012	4,235,067
Travel	227,946	386,359	63,435	199,012	285,599	1,162,351	83,942	33	1,246,326
Occupancy	988,142	166,564	58,918	2,850	290,252	1,506,726	655,261	12,901	2,174,888
Rental and Maintenance of Equipment	413,070	69,402	50,429	40,512	87,392	660,805	299,501	-	960,306
Supplies	1,615,803	93,608	59,623	69,201	292,005	2,130,240	257,539	57,636	2,445,415
Communication	226,500	159,949	27,507	36,439	41,386	491,781	139,115	8,478	639,374
Training	284,204	59,451	35,850	164,893	65,787	610,185	43,573	-	653,758
Insurance	23,088	-	-	-	-	23,088	148,059	1,172	172,319
Interest Expense	1,349	-	-	-	-	1,349	61,454	-	62,803
Bank Fees and Charges	-	-	-	-	-	-	40,433	-	40,433
Bad Debt Expense	-	-	-	-	-	-	91,336	-	91,336
Other	28,044	23,942	150	1,417	4,605	58,158	86,710	98,567	243,435
Childcare Center Materials	3,279	-	1,728	-	2,067,538	2,072,545	-	-	2,072,545
Donations and Contributions	-	-	-	-	-	-	552	-	552
Parent Expense	16,449	42,266	-	858	-	59,573	28,201	-	87,774
Depreciation	318,589	-	-	-	-	318,589	368,314	-	686,903
Total Expenses	$ 20,567,193	$ 17,383,803	$ 4,829,962	$ 6,351,914	$ 10,061,940	$ 59,194,812	$ 6,376,614	$ 619,328	$ 66,190,754

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Fees, Grants, and Contributions	$ 66,352,130
Interest Income Received	105,310
Cash Paid to Employees for Services	(48,489,835)
Cash Paid to Suppliers for Goods and Services	(15,103,500)
Interest Paid on Note Payable	(12,545)
Net Cash Provided by Operating Activities	2,851,560
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in Restricted Cash	75,564
Cash Balance From the Acquisition of Educare Arizona	419,862
Increase in Unemployment Reserve	(555,116)
Purchases of Property and Equipment	(608,658)
Net Cash Used by Investing Activities	(668,348)
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in Agency Funds	97,636
Principal Payments on Head Start Modular Loan	(205,130)
Principal Payments on Notes Payable	(896,845)
Net Cash Used by Financing Activities	(1,004,339)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,178,873
Cash and Cash Equivalents - Beginning of Year	6,535,430
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 7,714,303
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Changes in Net Assets	$ 9,898,060
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	686,903
Amortization of Bond Issuance Costs	50,258
Gain on Disposal of Equipment	(5,150)
Change in Allowance for Doubtful Accounts	91,336
Excess of Assets Acquired Over Liabilities Assumed of Educare Arizona	(8,507,601)
(Increase) Decrease in Assets:	
Accounts Receivable	98,228
Pledges Receivable	550,984
Increase (Decrease) in Liabilities:	
Accounts Payable	(259,321)
Accrued Payroll and Employee Benefits	51,674
Compensated Absences Payable	(56,613)
Accrued Rent and Lease Incentives	86,608
Deferred Revenue	166,194
Net Cash Provided by Operating Activities	$ 2,851,560
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Property and Equipment in Accounts Payable	$ 24,632
Trade-in Value of Equipment included in Gain on Disposal of Equipment	$ 29,500

See accompanying Notes to Consolidated Financial Statements.

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 Professional Development Institute – Imagine the possibilities if every Arizona child started out with the support they need to succeed in life. SWHD's Head Start, Early Head Start, and Early Head Start – Child Care Partnerships seek to ensure that every Arizona child has the same chance at success. They give children from birth through 5 years old and their families the foundation they need to flourish. We have 24 Head Start and Early Head Start sites throughout the Phoenix area. By working closely with children as well as their parents and educators, Head Start seeks to encourage the growth and development of today's youth by offering guidance, education and support in the following areas: 1) Early Learning – Head Start's early learning efforts help children with or without special needs find their footing in academic environment. In addition to introducing fundamental skills relating to language, math and literacy, among other areas, early learning efforts seek to help kids develop their life skills through instruction and interactive play. 2) Health – Head Start programs seek to ensure that all participants have access to the medical, dental and health services they need to succeed, function and thrive. All program participants enjoy access to health and development screenings, nutritious meals and snacks, and oral and metal health support, among related services. 3) Family Well-Being – Parents involved in Head Start programs are more likely to maintain stimulating home environments and play an active role in their child's development than other parents. They, too, receive critical support through Head Start programs that can help them achieve their academic, financial, and residential goals. Within our Head Start department, we have our Professional Development Institute (PDI) at Educare Arizona. The vision and purpose of the PDI is to act as the state's leading early learning professional workforce development entity. Our 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 will bring all of the components needed for high-quality early childhood education (ECE) professional development to one place. It will also act as a living laboratory that includes the opportunity for direct observation of high-quality teaching practices and environments, hands-on learning focused on individual teacher and/or director professional development needs, and ongoing ECE practice-embedded research studies.

Family Support Services and Child Welfare – Southwest Human Development offers an array of education and support services for families to help parents and caregivers as they raise their children. We believe that all caregivers have the desire to improve their parenting skills and behaviors, while promoting positive parent-child interactions, enhancing their child's health and development, and increasing their family's economic well-being.

NOTE 1 NATURE OF OPERATIONS (CONTINUED)

Services for Children with Disability – Our disabilities services provide young children with individualized support, evaluation and treatment plans that best fit each child's unique needs through programs like the Children's Developmental Center and the ADAPT Shop.

Mental Health and Child Development – Programs include the Birth to Five Helpline, a free support line for parents, caregivers and professionals with questions or concerns about early childhood development, and the Good Fit Counseling Center, Arizona's only mental health clinic dedicated to children ages birth to 5.

Professional Development and Training – Southwest Human Development offers nationally – recognized education and training programs to professionals and organizations working with young children across Arizona, the U.S. and internationally. The agency 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. We also offer programs to increase early literacy so children enter school ready to learn through our programs like Reach Out and Read and Raising a Reader.

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 (GAAP) applicable to nonprofit organizations.

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, 2019.

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 accounting principles generally accepted in the United States of America 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.

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, 2019.

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.

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, 2019.

Program Service Revenue and Deferred Revenue

Program service revenues consist of governmental fee and grant reimbursements for various programs. Charges for services fees are recognized when earned. Revenue from certain grants is unearned until eligible expenses have been incurred. 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.

Donated Goods, Facilities, and Services

Donated goods, facilities, and professional services are reflected as contributions in the accompanying consolidated financial statements at their estimated fair values at the date of receipt. No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they did not qualify for recording under the guidance of authoritative accounting literature.

Advertising Expenses

Advertising costs are expensed when incurred. Advertising costs were $204,682 for the year ended June 30, 2019.

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, 2019.

Change in Accounting Principle

The Organization adopted Financial Accounting Standards Board (FASB) ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in fiscal year 2019. The adoption did not impact the Organization's financial position as of June 30, 2019, or the changes in its net assets or cash flows for the year then ended.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

We have evaluated subsequent events through October 21, 2019, the date the consolidated 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, 2019, available to meet general expenditures within one year of the statement of financial position date.

Total Assets	$ 27,728,374
Less: Assets not Available for Expenditures:	
Agency Funds Included in Cash	(97,636)
Unemployment Reserves, Net of Expected Annual Expense of $100,000	(455,116)
Property and Equipment, Net	(11,857,304)
Deposits	(64,105)
	(12,474,161)
Donor-Imposed Restrictions:	
Restricted Funds	(2,397,059)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 12,857,154

The Organization also has a line of credit available to meet short-term needs. See Note 8 for information about the line of credit.

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, 2019, the level of liquidity and reserves was managed within these targets.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 consisted of amounts from the following sources:

Government	$ 6,237,227
Private	1,193,202
Total	7,430,429
Less: Allowance for Doubtful Accounts	(206,336)
Accounts Receivable, Net	$ 7,224,093

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 consists of the following unconditional promise to give at June 30, 2019:

Receivable in Less Than One Year	$ 208,455
Receivable in One to Five Years	104,998
Total Pledges Receivable	313,453
Less: Current Maturities	208,455
Noncurrent Maturities	$ 104,998

Two donors made up 91% of the pledges receivable balance at June 30, 2019. The long-term portion of pledges receivable have not been discounted due to its immateriality to the consolidated financial statements as a whole.

NOTE 6 UNEMPLOYMENT RESERVES

The Organization as 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, 2019.

NOTE 7 PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2019 follows:

Building and Improvements	$ 18,625,249
Furniture, Equipment, and Vehicles	1,657,076
Construction in Progress	249,000
Total	20,531,325
Less: Accumulated Depreciation Building and Improvements	(7,542,790)
Less: Accumulated Depreciation Furniture Equipment and Vehicles	(1,131,231)
Property and Equipment, Net	$ 11,857,304

Depreciation expense was $686,903 for the year ended June 30, 2019.

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 there from, is subject to funding source regulations. The net book value of property and equipment purchased with grant funds was $602,150 as of June 30, 2019.

NOTE 8 LINE OF CREDIT

The Organization has a line of credit with a local financial institution in the amount of $2,000,000 to provide for short-term cash flow needs which matures on March 25, 2020. The interest rate is the greater of a floating rate equal to the bank's index less 0.25% (5.50% at June 30, 2019). The effective interest rate was 5.25% for the fiscal year ended June 30, 2019. Interest expense under the line of credit for the fiscal year ended June 30, 2019 was $-0-. There was no outstanding balance on the line of credit at June 30, 2019. The line of credit is secured by receivables, property, and equipment.

NOTE 9 NOTES PAYABLE

Revenue Bonds

The Industrial Development Authority (IDA) of the city of Phoenix, Arizona issued tax-exempt Facilities Revenue Bonds (Bonds) under an Indenture of Trust dated April 4, 2003. The proceeds of the Bonds were loaned to the Organization, for the purposes of the acquisition, renovation and equipping of an existing five-story 44,027 square-foot building with a 55,330 square-foot parking garage and for paying the issuance costs of the Bonds.

Loan Agreement

The Organization was obligated to the IDA under its respective Loan Agreement and promissory notes to make payments sufficient to pay the principal and interest on its notes, and to pay its share of ongoing costs.

NOTE 9 NOTES PAYABLE (CONTINUED)

Loan Agreement (Continued)

The Organization pledged substantially all of its revenues in order to meet its obligations under the Loan Agreement and promissory notes. The primary revenues of the Organization are federal and state grants, gifts, and contributions from private donors, and private contracts. The Organization made monthly principal and interest payments to the trustee who retained the amount due under the Loan Agreement and remitted the payment to the bonding agency when payment came due. The Loan Agreement and promissory notes remained in force until all payments required by the promissory notes were paid.

All note payables were paid in full in fiscal year 2019.

Interest expense under the notes payable for the fiscal year ended June 30, 2019 was $62,803. Included in interest expense was amortization of the bond issuance costs of $50,258 for the fiscal year ended June 30, 2019.

NOTE 10 AGENCY FUNDS

The Organization is acting as an agent for a foundation. As part of the agreement, the Organization will recognize $15,400 of income, of which $5,000 is a management fee and the remainder will be for services performed under the agreement. The term of the agreement is from February 2019 to December 2019. The Organization recognized income of $3,080 during the year ended June 30, 2019. The balance of the funds was $97,636 at June 30, 2019.

NOTE 11 OPERATING LEASES

The Organization leases office space and equipment under the provisions of long-term lease agreements classified as operating leases for accounting purposes. The operating leases for office space and equipment have remaining noncancelable lease terms through fiscal 2022.

The future minimum rental payments required under the operating leases after June 30, 2019 are as follows:

Year Ending June 30,	Amount
2020	$ 964,070
2021	852,822
2022	181,079
Total Minimum Payments	$ 1,997,971

Total rental expense was $988,630 for the year ended June 30, 2019.

NOTE 11 OPERATING LEASES (CONTINUED)

During the fiscal year, the Organization received from its landlords $100,989 as a reimbursement for tenant improvements. The Organization has deferred the funds and will recognized the income as a reduction of rental expense over the life of the lease. The balance at June 30, 2019 is $76,985 and is included in accrued rent and lease incentives.

NOTE 12 DONATED FACILITIES AND SERVICES

The Organization received $1,892,624 of space for its Head Start program during the fiscal year ended June 30, 2019, that is included in revenues and expenses in the consolidated statement of activities. The value of the space was obtained using estimated fair values.

The Organization also received donated services from a variety of unpaid volunteers and parents. No amounts have been recognized in the accompanying consolidated statement of activities because the criteria for recognition of such volunteer efforts under accounting standards have not been satisfied. The estimated values of these services associated with the Head Start program were $672,772 during the fiscal year ended June 30, 2019.

NOTE 13 NET ASSETS

The following is a summary of net assets with donor restrictions at June 30, 2019:

Head Start	$	336,798
Family Support Services		4,665
Children with Disabilities		702,247
Mental Health		374,233
Professional Training and Education		519,324
Senior Volunteers		347,606
Family Assistance and Other		112,186
Total Net Assets With Donor Restrictions	$	2,397,059

Net assets of $1,684,329 were released from restriction during the year ended June 30, 2019. These releases were related to program and time restricted restrictions.

NOTE 14 RETIREMENT PLAN

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, 2019, the Organization contributed $1,274,212 to the plan. Employee contributions totaled $1,695,075 during the year ended June 30, 2019.

NOTE 15 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.

NOTE 16 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.

In September 2011, the Organization began operating some of its Head Start classrooms in a facility completed and owned by Educare Arizona. SWHD makes purchases on behalf of Educare Arizona to be reimbursed by Educare Arizona. During the year ended June 30, 2019, SWHD billed Educare Arizona a total of $69,132. Starting February 1, 2019, the activity of Educare Arizona is included in these consolidated financial statements. See Note 1.

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.

NOTE 17 REVENUE AND RECEIVABLE CONCENTRATION

The Organization received approximately 22% of its revenue from one federal government contract and 55% of its revenue was from the state of Arizona during the year ended June 30, 2019. Approximately 72% of the accounts receivable balance was due from two government funders as of June 30, 2019.

NOTE 18 FUNCTIONAL ALLOCATIONS

The costs of proving 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.

NOTE 19 ACQUISITION OF EDUCARE ARIZONA

On February 1, 2019, the Organization completed the acquisition of Educare Arizona, in order to expand upon its mission to provide comprehensive services to young children and their families in Arizona and to continue to strengthen the foundation Arizona's children need for a great start in life. The results of operations of the program are included in the consolidated statement of activities from the date of acquisition.

There was no consideration given in the transaction. In connection with the acquisition, the Organization recorded its investment in Educare Arizona at February 1, 2019 as follows:

Cash and Cash Equivalents	$ 419,862
Accounts Receivable	5,578
Pledges Receivable	74,437
Other Assets	41,405
Property and Equipment	8,000,000
Total Assets	$ 8,541,282
Accounts Payable	$ 33,681
Total Liabilities	$ 33,681
.	
Excess of Assets Acquired Over Liabilities Assumed of Educare Arizona	$ 8,507,601

NOTE 20 NEW ACCOUNTING STANDARDS

In February 2016, the 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, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the entity's consolidated financial statements.

NOTE 20 NEW ACCOUNTING STANDARDS (CONTINUED)

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Organization for the year ending June 30, 2020; however, early application is permitted.

In June 2018, FASB issued ASU 2018-08 related to the accounting for contributions received and contributions made. This update applies to both resource recipients and resource providers and assists in evaluating whether a transfer of assets is an exchange transaction or a contribution and also assists with distinguishing between conditional and unconditional contributions. Distinguishing between contributions and exchange transactions determines which guidance should be applied. For contributions, the guidance in Subtopic 958-605 should be followed and for exchange transactions, Topic 606 should be followed. The ASU is effective for the Organization for the year ended June 30, 2020. The Organization is currently evaluating the impact this guidance will have on its financial statements.

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
Southwest Human Development, Inc.
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 consolidated financial statements of Southwest Human Development, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Southwest Human Development, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest Human Development, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Human Development, Inc.'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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Directors
Southwest Human Development, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Human Development, Inc.'s consolidated 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 determination of financial statement amounts. 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 result 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
October 21, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Southwest Human Development, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southwest Human Development, Inc.'s major federal programs for the year ended June 30, 2019. Southwest Human Development, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Southwest Human Development, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southwest Human Development, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Southwest Human Development, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Southwest Human Development, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Southwest Human Development, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southwest Human Development, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southwest Human Development, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Directors
Southwest Human Development, Inc.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Southwest Human Development, Inc., as of and for the year ended June 30, 2019, and have issued our report thereon dated October 21, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
October 21, 2019

SOUTHWEST HUMAN DEVELOPMENT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Section I – Summary of Auditors' Results

FINANCIAL STATEMENTS

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
   - Material weakness(es) identified? _____ yes ____x____ no
   - Significant deficiency(ies) identified? _____ yes ____x____ none reported
3. Noncompliance material to financial statements noted? _____ yes ____x____ no

Federal Awards

1. Internal control over major federal programs:
   - Material weakness(es) identified? _____ yes ____x____ no
   - Significant deficiency(ies) identified? _____ yes ____x____ none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes ____x____ no

Identification of Major Federal Programs

CFDA Number(s)	**Name of Federal Program or Cluster**
93.600	Head Start Program

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

Auditee qualified as low-risk auditee? ____x____ yes _____ no

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Section IV– Prior Year Federal Award Findings and Questioned Costs

There were no findings in the prior year that were required to be reported.

SOUTHWEST HUMAN DEVELOPMENT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grant/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Head Start Program	93.600	N/A	$ 16,518,170 *
Total U.S. Department of Health and Human Services			16,518,170
U.S. Department of Agriculture:			
Passed through State of Arizona, Department of Education:			
Child and Adult Care Food Program	10.588	7AZ300AZ3	715,683
Total U.S. Department of Agriculture			715,683
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 17,233,853

** Denotes a Major Program*

See accompanying Notes to Schedule of Expenditures of Federal Awards.

SOUTHWEST HUMAN DEVELOPMENT, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Southwest Human Development, Inc. (SWHD) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).* Because the Schedule presents only a selected portion of the operations of SWHD, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SWHD. Educare Arizona did not receive any federal funding for the period from February 1, 2019 through June 30, 2019.

Catalog of Federal Domestic Assistance (CFDA)

The program titles and CFDA numbers were obtained from the Catalog of Federal Domestic Assistance.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

SWHD has elected to use a negotiated indirect cost rate of 11.4% for the year ended June 30, 2019.

NOTE 4 SUBRECIPIENTS

There were no amounts passed through to subrecipients during the year ended June 30, 2019.