

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

FINANCIAL STATEMENTS

Year Ended June 30, 2016

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

FINANCIAL STATEMENTS

Year Ended June 30, 2016

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 - 15



3101 N. Central Ave., Suite 300 ■ Phoenix, AZ 85012
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, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Correction of Error

During the year ended June 30, 2016, an item was identified by management which required adjustment to the previously issued 2015 financial statements. As discussed in Note 12, this item related to the proper recognition of revenue and recording of grants and contracts receivable. The net assets as of the beginning of the year ended June 30, 2016 have been restated for the effect of this adjustment.

Mayer Hoffman McCann P.C.

March 30, 2017

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

STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 293,108
Receivables:	
Grants and contracts	700,918
Client fees and insurance, net	180,499
Contributions	425,231
Prepaid expenses	139,506
TOTAL CURRENT ASSETS	<u>1,739,262</u>

PROPERTY AND EQUIPMENT, net 5,033,094

INVESTMENTS 6,806,058

DEPOSITS 9,190

TOTAL ASSETS \$ 13,587,604

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Line of credit	\$ 200,000
Accounts payable	509,621
Accrued expenses	376,433
Deferred revenue	4,602
TOTAL CURRENT LIABILITIES	<u>1,090,656</u>

NET ASSETS:

Unrestricted	11,774,943
Temporarily restricted	722,005
TOTAL NET ASSETS	<u>12,496,948</u>

TOTAL LIABILITIES AND NET ASSETS \$ 13,587,604

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:			
Grants and contracts	\$ 5,160,460	\$ -	\$ 5,160,460
Contributions	3,654,334	446,391	4,100,725
Client fees and insurance, net	1,311,282	-	1,311,282
Special events	937,851	-	937,851
Less direct donor benefits	(96,234)	-	(96,234)
Investment income	29,927	-	29,927
Donated materials and services	219,090	-	219,090
Other revenue	8,771	-	8,771
Net assets released from restrictions	<u>284,867</u>	<u>(284,867)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>11,510,348</u>	<u>161,524</u>	<u>11,671,872</u>
EXPENSES			
Program services	11,339,587	-	11,339,587
Support services	<u>1,360,188</u>	<u>-</u>	<u>1,360,188</u>
TOTAL EXPENSES	<u>12,699,775</u>	<u>-</u>	<u>12,699,775</u>
CHANGE IN NET ASSETS	<u>(1,189,427)</u>	<u>161,524</u>	<u>(1,027,903)</u>
NET ASSETS, BEGINNING OF YEAR (as previously reported)	14,605,530	560,481	15,166,011
Prior period adjustment	<u>(1,641,160)</u>	<u>-</u>	<u>(1,641,160)</u>
NET ASSETS, BEGINNING OF YEAR (as restated)	<u>12,964,370</u>	<u>560,481</u>	<u>13,524,851</u>
NET ASSETS, END OF YEAR	<u>\$ 11,774,943</u>	<u>\$ 722,005</u>	<u>\$ 12,496,948</u>

See Notes to Financial Statements

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

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

	Program Services			Support Services			Total Expenses	
	Home Care	Children's Services	Adult Services	Total Program Services	Administration	Fundraising		Total Support Services
Salaries and wages	\$ 2,517,271	\$ 4,468,654	\$ 459,738	\$ 7,445,663	\$ 185,979	\$ 283,327	\$ 469,306	\$ 7,914,969
Payroll taxes	211,702	276,152	37,205	525,059	8,297	22,603	30,900	555,959
Employee benefits	<u>309,482</u>	<u>573,118</u>	<u>48,943</u>	<u>931,543</u>	<u>39,809</u>	<u>38,865</u>	<u>78,674</u>	<u>1,010,217</u>
	3,038,455	5,317,924	545,886	8,902,265	234,085	344,795	578,880	9,481,145
Professional services	170,606	444,909	31,924	647,439	49,991	9,060	59,051	706,490
Administrative fee	-	-	-	-	-	346,438	346,438	346,438
Advertising	-	-	-	-	-	30,118	30,118	30,118
Community awareness	74,136	71,456	11,091	156,683	24,495	3,279	27,774	184,457
Dues and subscriptions	98,801	101,859	14,942	215,602	31,316	6,779	38,095	253,697
Grant expense	-	27,001	1,463	28,464	-	-	-	28,464
In-kind contributions	25,852	95,336	3,867	125,055	8,541	1,144	9,685	134,740
Insurance	16,474	52,622	15,904	85,000	4,156	4,451	8,607	93,607
Meals	-	42,349	-	42,349	-	-	-	42,349
Other employee related expenses	14,796	17,193	2,656	34,645	1,452	716	2,168	36,813
Other expense	-	8,184	6,348	14,532	53,466	6,144	59,610	74,142
Postage, printing and publishing	2,021	2,507	360	4,888	641	5,188	5,829	10,717
Supplies and equipment	27,435	105,751	36,824	170,010	8,330	13,894	22,224	192,234
Telephone	36,277	100,582	11,200	148,059	10,879	4,570	15,449	163,508
Training and education	2,504	5,101	815	8,420	78,598	182	78,780	87,200
Travel	29,446	122,636	931	153,013	2,057	13,314	15,371	168,384
Vehicle expenses	-	61,348	12,199	73,547	-	-	-	73,547
Occupancy	12,161	172,530	105,558	290,249	22,340	3,159	25,499	315,748
Depreciation	<u>1,596</u>	<u>206,380</u>	<u>31,391</u>	<u>239,367</u>	<u>35,453</u>	<u>1,157</u>	<u>36,610</u>	<u>275,977</u>
	<u>\$ 3,550,560</u>	<u>\$ 6,955,668</u>	<u>\$ 833,359</u>	<u>\$ 11,339,587</u>	<u>\$ 565,800</u>	<u>\$ 794,388</u>	<u>\$ 1,360,188</u>	<u>\$ 12,699,775</u>

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (1,027,903)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	275,977
Net realized and unrealized losses on investments	183,139
Donated in-kind lease	(84,350)
Changes in operating assets and liabilities:	
Grants and contracts receivable	6,559
Client fees and insurance receivables, net	(63,721)
Contributions receivable	(191,500)
Prepaid expenses	(109,426)
Accounts payable	117,986
Accrued expenses	(247,826)
Deferred revenue	682
Net cash used in operating activities	<u>(1,140,383)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(593,348)
Purchases of investments	(2,315,494)
Proceeds from sales of investments	<u>3,078,421</u>
Net cash provided by investing activities	<u>169,579</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Draws on line of credit	500,000
Payments on line of credit	<u>(300,000)</u>
Net cash provided by financing activities	<u>200,000</u>

CHANGE IN CASH AND CASH EQUIVALENTS (770,804)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 1,063,912

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 293,108

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	\$ <u><u>8,124</u></u>
------------------------	------------------------

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

(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*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets as of June 30, 2016.

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”).

Grants and contracts receivable – Grants and contracts receivable primarily represents amounts due under government contracts and grants. Grants and contracts receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts. If any, through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and contracts receivable. Although the Organization does not require collateral on its grants and contracts receivable, credit risk with respects to grants and contracts receivable is limited due to the nature of the funding sources comprising the Organization’s customer base. At June 30, 2016, management considers grants and contracts receivable to be collectible in full. Accordingly, an allowance is not considered necessary.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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

Client fees and insurance receivable – Client fees and insurance receivable represents amounts due from the provision of therapeutic services. Client fees and insurance receivable, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payors and less an estimated allowance for doubtful accounts receivable. The Organization grants credit without collateral to its clients and patients, most of who are local residents and are insured under payment arrangements with payors which include (1) Medicare, (2) other third party payors including commercial carriers, health maintenance organizations, and (3) private individuals. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to client fees and insurance receivable. At June 30, 2016, management considers client fees and insurance receivable to be fully collectible and accordingly, an allowance for uncollectible accounts is not considered necessary.

The following summarizes the percentage of client fees and insurance receivables from all payors as of June 30, 2016:

Medicaid	38%
Other third party payors	61%
Self-pay	1%
Total	<u>100%</u>

Promises to give – 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 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 promises to give 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 contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Investments – The Organization accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, the Organization reports investments in equity securities that have readily determinable fair values, and all investments in 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 THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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

Fair value measurements – FASB ASC 820-10, *Fair Value Measurements*, 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 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 are 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>
Buildings and 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 2016.

Grants and contract revenue recognition – The Organization recognizes amounts received from grants and contracts as earned when services are rendered under unit of service contracts. A receivable is recorded to the extent the amount earned exceeds cash advances, less an estimate made for amounts that may be uncollectible, which is determined based on management’s judgment and historical experience with the contracting agency.

Funding sources 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 grants or contracts. Additionally, if the Organization terminates its activities, all unearned amounts are to be returned to the funding sources.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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

Client fees and insurance revenue – The Organization recognizes client fees and insurance revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for services rendered. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy).

For the year ended June 30, 2016, gross client fees and insurance was \$4,733,301 with related contractual deductions from revenue of \$3,422,019. Client fees and insurance revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), by major payor sources, and is as follows for the year ended June 30:

Medicaid	\$ 321,247
Other third party payors	632,822
Self-pay	<u>357,213</u>
Total	<u>\$ 1,311,282</u>

Contributions – The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities- Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

For the year ended June 30, 2016, one donor comprised approximately 89% of total contribution revenue and accounted for approximately 54% of total contributions receivable at June 30, 2016. For this donor, the Organization is required to pay a fundraising fee. For the year ended June 30, 2016, this fundraising fee totaled \$346,438, which is included in administrative fee in the accompanying statement of functional expenses.

Donated materials and services – Donated materials and services as 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.

The Organization received the following donated materials and services during the year ended June 30, 2016:

Facilities	\$ 154,791
Fundraising items	<u>64,299</u>
Total donated materials and services	<u>\$ 219,090</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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

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 functional expenses. Salaries and related expenses are allocated based on an analysis performed by management of time incurred. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on appropriate allocation methods.

Advertising – Advertising costs are expensed as incurred. Total advertising expense was \$30,118 for 2016.

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)(iv) 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.

The Organization’s federal Return of Organization Exempt from Income Tax (Form 990) for the years ended June 30, 2015, 2014, and 2013 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, 2016 has not yet been filed as of the date of the auditors’ report.

Recent accounting pronouncements – In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

In August 2015, the FASB issued FASB ASU No.2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective dates of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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

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 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. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the adoption of this standard will have on the financial statements.

In August 2016, The FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*, ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

Subsequent events – The Organization has evaluated subsequent events through March 30, 2017, which is the date the financial statements were available to be issued.

(2) Grants and contracts receivable

Grants and contracts receivable consist of the following:

Arizona Early Intervention Program (AzEIP)	\$ 192,898
Department of Economic Security (DDD)	<u>508,020</u>
Total grants and contracts receivable	<u>\$ 700,918</u>

For the year ended June 30, 2016, AzEIP and DDD accounted for \$1,016,497 and \$4,143,963, respectively, of total grants and contracts revenue. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. This funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

(3) Investments

Investments consist of the following:

Mutual funds:	
Fixed income	\$ 1,930,292
Equity	3,190,254
Other	854,068
Real asset funds	<u>831,444</u>
Total investments	<u>\$ 6,806,058</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

(3) Investments (continued)

Investment income consists of:

Interest and dividend income	\$ 263,638
Net unrealized losses	(173,271)
Net realized losses	(9,868)
Investment expenses	<u>(50,572)</u>
Total investment income	<u>\$ 29,927</u>

(4) Fair value measurements

The following table summarizes the valuation of the Organization's financial instruments by the above FASB 820 categories as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:			
Fixed income:			
Domestic	\$ 1,668,817	\$ -	\$ -
International	261,475	-	-
Equity:			
Domestic	2,380,020	-	-
International	810,234	-	-
Other	854,068	-	-
Real asset funds	<u>831,444</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,806,058</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, 2016:

Land	\$ 1,139,730
Building and building improvements	5,045,678
Furniture and equipment	724,655
Vehicles	<u>993,007</u>
Total cost and donated value	7,903,070
Less accumulated depreciation and amortization	<u>(2,869,976)</u>
Property and equipment, net	<u>\$ 5,033,094</u>

Depreciation expense charged to operations totaled \$275,977 for the year ended June 30, 2016.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

(6) Line of credit

The Organization has a line of credit agreement with a bank with a maximum borrowing limit of \$500,000. The borrowings bear interest at a variable rate equal to the bank prime rate minus 0.25% (3.25% as of June 30, 2016). The line of credit is collateralized by the Organization's investment account with the bank. The loan agreement matured in October 2016 and was subsequently renewed through November 5, 2017.

(7) Temporarily restricted net assets

Temporarily restricted net assets consist of:

Time restricted contributions	\$ 425,231
Purpose restricted contributions	<u>296,774</u>
Total temporarily restricted net assets	<u><u>\$ 722,005</u></u>

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, 2016:

Satisfaction of purpose restrictions:

MAG Vehicles	\$ 88,486
Other	<u>47,000</u>
Total satisfaction of purpose restrictions	135,486
Expiration of time restrictions	<u>149,381</u>
Total releases of temporarily restricted funds	<u><u>\$ 284,867</u></u>

(8) Retirement plan

The Organization has a defined contribution plan covering all employees who have completed one year of service and 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 has the ability to make discretionary matching and/or profit sharing contributions to the plan. The Organization contributed \$185,917 to the plan during the year ended June 30, 2016.

(9) Leases

The Organization leases office space under operating leases that expire at various dates through April 2018 and equipment through May 2019:

Future minimum lease payments are as follows:

Years Ending June 30,

2017	\$ 126,100
2018	35,811
2019	<u>380</u>
Total minimum future rental payments	<u><u>\$ 162,291</u></u>

Lease expense for the year ended June 30, 2016 totaled \$124,344. 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

(10) 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, 2016, membership fees totaled \$50,000.

(11) 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 patient 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 patient 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 in certain eligibility categories, restrict revenue growth rates for certain eligibility categories, increase medical, 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 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 of \$2,000,000 with no per claim deductible.

(12) Prior period adjustment

During the year ended June 30, 2016, additional analysis by management identified revenue and accounts receivable which were erroneously accrued in 2015. As a result, net assets at the beginning of the year ended June 30, 2016 have been restated. The effect of the restatement is to decrease grants and contracts receivable and unrestricted net assets by \$1,641,160 as of June 30, 2015.