

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES**

YEARS ENDED JUNE 30, 2025 AND 2024



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SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwest Human Development, Incorporated
Phoenix, Arizona

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Southwest Human Development, Incorporated, which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Southwest Human Development, Incorporated, as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years 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, Incorporated 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, Incorporated'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, Incorporated'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, Incorporated's ability to continue as a going concern for a reasonable period of time.

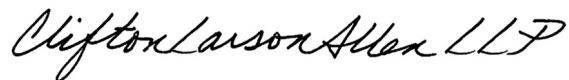
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

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, Incorporated, and the statement of cash flows - Southwest Human Development, Incorporated 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 January 28, 2026, on our consideration of Southwest Human Development, Incorporated’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, Incorporated’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, Incorporated’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Tempe, Arizona
January 28, 2026

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2025 AND 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,688,315	\$ 5,513,165
Accounts Receivable, Net	6,990,307	8,344,317
Pledges Receivable	179,165	169,744
Prepaid Expenses	616,046	658,271
Restricted Cash, Due to First Things First	1,632,892	4,015,357
Investments, Short-term	6,849,961	6,269,359
Total Current Assets	18,956,686	24,970,213
NONCURRENT ASSETS		
Pledges Receivable, Less Current	50,000	100,000
Unemployment Reserves	673,415	705,100
Property and Equipment, Net	18,324,171	19,389,029
Right-of-Use Asset - Operating Lease, Net	1,827,908	2,594,696
Deposits	85,595	39,691
Investments, Long-term	20,378,943	19,951,602
Investment in Deferred Compensation Plan	471,284	358,071
Total Noncurrent Assets	41,811,316	43,138,189
Total Assets	\$ 60,768,002	\$ 68,108,402
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 2,382,116	\$ 2,447,864
Due to First Things First	1,632,892	4,015,357
Accrued Payroll and Employee Benefits	3,090,344	3,265,022
Compensated Absences Payable	1,781,610	1,617,923
Deferred Revenue	460,108	834,625
Operating Lease Liabilities, Short-term	635,716	658,659
Total Current Liabilities	9,982,786	12,839,450
NONCURRENT LIABILITIES		
Deferred Compensation Liability	474,925	366,828
Operating Lease Liabilities, Long-term	1,349,596	1,931,311
Total Liabilities	11,807,307	15,137,589
NET ASSETS		
Without Donor Restrictions	46,279,926	49,947,951
With Donor Restrictions	2,680,769	3,022,862
Total Net Assets	48,960,695	52,970,813
Total Liabilities and Net Assets	\$ 60,768,002	\$ 68,108,402

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
REVENUE AND SUPPORT			
Fees and Grants from Governments	\$ 63,928,299	\$ -	\$ 63,928,299
Charges for Services	1,692,488	-	1,692,488
Contributions and Donations	2,122,483	2,439,930	4,562,413
Donated Facilities, Services, and Goods	1,504,881	-	1,504,881
Interest Income	1,129,113	-	1,129,113
Miscellaneous Income	680,191	-	680,191
Investment Income, Net of Fees	1,834,752	-	1,834,752
Net Assets Released from Restrictions	<u>2,782,023</u>	<u>(2,782,023)</u>	<u>-</u>
Total Revenue and Support	75,674,230	(342,093)	75,332,137
EXPENSES			
Program Services:			
Head Start and Early Head Start	23,137,818	-	23,137,818
Family Support Services and Child Welfare	10,860,202	-	10,860,202
Health and Developmental Services	5,994,334	-	5,994,334
Mental Health and Child Development	6,594,596	-	6,594,596
Professional Development, Literacy and Training Institute	20,625,604	-	20,625,604
Supporting Services:			
Management and General	11,011,292	-	11,011,292
Fundraising	<u>1,118,409</u>	<u>-</u>	<u>1,118,409</u>
Total Expenses	<u>79,342,255</u>	<u>-</u>	<u>79,342,255</u>
CHANGES IN NET ASSETS	(3,668,025)	(342,093)	(4,010,118)
Net Assets - Beginning of Year	<u>49,947,951</u>	<u>3,022,862</u>	<u>52,970,813</u>
NET ASSETS - END OF YEAR	<u><u>\$ 46,279,926</u></u>	<u><u>\$ 2,680,769</u></u>	<u><u>\$ 48,960,695</u></u>

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
REVENUE AND SUPPORT			
Fees and Grants from Governments	\$ 77,600,250	\$ -	\$ 77,600,250
Charges for Services	1,740,025	-	1,740,025
Contributions and Donations	1,707,394	3,128,448	4,835,842
Donated Facilities, Services, and Goods	1,542,506	-	1,542,506
Interest Income	1,147,374	-	1,147,374
Miscellaneous Income	112,149	-	112,149
Investment Income, Net of Fees	1,428,852	-	1,428,852
Net Assets Released from Restrictions	4,409,870	(4,409,870)	-
Total Revenue and Support	<u>89,688,420</u>	<u>(1,281,422)</u>	<u>88,406,998</u>
EXPENSES			
Program Services:			
Head Start and Early Head Start	24,438,891	-	24,438,891
Family Support Services and Child Welfare	12,031,336	-	12,031,336
Health and Developmental Services	5,380,329	-	5,380,329
Mental Health and Child Development	6,741,780	-	6,741,780
Professional Development, Literacy and Training Institute	27,793,462	-	27,793,462
Supporting Services:			
Management and General	10,733,310	-	10,733,310
Fundraising	1,002,576	-	1,002,576
Total Expenses	<u>88,121,684</u>	<u>-</u>	<u>88,121,684</u>
CHANGES IN NET ASSETS	1,566,736	(1,281,422)	285,314
Net Assets - Beginning of Year	<u>48,381,215</u>	<u>4,304,284</u>	<u>52,685,499</u>
NET ASSETS - END OF YEAR	<u>\$ 49,947,951</u>	<u>\$ 3,022,862</u>	<u>\$ 52,970,813</u>

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2025

	Program Services					Supporting Services			
	Head Start and Early Head Start	Family Support Services and Child Welfare	Health and Development Services	Mental Health and Child Development	Professional Development, Literacy and Training Institute	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and Wages	\$ 12,038,800	\$ 8,139,172	\$ 4,335,335	\$ 4,200,679	\$ 7,405,167	\$ 36,119,153	\$ 4,162,762	\$ 478,176	\$ 40,760,091
Employee Related Expenses	3,561,692	2,265,888	1,022,074	1,052,078	1,988,292	9,890,024	906,662	106,955	10,903,641
Donated Facilities, Services, and Goods	1,483,227	-	-	-	6,654	1,489,881	-	-	1,489,881
Professional Fees	1,175,009	12,245	315,512	1,001,955	8,460,165	10,964,886	1,373,505	54,875	12,393,266
Travel	184,129	206,723	47,317	177,247	317,518	932,934	54,967	3,582	991,483
Occupancy	827,328	-	58,043	1,500	52,924	939,795	1,103,941	-	2,043,736
Rental and Maintenance of Equipment	16,406	40,874	39,846	19,287	62,387	178,800	720,555	3,216	902,571
Supplies	1,909,650	46,337	28,432	71,299	256,607	2,312,325	365,984	174,906	2,853,215
Communication	418,017	94,264	25,594	30,161	41,271	609,307	224,919	110,850	945,076
Training	358,289	9,700	53,436	16,907	82,320	520,652	44,869	273	565,794
Insurance	-	-	-	-	-	-	327,498	2,663	330,161
Bank Fees and Charges	16,509	-	-	-	-	16,509	25,273	14,965	56,747
Expected Credit Losses	-	-	-	-	-	-	294,579	-	294,579
Other	48,171	36,292	68,745	23,483	156,561	333,252	741,915	167,948	1,243,115
Childcare Center Materials	-	-	-	-	1,795,738	1,795,738	-	-	1,795,738
Parent and Family Assistance	12,753	8,707	-	-	-	21,460	156,610	-	178,070
Depreciation	1,087,838	-	-	-	-	1,087,838	507,253	-	1,595,091
Total Expenses by Function	\$ 23,137,818	\$ 10,860,202	\$ 5,994,334	\$ 6,594,596	\$ 20,625,604	\$ 67,212,554	\$ 11,011,292	\$ 1,118,409	\$ 79,342,255

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024

	Program Services					Total Program Services	Supporting Services		Total Expenses
	Head Start and Early Head Start	Family Support Services and Child Welfare	Health and Development Services	Mental Health and Child Development	Professional Development, Literacy and Training Institute		Management and General	Fundraising	
Salaries and Wages	\$ 13,542,344	\$ 9,156,080	\$ 4,125,939	\$ 4,335,092	\$ 7,883,609	\$ 39,043,064	\$ 3,926,599	\$ 481,045	\$ 43,450,708
Employee Related Expenses	3,410,904	2,263,217	893,412	999,540	1,902,960	9,470,033	814,483	92,256	10,376,772
Donated Facilities, Services, and Goods	1,540,871	-	-	-	21,595	1,562,466	240	500	1,563,206
Professional Fees	349,580	13,684	147,853	958,052	13,391,180	14,860,349	1,115,198	39,473	16,015,020
Travel	139,156	241,301	38,790	209,585	292,950	921,782	39,767	1,003	962,552
Occupancy	1,443,918	-	51,346	5,145	42,354	1,542,763	1,051,086	-	2,593,849
Rental and Maintenance of Equipment	29,386	67,948	31,811	42,027	93,621	264,793	1,312,775	3,768	1,581,336
Supplies	2,570,003	67,082	21,997	109,876	311,274	3,080,232	416,647	148,399	3,645,278
Communication	255,431	122,957	27,676	36,127	52,804	494,995	323,253	63,190	881,438
Training	240,877	15,559	16,037	40,903	155,199	468,575	55,240	-	523,815
Insurance	927	-	-	-	-	927	309,710	2,594	313,231
Bank Fees and Charges	10,578	-	-	-	-	10,578	15,847	12,473	38,898
Expected Credit Losses	-	-	-	-	-	-	97,541	-	97,541
Other	45,708	74,308	25,468	5,433	215,783	366,700	676,738	157,875	1,201,313
Childcare Center Materials	-	-	-	-	3,430,133	3,430,133	-	-	3,430,133
Parent and Family Assistance	31,121	9,200	-	-	-	40,321	99,917	-	140,238
Depreciation	828,087	-	-	-	-	828,087	478,269	-	1,306,356
Total Expenses by Function	\$ 24,438,891	\$ 12,031,336	\$ 5,380,329	\$ 6,741,780	\$ 27,793,462	\$ 76,385,798	\$ 10,733,310	\$ 1,002,576	\$ 88,121,684

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Fees, Grants, and Contributions	\$ 69,145,883	\$ 87,075,228
Interest Income Received	1,096,897	1,129,977
Cash Paid to Employees for Services	(51,674,723)	(52,754,688)
Cash Paid to Suppliers for Goods and Services	(24,196,385)	(30,437,509)
Net Cash Provided (Used) by Operating Activities	(5,628,328)	5,013,008
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Unemployment Reserve	80,815	47,668
Purchases of Property and Equipment	(530,233)	(2,047,643)
Proceeds from Sale of Equipment	27,000	-
Purchase of Investments	(9,639,786)	(11,976,796)
Sale of Investments	10,483,217	11,206,412
Net Cash Provided (Used) by Investing Activities	421,013	(2,770,359)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(5,207,315)	2,242,649
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	9,528,522	7,285,873
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 4,321,207	\$ 9,528,522
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Changes in Net Assets	\$ (4,010,118)	\$ 285,314
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,595,091	1,306,356
Lease Cost Adjustment	162,130	23,298
Unrealized (Gain) Loss on Unemployment Reserve	(49,130)	(66,810)
Unrealized and Realized Gain on Investments	(1,851,374)	(1,450,441)
Gain on Sale of Equipment	(27,000)	-
Donated Goods Recorded in Prepaid Expenses	(15,000)	20,000
Donated Prepaid Gift Cards - Used	-	700
Expected Credit Losses	294,579	97,541
(Increase) Decrease in Assets:		
Accounts Receivable	1,059,431	(855,720)
Pledges Receivable	40,579	(1,623)
Prepaid Expenses	57,225	(144,878)
Deposits	(45,904)	-
Investment in Deferred Compensation Plan	(113,213)	(158,709)
Increase (Decrease) in Liabilities:		
Accounts Payable	(65,748)	1,004,356
Due to First Things First	(2,382,465)	4,015,357
Accrued Payroll and Employee Benefits	(174,678)	886,979
Compensated Absences Payable	163,687	185,813
Deferred Revenue	(374,517)	(300,050)
Deferred Compensation Liability	108,097	165,525
Net Cash Provided (Used) by Operating Activities	\$ (5,628,328)	\$ 5,013,008
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Property and Equipment in Accounts Payable	\$ -	\$ 266,633
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 2,688,315	\$ 5,513,165
Restricted Cash - Due to First Things First	1,632,892	4,015,357
Total	\$ 4,321,207	\$ 9,528,522

See accompanying Notes to Consolidated Financial Statements.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 NATURE OF OPERATIONS

Southwest Human Development, Incorporated (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 Healthy Families, Family Connections, and Kinship Care and Adoptions.

Health and Developmental Services (HDS) – 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 intensive training programs for mental health clinicians and other professionals working with young children.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 NATURE OF OPERATIONS (CONTINUED)

Mental Health and Child Development (Continued) - In addition, their *AzSteps* program is as statewide expulsion prevention program that provides training and technical assistance to child care centers and their employees. The child care centers are funded through the Arizona Department of Economic Security

Professional Development, Literacy and Training 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: 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.”

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2025 and 2024.

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 statements 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, Cash Equivalents and Restricted Cash

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.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the allowance for credit losses based on its assessment of the current status of individual contracts.

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. At June 30, 2025 and 2024, conditional promises received of \$460,108 and \$834,625, respectively, were recorded 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, 2025 and 2024.

Property and Equipment

Purchases of property and equipment over \$10,000 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 statements 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.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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.

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, 2025 and 2024.

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 date 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.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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 statements 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, 2025 and 2024, the change in estimate was \$52,300 and \$197,500, respectively, and it was recorded in employee related benefits in the consolidated statements 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, 2025 and 2024 conditional governmental grants of \$10,416,772 and \$10,912,923, respectively, have not been recognized in the accompanying consolidated statements of activities.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charges for Services – Patient Services (Continued)

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.

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 years ended June 30, 2025 and 2024. 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

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Expenses

Advertising costs are expensed when incurred. Advertising costs were \$442,066 and \$309,086 for the years ended June 30, 2025 and 2024, respectively, and included with communication expense in the consolidated statements of functional expenses.

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, 2025 and 2024.

Subsequent Events

We have evaluated subsequent events through January 28, 2026, 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, 2025 and 2024 and available to meet general expenditures within one year of the consolidated statements of financial position date.

	<u>2025</u>	<u>2024</u>
Total Assets	\$ 60,768,002	\$ 68,108,402
Less Assets not Available for Expenditures:		
Prepaid Expenses	(616,046)	(658,271)
Unemployment Reserves, Net of Expected Annual Expense of \$50,000	(623,415)	(655,100)
Property and Equipment, Net	(18,324,171)	(19,389,029)
Right-of-Use Asset - Operating Lease, Net	(1,827,908)	(2,594,696)
Deposits	(85,595)	(39,691)
Restricted Cash, Due to First Things First	(1,632,892)	(4,015,357)
Investment in Deferred Compensation Plan	(471,284)	(358,071)
Total	<u>(23,581,311)</u>	<u>(27,710,215)</u>
Donor-Imposed Restrictions:		
Restricted Funds	<u>(2,680,769)</u>	<u>(3,022,862)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 34,505,922</u>	<u>\$ 37,375,325</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.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 3 LIQUIDITY (CONTINUED)

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 years ended June 30, 2025 and 2024, the level of liquidity and reserves were managed within these targets.

NOTE 4 ACCOUNTS RECEIVABLE

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

	<u>2025</u>	<u>2024</u>
Government	\$ 6,948,847	\$ 8,205,404
Private	128,707	214,081
Total	<u>7,077,554</u>	<u>8,419,485</u>
Less: Allowance for Credit Losses	<u>(87,247)</u>	<u>(75,168)</u>
Accounts Receivable, Net	<u>\$ 6,990,307</u>	<u>\$ 8,344,317</u>

Accounts receivable amounts are stated at the amount management expects to collect from outstanding balances. An allowance for credit losses has been provided for specific 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:

	<u>2025</u>	<u>2024</u>
Receivable in Less Than One Year	\$ 179,165	\$ 169,744
Receivable in One to Five Years	50,000	100,000
Total Pledges Receivable	<u>229,165</u>	<u>269,744</u>
Less: Current Maturities	<u>179,165</u>	<u>169,744</u>
Noncurrent Maturities	<u>\$ 50,000</u>	<u>\$ 100,000</u>

Four donors made up 89% of the pledges receivable balance at June 30, 2025. Two donors made up 46% of the pledges receivable balance at June 30, 2024.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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, 2025 and 2024.

NOTE 7 PROPERTY AND EQUIPMENT

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

	<u>2025</u>	<u>2024</u>
Building and Improvements	\$ 25,710,146	\$ 25,148,070
Furniture, Equipment, and Vehicles	4,383,442	4,250,476
Construction in Progress	-	245,373
Art Work	16,600	16,600
Total	<u>30,110,188</u>	<u>29,660,519</u>
Less: Accumulated Depreciation		
Building and Improvements	(9,549,557)	(8,403,488)
Less: Accumulated Depreciation Furniture		
Equipment and Vehicles	<u>(2,236,460)</u>	<u>(1,868,002)</u>
Property and Equipment, Net	<u>\$ 18,324,171</u>	<u>\$ 19,389,029</u>

Depreciation expense was \$1,595,091 and \$1,306,356 for the years ended June 30, 2025 and 2024, respectively.

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 \$7,848,289 and \$8,350,720 as of June 30, 2025 and 2024, respectively.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The tables below analyze financial instruments measured at fair value on June 30, 2025 and 2024 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.

	2025			Total
	Level 1	Level 2	Level 3	
Equities:				
Common Stock:	\$ 96,312	\$ -	\$ -	\$ 96,312
Mutual Funds - Common Stock	7,148,183	-	-	7,148,183
Mutual Funds - Equity ETF	6,873,525	-	-	6,873,525
Fixed Income:				
Mutual Funds - Corporate Bonds	1,806,324	-	-	1,806,324
Mutual Funds - Fixed Income ETF	10,357,271	-	-	10,357,271
Real Estate:				
Mutual Funds - Real Estate	33,533	-	-	33,533
Cash and Short-term Investments	913,756	-	-	913,756
Deferred Compensation Plan Assets	-	471,284	-	471,284
Total Assets At Fair Value	<u>\$ 27,228,904</u>	<u>\$ 471,284</u>	<u>\$ -</u>	<u>\$ 27,700,188</u>

	2024			Total
	Level 1	Level 2	Level 3	
Equities:				
Common Stock:	\$ 353,378	\$ -	\$ -	\$ 353,378
Mutual Funds - Common Stock	7,627,813	-	-	7,627,813
Mutual Funds - Equity ETF	5,473,900	-	-	5,473,900
Fixed Income:				
Mutual Funds - Corporate Bonds	2,371,049	-	-	2,371,049
Mutual Funds - Fixed Income ETF	9,878,670	-	-	9,878,670
Mutual Funds -				
Real Estate:				
Mutual Funds - Real Estate	59,213	-	-	59,213
Cash and Short-term Investments	456,938	-	-	456,938
Deferred Compensation Plan Assets	-	358,071	-	358,071
Total Assets At Fair Value	<u>\$ 26,220,961</u>	<u>\$ 358,071</u>	<u>\$ -</u>	<u>\$ 26,579,032</u>

NOTE 9 RESTRICTED CASH

During fiscal year ended June 30, 2024, the Organization was awarded the Statewide Coaching and Incentive program from First Things First. At June 30, 2025 and 2024, the Organization held \$1,632,892 and \$4,015,357, respectively, of cash for unspent advances.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 10 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 statements 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.

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 statements 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 at June 30:

	<u>2025</u>	<u>2024</u>
Lease Cost:		
Operating Lease Cost	\$ 783,414	\$ 768,394
Short-Term Lease Cost	-	-
Total Lease Cost	<u>\$ 783,414</u>	<u>\$ 768,394</u>
Other Information:		
Right of Use Assets Obtained in Exchange For New Operating Lease Liabilities:	\$ 18,463	\$ 1,380,554
Operating Cash Flows From Operating Leases	\$ 601,853	\$ 746,377
Weighted-Average Remaining Lease Term - Operating Leases	3.1 Years	3.3 Years
Weighted-Average Discount Rate - Operating Leases	4.23%	3.80%

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

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 10 OPERATING LEASES (CONTINUED)

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2025, is as follows:

<u>Year Ending June 30,</u>	<u>Operating</u>
2026	\$ 708,811
2027	575,053
2028	510,096
2029	346,149
Undiscounted Cash Flows	<u>2,140,109</u>
(Less) Imputed Interest	<u>(154,797)</u>
Total Present Value	<u><u>\$ 1,985,312</u></u>

NOTE 11 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, 2025, the Organization received contributions of the use of facilities. The Organization also received donated services for speaking trainers and donated goods for supplies. The following table represents a breakout of the donated facilities, services, and goods for the year ended June 30, 2025:

<u>Program or Support Services</u>	<u>Donated Space</u>	<u>Donated Services</u>	<u>Donated Goods</u>	<u>Total</u>
Head Start	\$ 1,481,148	\$ -	\$ 2,079	\$ 1,483,227
Training and Literacy Program	-	6,654	-	6,654
	<u>\$ 1,481,148</u>	<u>\$ 6,654</u>	<u>\$ 2,079</u>	<u>\$ 1,489,881</u>

During the year ended June 30, 2024, 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, 2024:

<u>Program or Support Services</u>	<u>Donated Space</u>	<u>Donated Services</u>	<u>Donated Goods</u>	<u>Total</u>
Head Start	\$ 1,540,871	\$ -	\$ -	\$ 1,540,871
Training and Literacy Program	300	1,295	20,000	21,595
Management and General	-	-	700	700
Fundraising	-	-	40	40
	<u>\$ 1,541,171</u>	<u>\$ 1,295</u>	<u>\$ 20,740</u>	<u>\$ 1,563,206</u>

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 11 DONATED FACILITIES, SERVICES, AND GOODS (CONTINUED)

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 for both years.

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 \$205,292 and \$238,989 have not been recognized in the accompanying statements of activities for the years ended June 30, 2025 and 2024, respectively, as they do not meet the requirements for recognition.

NOTE 12 NET ASSETS

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

	2025	2024
Head Start and Early Head Start	\$ 215,870	\$ 109,723
Family Support Services and Child Welfare	22,752	16,732
Health and Developmental Services	1,079,181	1,235,387
Mental Health and Child Development	873,687	1,104,762
Professional Development, Literacy and Training Institute	285,491	328,628
Senior Volunteers	80,895	85,892
Family Assistance and Other	122,893	141,738
Total Net Assets With Donor Restrictions	\$ 2,680,769	\$ 3,022,862

Net assets of \$2,782,023 and \$4,409,870 were released from restriction for the years ended June 30, 2025 and 2024, respectively. These releases were related to program and time restricted restrictions.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 13 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 years ended June 30, 2025 and 2024, the Organization contributed \$1,478,287 and \$1,718,695, respectively, 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 \$471,284 as of June 30, 2025. During the years ended June 30, 2025 and 2024, the Organization made employer contributions to the deferred compensation plan of \$40,000 and \$50,000, respectively.

NOTE 14 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. To date, the Organization has not experienced losses in any of these accounts.

NOTE 15 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.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 years ended June 30, 2025 and 2024, 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 16 REVENUE AND RECEIVABLE CONCENTRATION

The Organization received approximately 31% of its revenue from one federal government contract and 67% of its revenue was from the state of Arizona during the year ended June 30, 2025. Approximately 98% of the accounts receivable balance was due from two government funders as of June 30, 2025.

The Organization received approximately 29% of its revenue from one federal government contract and 70% of its revenue was from the state of Arizona during the year ended June 30, 2024. Approximately 96% of the accounts receivable balance was due from two government funders as of June 30, 2024.

NOTE 17 FUNCTIONAL ALLOCATIONS

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Direct and shared or joint costs are allocated to the benefiting programs through the use of cost pools to facilitate a fair distribution of costs based on a reasonable and current basis. Costs are allocated to all programs on an equitable basis regardless of any limits imposed by funding sources. As much as administratively feasible, costs are charged directly to benefiting programs. All remaining shared costs are allocated using the most meaningful basis that fairly reflects benefit received and reasonably distributes cost. Program-related costs are allocated based on relevant activity measures as indicated in the cost allocation plan.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 17 FUNCTIONAL ALLOCATIONS (CONTINUED)

Time sheets are submitted on a regular basis, reflecting employees' work and which programs, services, grant awards, and administrative functions directly benefited from their effort. Time sheets serve as the basis for charging salaries directly to all programs, services, grant awards, and other cost objectives as identified by the organization.

Equipment or property purchased for exclusive use on a grant award and reimbursed by a federal agency are accounted for as a direct cost of that award (i.e., such equipment is capitalized and depreciated for award purposes but is capitalized and depreciated at year-end for financial statement purposes) after obtaining prior written approval from the funder to acquire the equipment or property. Equipment or property purchased to benefit more than one cost objective (shared equipment) are allocated using a reasonable basis that is reflective of the equipment or property purchased or charged directly to a funding source as approved by that funder.

While the above policies represent the general approach, alternative allocation methods may be used when more appropriate for specific circumstances. Any variation from the standard policy will be clearly documented, including the rationale and methodology used, to ensure transparency and compliance with applicable regulations.

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2025
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	<u>SWHD</u>	<u>Educare Arizona</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 2,292,245	\$ 396,070	\$ -	\$ 2,688,315
Accounts Receivable, Net	7,089,059	-	(98,752)	6,990,307
Pledges Receivable, Current	124,165	55,000	-	179,165
Prepaid Expenses	614,791	1,255	-	616,046
Restricted Cash, Due to First Things First	1,632,892	-	-	1,632,892
Investments, Short-Term	6,849,961	-	-	6,849,961
Total Current Assets	<u>18,603,113</u>	<u>452,325</u>	<u>(98,752)</u>	<u>18,956,686</u>
NONCURRENT ASSETS				
Pledges Receivable, Less Current	50,000	-	-	50,000
Unemployment Reserves	673,415	-	-	673,415
Investment in Educare Arizona	7,830,747	-	(7,830,747)	-
Property and Equipment, Net	11,552,783	6,771,388	-	18,324,171
Right-of-Use Asset - Operating Lease, Net	1,827,908	-	-	1,827,908
Deposits	85,595	-	-	85,595
Investments, Long-term	20,378,943	-	-	20,378,943
Investment in Deferred Compensation Plan	471,284	-	-	471,284
Total Noncurrent Assets	<u>42,870,675</u>	<u>6,771,388</u>	<u>(7,830,747)</u>	<u>41,811,316</u>
Total Assets	<u>\$ 61,473,788</u>	<u>\$ 7,223,713</u>	<u>\$ (7,929,499)</u>	<u>\$ 60,768,002</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 2,382,116	\$ 98,752	\$ (98,752)	\$ 2,382,116
Due to First Things First	1,632,892	-	-	1,632,892
Accrued Payroll and Employee Benefits	3,090,344	-	-	3,090,344
Compensated Absences Payable	1,781,610	-	-	1,781,610
Deferred Revenue	460,108	-	-	460,108
Operating Lease Liabilities, Short-term	635,716	-	-	635,716
Total Current Liabilities	<u>9,982,786</u>	<u>98,752</u>	<u>(98,752)</u>	<u>9,982,786</u>
NONCURRENT LIABILITIES				
Deferred Compensation Liability	474,925	-	-	474,925
Operating Lease Liabilities, Long-term	1,349,596	-	-	1,349,596
Total Liabilities	<u>11,807,307</u>	<u>98,752</u>	<u>(98,752)</u>	<u>11,807,307</u>
NET ASSETS				
Without Donor Restrictions	46,985,712	6,928,532	(7,634,318)	46,279,926
With Donor Restrictions	2,680,769	196,429	(196,429)	2,680,769
Total Net Assets	<u>49,666,481</u>	<u>7,124,961</u>	<u>(7,830,747)</u>	<u>48,960,695</u>
Total Liabilities and Net Assets	<u>\$ 61,473,788</u>	<u>\$ 7,223,713</u>	<u>\$ (7,929,499)</u>	<u>\$ 60,768,002</u>

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025
(SEE INDEPENDENT AUDITORS' REPORT)

	SWHD	Educare Arizona	Eliminations	Consolidated
REVENUE AND SUPPORT				
Fees and Grants from Governments	\$ 63,928,299	\$ -	\$ -	\$ 63,928,299
Charges for Services	1,692,488	-	-	1,692,488
Contributions and Donations	4,353,285	209,128	-	4,562,413
Donated Facilities, Services, and Goods	1,504,881	-	-	1,504,881
Interest Income	1,129,113	-	-	1,129,113
Miscellaneous Income	651,783	28,408	-	680,191
Investment Income, Net of Fees	1,834,752	-	-	1,834,752
Loss of Educare Arizona	(120,867)	-	120,867	-
Total Revenue and Support	<u>74,973,734</u>	<u>237,536</u>	<u>120,867</u>	<u>75,332,137</u>
EXPENSES				
Program Services:				
Head Start and Early Head Start	22,827,458	310,360	-	23,137,818
Family Support Services and Child Welfare	10,860,202	-	-	10,860,202
Health and Developmental Services	5,994,334	-	-	5,994,334
Mental Health and Child Development	6,594,596	-	-	6,594,596
Professional Development, Literacy and Training Institute	20,625,604	-	-	20,625,604
Supporting Services:				
Management and General	10,975,583	35,709	-	11,011,292
Fundraising	1,106,075	12,334	-	1,118,409
Total Expenses	<u>78,983,852</u>	<u>358,403</u>	<u>-</u>	<u>79,342,255</u>
CHANGES IN NET ASSETS	(4,010,118)	(120,867)	120,867	(4,010,118)
Net Assets - Beginning of Year	<u>53,676,599</u>	<u>7,245,828</u>	<u>(7,951,614)</u>	<u>52,970,813</u>
NET ASSETS - END OF YEAR	<u>\$ 49,666,481</u>	<u>\$ 7,124,961</u>	<u>\$ (7,830,747)</u>	<u>\$ 48,960,695</u>

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES – SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
YEAR ENDED JUNE 30, 2025
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services					Supporting Services			Total Expenses
	Head Start and Early Head Start	Family Support Services and Child Welfare	Health and Developmental Services	Mental Health and Child Development	Professional Development, Literacy and Training Institute	Total Program Services	Management and General	Fundraising	
Salaries and Wages	\$ 11,974,165	\$ 8,139,172	\$ 4,335,335	\$ 4,200,679	\$ 7,405,167	\$ 36,054,518	\$ 4,156,151	\$ 478,176	\$ 40,688,845
Employee Related Expenses	3,550,704	2,265,888	1,022,074	1,052,078	1,988,292	9,879,036	905,319	106,955	10,891,310
Donated Facilities, Services, and Goods	1,483,227	-	-	-	6,654	1,489,881	-	-	1,489,881
Professional Fees	1,175,009	12,245	315,512	1,001,955	8,460,165	10,964,886	1,360,907	42,541	12,368,334
Travel	184,129	206,723	47,317	177,247	317,518	932,934	54,957	3,582	991,473
Occupancy	811,461	-	58,043	1,500	52,924	923,928	1,103,129	-	2,027,057
Rental and Maintenance of Equipment	16,359	40,874	39,846	19,287	62,387	178,753	720,547	3,216	902,516
Supplies	1,906,519	46,337	28,432	71,299	256,607	2,309,194	365,706	174,906	2,849,806
Communication	415,565	94,264	25,594	30,161	41,271	606,855	224,897	110,850	942,602
Training	358,289	9,700	53,436	16,907	82,320	520,652	44,853	273	565,778
Insurance	-	-	-	-	-	-	314,481	2,663	317,144
Bank Fees and Charges	16,509	-	-	-	-	16,509	24,733	14,965	56,207
Expected Credit Losses	-	-	-	-	-	-	294,579	-	294,579
Other	48,169	36,292	68,745	23,483	156,561	333,250	741,461	167,948	1,242,659
Childcare Center Materials	-	-	-	-	1,795,738	1,795,738	-	-	1,795,738
Parent and Family Assistance	12,753	8,707	-	-	-	21,460	156,610	-	178,070
Depreciation	874,600	-	-	-	-	874,600	507,253	-	1,381,853
Total Expenses by Function	\$ 22,827,458	\$ 10,860,202	\$ 5,994,334	\$ 6,594,596	\$ 20,625,604	\$ 66,902,194	\$ 10,975,583	\$ 1,106,075	\$ 78,983,852

SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
STATEMENT OF CASH FLOWS – SOUTHWEST HUMAN DEVELOPMENT, INCORPORATED
YEAR ENDED JUNE 30, 2025
(SEE INDEPENDENT AUDITORS' REPORT)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Fees, Grants, and Contributions	\$ 68,867,486
Interest Income Received	1,096,897
Cash Paid to Employees for Services	(51,591,139)
Cash Paid to Suppliers for Goods and Services	<u>(24,133,545)</u>
Net Cash Used by Operating Activities	(5,760,301)
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in Unemployment Reserve	80,815
Proceeds from Sale of Equipment	27,000
Purchases of Property and Equipment	(530,233)
Purchase of Investments	(9,639,789)
Proceeds from Sale of Investments	<u>10,483,217</u>
Net Cash Provided by Investing Activities	<u>421,010</u>
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(5,339,291)
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>9,264,428</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	<u><u>\$ 3,925,137</u></u>
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Changes in Net Assets	\$ (4,010,118)
Adjustments to Reconcile Changes in Net Assets to Net Cash	
Used by Operating Activities:	
Depreciation	1,381,853
Operating Lease Cost Adjustment	162,130
Unrealized Gain on Unemployment Reserve	(49,130)
Unrealized Gain on Investments	(1,851,374)
Gain on Sale of Equipment	(27,000)
Donated Goods Recorded in Prepaid Expenses	(15,000)
Expected Credit Losses	294,579
Loss of Educare Arizona	120,867
(Increase) Decrease in Assets:	
Accounts Receivable	988,573
Pledges Receivable	70,579
Prepaid Expenses	58,478
Deposits	(45,904)
Investment in Deferred Compensation Plan	(113,213)
Increase (Decrease) in Liabilities:	
Accounts Payable	(65,748)
Accrued Payroll and Employee Benefits	(174,673)
Compensated Absences Payable	163,686
Deferred Revenue	(374,517)
Due to First things First	(2,382,466)
Deferred Compensation Liability	<u>108,097</u>
Net Cash Used by Operating Activities	<u><u>\$ (5,760,301)</u></u>
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	
Cash and Cash Equivalents	\$ 2,292,245
Restricted Cash - Due to First Things First	<u>1,632,892</u>
Total	<u><u>\$ 3,925,137</u></u>



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