

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2021

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2021

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 19



4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

Report on the Financial Statements

We have audited the accompanying financial statements of ***United Cerebral Palsy Association of Central Arizona, Inc.*** which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility for the Financial Statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **United Cerebral Palsy Association of Central Arizona, Inc.** as of June 30, 2021, 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.

Mayer Hoffman McCann P.C.

November 18, 2021

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

STATEMENT OF FINANCIAL POSITION

June 30, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,827,159
Receivables:	
Client service	571,787
Other	23,240
Prepaid expenses and other current assets	<u>102,289</u>
TOTAL CURRENT ASSETS	3,524,475

PROPERTY AND EQUIPMENT, net	3,735,130
-----------------------------	-----------

INVESTMENTS	3,610,024
-------------	-----------

DEPOSITS	<u>8,337</u>
----------	--------------

TOTAL ASSETS	<u>\$ 10,877,966</u>
---------------------	-----------------------------

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 352,274
Accrued expenses	416,186
Conditional contribution liability	<u>48,813</u>
TOTAL CURRENT LIABILITIES	<u>817,273</u>

NET ASSETS

Net assets without donor restrictions	10,028,229
Net assets with donor restrictions	<u>32,464</u>
TOTAL NET ASSETS	<u>10,060,693</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,877,966</u>
---	-----------------------------

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT:			
Client service revenue	\$ 5,407,012	\$ -	\$ 5,407,012
Contributions	3,776,172	8,075	3,784,247
Special events	94,471	-	94,471
Less direct donor benefits	(18,923)	-	(18,923)
Investment income	98,185	-	98,185
Other revenue	31,498	-	31,498
Net assets released from restrictions	<u>487,315</u>	<u>(487,315)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>9,875,730</u>	<u>(479,240)</u>	<u>9,396,490</u>
EXPENSES			
Program services	7,940,080	-	7,940,080
Support services	<u>886,973</u>	<u>-</u>	<u>886,973</u>
TOTAL EXPENSES	<u>8,827,053</u>	<u>-</u>	<u>8,827,053</u>
LOSS ON DISPOSAL/SALES OF PROPERTY AND EQUIPMENT	<u>358,375</u>	<u>-</u>	<u>358,375</u>
CHANGE IN NET ASSETS	690,302	(479,240)	211,062
NET ASSETS, BEGINNING OF YEAR	<u>9,337,927</u>	<u>511,704</u>	<u>9,849,631</u>
NET ASSETS, END OF YEAR	<u>\$ 10,028,229</u>	<u>\$ 32,464</u>	<u>\$ 10,060,693</u>

See Notes to Financial Statements

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

	Program Services				Support Services			Total Expenses
	Home Care	Children's Services	Adult Services	Total Program Services	Administration	Fundraising	Total Support Services	
Salaries and wages	\$ 3,579,250	\$ 1,591,496	\$ 247,035	\$ 5,417,781	\$ 110,752	\$ 168,587	\$ 279,339	\$ 5,697,120
Payroll taxes	260,544	116,643	18,219	395,406	7,626	12,861	20,487	415,893
Employee benefits	404,425	232,214	53,480	690,119	16,352	28,432	44,784	734,903
Total personnel costs	4,244,219	1,940,353	318,734	6,503,306	134,730	209,880	344,610	6,847,916
Professional services	220,999	102,226	19,279	342,504	22,330	7,164	29,494	371,998
Administrative fee	-	-	-	-	-	156,431	156,431	156,431
Community awareness	163	1,939	184	2,286	27	134,827	134,854	137,140
Dues and subscriptions	89,867	78,969	5,492	174,328	12,043	16,051	28,094	202,422
Insurance	16,542	20,665	4,834	42,041	2,191	4,592	6,783	48,824
Meals	-	13,914	-	13,914	-	-	-	13,914
Other employee related expenses	5,555	3,687	286	9,528	398	28,157	28,555	38,083
Other expense	21,122	7,074	1,388	29,584	3,530	3,388	6,918	36,502
Postage, printing and publishing	1,144	1,644	76	2,864	159	5,381	5,540	8,404
Supplies and equipment	24,521	52,584	12,002	89,107	3,924	1,779	5,703	94,810
Telephone	27,231	55,182	15,387	97,800	4,048	3,209	7,257	105,057
Training and education	7,831	2,270	400	10,501	839	158	997	11,498
Travel	10,282	723	9	11,014	24	31	55	11,069
Vehicle expenses	12,145	3,180	48,261	63,586	2,030	317	2,347	65,933
Occupancy	5,506	237,773	127,748	371,027	74,326	6,849	81,175	452,202
Depreciation	1,623	99,610	75,457	176,690	64,699	2,384	67,083	243,773
TOTAL EXPENSES	<u>\$ 4,688,750</u>	<u>\$ 2,621,793</u>	<u>\$ 629,537</u>	<u>\$ 7,940,080</u>	<u>\$ 325,298</u>	<u>\$ 580,598</u>	<u>\$ 905,896</u>	<u>\$ 8,845,976</u>

See Notes to Financial Statements

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

STATEMENT OF CASH FLOWS

Year Ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 211,062
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	243,773
Net realized and unrealized gains on investments	(88,854)
Loss on disposal/sales of property and equipment	358,375
Contributions restricted to investment in property and equipment	(101,800)
Changes in operating assets and liabilities:	
Client service receivables	(151,753)
Contributions receivable	422,514
Other receivables	(1,709)
Prepaid expenses and other current assets	(22,220)
Accounts payable	(19,778)
Accrued expenses	(55,067)
Conditional contribution liability	(26,267)
Refundable advance	(146,310)
Net cash provided by operating activities	<u>621,966</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(101,800)
Proceeds from sales of investments	3,411,358
Purchases of investments	(2,652,571)
Proceeds from sales of property and equipment	34,750
Change in deposits	853
Net cash provided by investing activities	<u>692,590</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Collections on contributions restricted to investment in property and equipment	<u>101,800</u>
Net cash provided by financing activities	<u>101,800</u>

CHANGE IN CASH AND CASH EQUIVALENTS	1,416,356
-------------------------------------	-----------

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,410,803</u>
--	------------------

CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,827,159</u>
--	---------------------

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	<u>\$ 2,703</u>
------------------------	-----------------

See Notes to Financial Statements

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies

Nature of operations – *United Cerebral Palsy Association of Central Arizona, Inc.* (the “Organization”) was incorporated in Arizona in May 1952 as a private nonprofit, health and human service organization for adults and children with disabilities and their families. The Organization provides therapies, life skill and independent living services, inclusive and integrated educational based programs, innovative social outlets, and basic research to generate and develop possibilities and opportunities for those with disabilities.

The mission of the Organization is to provide comprehensive services to individuals with disabilities and their families by providing physical and developmental support as well as educational growth which is the foundation for independent living, “Life without Limits”. The Organization operates primarily in central Arizona.

The significant accounting policies followed by the Organization are as follows:

Basis of presentation – The accompanying financial statements have been prepared in accordance Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, *Non-for-Profit Entities – Presentation of Financial Statements*, which requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The Organization maintains its accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2021, the Organization had no donor restrictions that are perpetual in nature.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets.

Management’s use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents – Cash includes cash deposits in banks and cash equivalents. The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Amounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (“FDIC”).

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies (continued)

Client service receivables – At June 30, 2021, the Organization had amounts outstanding primarily from the Arizona Department of Economic Security – Division of Developmentally Disabled (“DES-DDD”) and various other third-party payors for the provision of therapy, attendant care, habilitation and respite care services. Client service receivables, where a third-party payor is responsible for paying the amount under fee-for-service contracts, are carried at an amount determined by the original charge for the services provided, less explicit price concessions representing an estimate made for contractual adjustments or discounts provided to third-party payers. Client service receivables for all payers are also carried at an amount less an estimate for implicit price concessions. The Organization continuously monitors collections from payers, including clients, and records an estimated price concession based upon specific payer collection issues that the Organization has identified and based on historical collection experience. Collections are impacted by the economic ability of clients to pay and the effectiveness of the Organization’s collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the Organization’s collection of client service receivables and the estimates of the collectability of future client service receivables. Client service receivables are written off when deemed uncollectible.

Contributions receivable – Contributions receivable that are to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional contributions receivable are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management’s assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the donors, the Organization’s past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable’s collectability. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2021, there were no outstanding contributions receivable.

Investments – The Organization accounts for its investments in accordance with FASB ASC 958-321, *Not-for-Profit Entities – Investments – Debt Securities* and FASB ASC 958-320, *Not-for-Profit Entities – Investments – Equity Securities*. Under FASB ASC 958-320 and 958-321, the Organization reports investments in equity and debt securities at fair value. The fair value of investments is based on quoted market prices. Investment income includes interest, dividends, and realized and unrealized gains and losses on investments. Investments are classified as long-term based on management’s intent to hold such investments. However, these investments can be liquidated without significant penalty within a short period of time.

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying financial statements.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies (continued)

Fair value measurement – FASB ASC 820-10, *Fair Value Measurement*, establishes a common definition for fair value to be applied to U.S. Generally Accepted Accounting Principles (“GAAP”) requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820-10 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. FASB ASC 820-10 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
- Level 3: Unobservable inputs for the asset or liability

Property and equipment and related depreciation – Purchased property and equipment is stated at cost. Donated property and equipment is recorded at fair value at the date of gift. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$2,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over estimated useful lives ranging as follows:

	<u>Estimated Useful Lives</u>
Building and building improvements	5 - 40 years
Furniture and equipment	3 - 15 years
Vehicles	3 - 5 years

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed 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 undiscounted 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 cost or fair value less costs to sell. No impairment charges were recorded for 2021.

Client service revenue recognition – All of the Organization’s revenue is earned from contracts with customers (clients). The Organization’s primary services provided to clients include therapy, attendant care, habilitation and respite care services. These services are provided through direct agreements with clients, and the Organization provides these services using its employees. The client simultaneously receives and consumes the benefits of the services as they are provided. The Organization applies the practical expedient to recognize revenue for these services over the term of the agreement commensurate with the amount it has the right to invoice the customer. Payment terms for invoices are generally within 30 days from the acceptance of hours billed.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies (continued)

The Organization has an agreement with DES-DDD and other third-party payors to either fund a defined amount of units during an authorized period of time for the Organization to provide the necessary services to qualified individuals or to provide services in accordance with fee-for-service contracts. Revenue is recognized as the promised services are provided to the Organization's clients at an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. The Organization's performance obligations to clients are typically satisfied at a point in time as the services are generally completed in one day. This consideration is based on approved rates for services provided as evidenced in its underlying contract with DES-DDD or under various third-party payor contracts.

The payment arrangements with third-party payers for the services provided by the Organization to the related clients oftentimes specify payments at amounts less than standard charges and generally provides for payments based upon predetermined rates per services or discounted fee-for-service rates. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. Estimates of these explicit price concessions under third-party payor arrangements are based upon the payment terms specified in the related contractual agreements. Retroactively calculated explicit price concessions arising under reimbursement agreements with third-party payers are recognized on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenues related to uninsured clients and uninsured copayment and deductible amounts for clients who have third-party payor coverage may have discounts applied (uninsured discounts and contractual discounts).

For changes in credit issues not assessed at the date of service, the Organization will prospectively recognize those amounts in bad debt expense on the statement of activities and changes in net assets. For the year ended June 30, 2021, the Organization did not encounter changes in credit issues not assessed at the date of service that would represent a material value.

The Organization also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts expected to be collected. Implicit price concessions for uninsured accounts represent the sole component of variable consideration in the Organization's contracts with customers.

The Organization's estimation of the implicit price concessions is based primarily upon the type of claim and the effectiveness of past collection efforts. The Organization monitors historical collection results and the effectiveness of reserve policies on a periodic basis and reviews various analytics to support the basis for its estimates. Those efforts primarily consist of reviewing the following:

- Historical write-off and collection experience using a hindsight or look-back approach;
- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from clients;
- Cash collections as a percentage of net client revenue less implicit price concessions;
- Trending of days revenue in accounts receivable
- Various allowance coverage statistics
- Economic conditions and trends in federal and state healthcare coverage

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies (continued)

In addition to the above, the Organization derives client service revenue through services provided by the Early Learning Center ("ELC"). The Organization recognizes ELC revenue associated with services provided to parents whose children are enrolled in the ELC on the basis of contractual weekly or monthly tuition for services rendered. Payment is required in advance of services. The client simultaneously receives and consumes the benefits of the services as they are provided over the term of the contract. Performance obligations relate to contracts all with durations of one year or less. As a result, the Organization is not required to separately disclose aggregate amounts of unsatisfied (or partially satisfied) performance obligations as of the end of the period. ELC revenue totaled \$169,988 for the year ended June 30, 2021.

Client service revenue by major payor sources, is as follows for the year ended June 30, 2021:

Arizona Department of Economic Security, Division of Developmental Disabilities (DDD)	79%
Medicaid	4%
Other third-party payors	14%
Self-pay	3%
Total	<u>100%</u>

As permitted under FASB ASC 606, *Revenue from Contracts with Customers*, the Organization elected two of the available practical expedients provided for by the standard. First, the Organization does not adjust the transaction price for any financing components as these are deemed to be insignificant. Additionally, the Organization expenses all incremental customer contract acquisition costs as incurred as such costs are not material and would be amortized over a period of less than one year.

Contributions – The Organization adopted FASB Accounting Standards Update ("ASU") No. 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective July 1, 2019 on a modified prospective basis. ASU 2018-08 clarifies the characterization of grants as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provides additional guidance to distinguish between conditional and unconditional contributions. In accordance with ASU 2018-08, the Organization evaluates grants and contributions for evidence of the transfer of commensurate value from the Organization to the grantor or resource provider. The transfer of commensurate value from the Organization to the grantor or resource provider may include instances when a) the goods or services provided by the Organization directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Organization. When such factors exist, the Organization accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Organization accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Organization to the resource provider, the Organization evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Organization or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Organization and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Organization to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies (continued)

The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Organizations - Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Donated materials and services – Donated materials and services are reflected in the accompanying financial statements at their estimated fair value as of the date of donation. Donated services are recognized as contributions in accordance with FASB ASC 958-605 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. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605; however, a substantial number of volunteers have donated significant amounts of their time to the Organization's program services and fundraising campaigns. There were no donated materials and services for the year ended June 30, 2021.

Special events revenue – The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the events. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at the special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefits the donor rather than the Organization, are recorded as costs of direct donor benefits. All proceeds received are recorded as special events revenue in the accompanying statement of activities and changes in net assets.

Functional allocation of expenses – The costs of providing various programs and other activities has been reported on a functional basis in the accompanying statement of activities and changes in net assets. The statement of functional expense presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of personnel activity and other appropriate allocation methods. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization and are allocated based on personnel or other appropriate indicators. Salaries and related expenses are allocated based on an analysis performed by management of time and effort. Occupancy and depreciation expenses are allocated based on square footage. All other expenses are allocated based on full time equivalents.

Income taxes – The Organization qualifies as a tax-exempt organization under Section 501(c)(3) as described in Section 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income would be taxable. The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies (continued)

The Organization's federal Return of Organization Exempt from Income Tax (Form 990) for the years ended June 30, 2020, 2019, and 2018 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. The return for the year ended June 30, 2021 has not yet been filed as of the date of the auditors' report.

Risks and uncertainties – On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. The COVID-19 outbreak is also disrupting supply chains of personal protective equipment and other medical supplies. The pandemic has also negatively impacted U.S. and global financial markets and the Organization's investments have experienced significant volatility. As a result of the pandemic, the Organization furloughed many of their employees from March 2020 through July 2020 and converted their in-person special events to on-line special events. As of June 30, 2021, the Organization has received sponsorships for a special event that was delayed until fiscal year 2022 totaling \$48,813, which is recorded as a conditional contribution liability.

In May 2020, the Organization applied for and received a forgivable Paycheck Protection Loan of \$1,621,600 as provided under the Federal Coronavirus Aid, Relief and Economic Security (“CARES”) Act. The loan contains forgiveness provisions based on the use of the proceeds for qualifying costs within an 8-week period. The Organization can also elect to utilize a 24-week period if needed. To the extent a portion of the loan does not meet the criteria to be forgiven, such amounts bear interest at 1% and mature 2 years after receipt of the proceeds in May 2022. Monthly principal and interest payments were due beginning six months after receipt of the proceeds. The Organization accounts for this agreement in accordance with FASB ASC 958-605 as a conditional contribution. The Organization previously recognized \$1,475,290 in contributions in fiscal year 2020, with the remaining balance of \$146,310 included as a refundable advance at June 30, 2020. As of June 30, 2021, the Organization received full forgiveness of the loan and recognized the remaining \$146,310 in contributions in the accompanying statement of activities and changes in net assets.

In February 2021, the Organization applied for and received a second forgivable paycheck Protection Loan of \$1,574,175 as provided under the CARES Act. To the extent a portion of the loan does not meet the criteria to be forgiven, such amounts bear interest at 1% and mature 2 years after receipt of the proceeds in February 2023. Monthly principal and interest payments are due beginning six months after receipt of the proceeds. The Organization accounts for this agreement in accordance with FASB ASC 958-605 as a conditional contribution. As of June 30, 2021, the Organization estimates that they have satisfied the conditions of the loan to qualify for full forgiveness of the loan, which has been included in contributions in the accompanying statement of activities and changes in net assets. A formal request for forgiveness will be submitted to the lender after the performance period outlined above. However, there can be no assurance that such forgiveness will occur.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(1) Organization operations and summary of significant accounting policies (continued)

The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on clients, employees, funders and vendors, all of which are uncertain and cannot be predicted. The outbreak could also impact the Organization's ability to serve clients and generate revenue and cash flow, and the ability of the Organization to collect on client service receivables.

The Organization continues to closely monitor the situation. Depending on the severity and duration of the pandemic, The Organization could experience a material negative impact to operations, cash flows and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

Recent accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). ASU 2016-02 requires that a lease liability and related right-of-use asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842), which allows certain entities to elect to defer the effective date of provisions of FASB ASU No. 2014-09 and ASU No. 2016-02. Under the amendments, entities may elect to adopt the lease guidance for fiscal years beginning after December 15, 2021. Early adoption is permitted.

The Organization has estimated that if they were to adopt the standard for the year ended June 30, 2021, a non-current right-of-use asset of approximately \$153,000 would be recorded and a corresponding current and non-current lease liability of approximately \$144,000 and \$9,000, respectively, would be recorded in the accompanying statement of financial position. The estimate was calculated using the minimum future lease payments (see Note 8) as adjusted by an estimated risk free rate of 0.05%.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities* (Topic 958) *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires the entity to present contributed nonfinancial assets in a separate line item in the statement of activities and changes in net assets and disclose qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. Additionally, the entity must disclose a description of the valuation techniques and inputs used to arrive at a fair value measure at initial recognition. The ASU is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact adoption of this standard would have on the financial statements.

Subsequent events – The Organization has evaluated subsequent events through November 18, 2021, which is the date the financial statements were available to be issued.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(2) Client service receivables

Client service receivables consist of the following at June 30, 2021:

Arizona Department of Economic Security, Division of Developmental Disabilities (DDD)	\$ 433,999
Other third-party payors	112,838
Medicaid	17,564
Self-pay	7,386
Total client service receivables	<u>\$ 571,787</u>

(3) Investments

Investments consist of the following at June 30, 2021:

Equity mutual funds:	
US large cap mutual funds	\$ 343,083
US mid cap mutual funds	111,119
US small cap mutual funds	39,205
Foreign large cap mutual funds	99,635
Total equity mutual funds	<u>593,042</u>
Fixed income:	
Bond mutual funds	2,149,491
Money market mutual funds	500,071
Total fixed income	<u>2,649,562</u>
Other assets:	
Managed strategic funds	367,420
Total investments	<u>\$ 3,610,024</u>

Investment income for the year ended June 30, 2021 consists of:

Interest and dividend income	\$ 29,986
Net unrealized gains	87,897
Net realized gains	957
Investment expenses	<u>(20,655)</u>
Total investment income	<u>\$ 98,185</u>

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(4) Fair value measurement

The following table summarizes the valuation of the Organization's financial instruments by the FASB ASC 820 categories at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity mutual funds:			
US large cap mutual funds	\$ 343,083	\$ -	\$ -
US mid cap mutual funds	111,119	-	-
US small cap mutual funds	39,205	-	-
Foreign large cap mutual funds	99,635	-	-
Total equity mutual funds	<u>593,042</u>	<u>-</u>	<u>-</u>
Fixed income:			
Bond mutual funds	2,149,491	-	-
Money market mutual funds	500,071	-	-
Total fixed income	<u>2,649,562</u>	<u>-</u>	<u>-</u>
Other assets:			
Managed strategic funds	367,420	-	-
Total investments	<u>\$ 3,610,024</u>	<u>\$ -</u>	<u>\$ -</u>

The Organization currently has no other assets or liabilities subject to fair value measurement on a recurring or non-recurring basis.

(5) Property and equipment

Property and equipment consists of the following at June 30, 2021:

Land	\$ 1,139,730
Building and building improvements	4,691,088
Furniture and equipment	502,322
Vehicles	<u>470,596</u>
Total cost and donated value	6,803,736
Less accumulated depreciation and amortization	<u>(3,068,606)</u>
Property and equipment, net	<u>\$ 3,735,130</u>

Depreciation expense charged to operations totaled \$243,773 for the year ended June 30, 2021.

(6) Net assets with donor restrictions

Net assets with donor restrictions consist of:	
Time restricted MAG vehicles	\$ 23,715
Other purpose restricted contributions	<u>8,749</u>
Total net assets with donor restrictions	<u>\$ 32,464</u>

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(6) Net assets with donor restrictions (continued)

Net assets released from donor restrictions by incurring expense satisfying the restricted purpose or by occurrence of other events specified by donors were as follows for the year ended June 30, 2021:

Satisfaction of purpose restrictions:

MAG vehicles	\$ 27,516
Other	<u>37,285</u>
Total satisfaction of purpose restrictions	64,801
Expiration of time restrictions	<u>422,514</u>
Total releases of net assets with donor restrictions	<u>\$ 487,315</u>

(7) Retirement plan

The Organization has a defined contribution plan covering all employees who are at least 21 years of age. The plan permits participants to make elective deferrals of a limited percentage of their compensation. Under the plan, the Organization matches 100% of the first 6% of employee contributions. The Organization contributed \$160,923 to the plan during the year ended June 30, 2021.

(8) Leases

The Organization leases office space under operating leases that expire at various dates through April 2022 and equipment through January 2025.

Future minimum lease payments are as follows:

Years Ending June 30,

2022	\$ 143,742
2023	4,828
2024	2,649
2025	<u>1,574</u>
Total minimum future rental payments	<u>\$ 152,793</u>

Lease expense for the year ended June 30, 2021 totaled \$258,655. No renewal options are provided for in the leases; however, in the normal course of business, operating leases are generally renewed or replaced by other leases.

(9) Related party transactions

The Organization is affiliated with a national organization who grants the Organization the right to use the name and branding of United Cerebral Palsy, operate in a geographical area, and provides voting rights for being a member of the organization. In return, the Organization is required to pay the affiliated entity an annual membership fee based on the amount of expenses allocated by the affiliate. For the year ended June 30, 2021, membership fees totaled \$25,500, which is included in dues and subscriptions in the accompanying statement of functional expenses.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(10) Commitments and contingencies

Litigation – From time to time, the Organization is involved in various legal actions occurring in the normal course of business. In the opinion of management, based on consultation with legal counsel, there will be no adverse effect on its financial position or results of operations as a result of these matters.

Compliance – The contracted services revenue received by the Organization is subject to compliance audits by the funding agencies or their representatives. Funding agencies may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the contracts. Management believes that the Organization is in compliance with the term of its contracts.

Healthcare regulation – The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for client services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for client services previously billed. Management believes the Organization is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

Health reform legislation at both the federal and state levels continues to evolve. Changes continue to impact existing and future laws and rules. Such changes may impact the way the Organization does business, restrict revenue and growth, increase administrative and capital costs, and expose the Organization to increased risk of loss or further liabilities. The Organization's operating results, financial position and cash flows could be adversely impacted by such changes.

Liability insurance – The Organization maintains professional and general liability coverage on an occurrence basis through commercial insurance carriers. The Organization's general liability per location claim coverage is \$1,000,000 with an aggregate maximum annual coverage of \$2,000,000 with no per claim deductible. The Organization's professional liability per claim coverage is \$1,000,000 with an aggregate maximum annual coverage of \$2,000,000 with no per claim deductible.

(11) Liquidity and availability of resources

The Organization monitors its cash position on a monthly basis to ensure the fulfillment of all obligations and considers the funds necessary to maintain the Organization's operations within one year of the statement of financial position date with regular reviews of the budget to actual results. As part of the Organization's liquidity plan, excess cash is invested and maintained in investments.

**UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.**

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2021

(11) Liquidity and availability of resources (continued)

Financial assets available for general expenditure that is without donor or other restrictions limiting their use, within one year of the statement of financial position date are as follows:

Cash and cash equivalents	\$ 2,827,159
Receivables:	
Client service	571,787
Other	23,240
	<hr/>
Total financial assets	3,422,186
Less:	
Restricted by donors with purpose restrictions	<hr/> (8,749)
Financial assets available to meet cash needs for general expenditures within one year	<hr/> \$ 3,413,437

While the Organization's investments are classified as long-term in the accompanying statement of financial position based on management's intent, the investments could be readily liquidated without significant penalty to fund operating cash flow needs.

(12) Concentrations

For the year ended June 30, 2021, one donor comprised approximately 38% of total contribution revenue. For this donor, the Organization was required to pay a fundraising fee through April 2021, after which the fundraising agreement ended. While this donor continues to make contributions, the Organization is no longer responsible for paying a fundraising fee. For the year ended June 30, 2021, this fundraising fee totaled \$126,083, which is included in administrative fee in the accompanying statement of functional expenses.