UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2019

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

FINANCIAL STATEMENTS

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CONTENTS

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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, 2019, 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, ***United Cerebral Palsy Association of Central Arizona, Inc.*** adopted Financial Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* in 2019. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

November 5, 2019

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 735,027
Receivables:	
Grants and contracts	662,318
Client fees and insurance	248,995
Contributions	116,991
Other	49,395
Prepaid expenses and other current assets	53,158
TOTAL CURRENT ASSETS	1,865,884
CASH RESTRICTED TO INVESTMENT IN PROPERTY AND EQUIPMENT	50,000
PROPERTY AND EQUIPMENT, net	4,466,480
INVESTMENTS	4,917,472
DEPOSITS	10,690
TOTAL ASSETS	$ 11,310,526

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Line of credit	$ 245,000
Accounts payable	862,429
Accrued expenses	443,318
TOTAL CURRENT LIABILITES	1,550,747
NET ASSETS	
Net assets without donor restrictions	9,421,102
Net assets with donor restrictions	338,677
TOTAL NET ASSETS	9,759,779
TOTAL LIABILITES AND NET ASSETS	$ 11,310,526

UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Grants and contracts	$ 5,387,760	$ -	$ 5,387,760
Contributions	2,875,746	291,682	3,167,428
Client fees and insurance, net	1,618,465	-	1,618,465
Special events	850,402	-	850,402
Less direct donor benefits	(92,304)	-	(92,304)
Investment income	215,405	-	215,405
Donated materials and services	42,449	-	42,449
Other revenue	44,684	-	44,684
Net assets released from restrictions	451,766	(451,766)	-
TOTAL REVENUES AND SUPPORT	11,394,373	(160,084)	11,234,289
EXPENSES			
Program services	11,065,808	-	11,065,808
Support services	1,111,151	-	1,111,151
TOTAL EXPENSES	12,176,959	-	12,176,959
LOSS ON SALE OF PROPERTY AND EQUIPMENT	39,422	-	39,422
CHANGE IN NET ASSETS	(822,008)	(160,084)	(982,092)
NET ASSETS, BEGINNING OF YEAR	10,243,110	498,761	10,741,871
NET ASSETS, END OF YEAR	$ 9,421,102	$ 338,677	$ 9,759,779

UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019

	Program Services				Support Services			
	Home Care	Children's Services	Adult Services	Total Program Services	Administration	Fundraising	Total Support Services	Total Expenses
Salaries and wages	$ 2,454,611	$ 4,476,618	$ 516,205	$ 7,447,434	$ 177,052	$ 242,960	$ 420,012	$ 7,867,446
Payroll taxes	179,530	326,748	38,342	544,620	12,442	17,559	30,001	574,621
Employee benefits	284,665	552,065	80,377	917,107	23,890	31,133	55,023	972,130
Total personnel costs	2,918,806	5,355,431	634,924	8,909,161	213,384	291,652	505,036	9,414,197
Professional services	207,490	253,630	40,081	501,201	20,640	9,090	29,730	530,931
Administrative fee	-	-	-	-	-	360,673	360,673	360,673
Community awareness	38,309	35,788	6,781	80,878	12,100	16,698	28,798	109,676
Dues and subscriptions	48,185	161,777	9,055	219,017	13,430	4,260	17,690	236,707
Grant expense	-	2,422	1,080	3,502	-	1,679	1,679	5,181
In-kind fundraising event goods	-	-	-	-	-	42,449	42,449	42,449
Insurance	21,838	24,232	5,504	51,574	5,185	15,225	20,410	71,984
Meals	-	38,672	-	38,672	-	-	-	38,672
Other employee related expenses	17,222	23,822	2,912	43,956	2,484	882	3,366	47,322
Other expense	21,010	28,483	9,494	58,987	6,746	1,096	7,842	66,829
Postage, printing and publishing	3,505	5,644	734	9,883	983	11,137	12,120	22,003
Supplies and equipment	23,955	75,043	31,133	130,131	5,068	4,778	9,846	139,977
Telephone	17,638	81,379	14,144	113,161	4,565	4,255	8,820	121,981
Training and education	8,366	9,060	1,580	19,006	2,686	651	3,337	22,343
Travel	25,152	124,266	615	150,033	1,057	3,388	4,445	154,478
Vehicle expenses	-	22,535	57,094	79,629	-	-	-	79,629
Occupancy	37,987	236,559	143,046	417,592	75,469	3,607	79,076	496,668
Depreciation	4,366	114,891	120,168	239,425	65,670	2,468	68,138	307,563
TOTAL EXPENSES	$ 3,393,829	$ 6,593,634	$ 1,078,345	$ 11,065,808	$ 429,467	$ 773,988	$ 1,203,455	$ 12,269,263

See Notes to Financial Statements

UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(982,092)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		307,563
Net realized and unrealized gains on investments		(103,531)
Loss on sale of property and equipment		39,422
Contributions restricted to investment in property and equipment		(50,000)
Changes in operating assets and liabilities:		
Grants and contracts receivable		(34,430)
Client fees and insurance receivable		63,942
Contributions receivable		215,203
Other receivables		(49,395)
Prepaid expenses and other current assets		(13,516)
Accounts payable		421,674
Accrued expenses		50,250
Deferred revenue		(7,053)
Net cash used in operating activities		(141,963)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		(120,985)
Change in deposits		(1,500)
Purchases of investments		(1,055,288)
Proceeds from sales of investments		1,418,321
Increase in cash restricted to investment in property and equipment		(50,000)
Proceeds from sale of property		15,948
Net cash provided by investing activities		206,496
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws on line of credit		365,000
Payments on line of credit		(607,000)
Collection of contributions restricted to investment in property and equipment		50,000
Net cash used in financing activities		(192,000)
CHANGE IN CASH AND CASH EQUIVALENTS		(127,467)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		862,494
CASH AND CASH EQUIVALENTS, END OF YEAR	$	735,027
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$	13,996

See Notes to Financial Statements

(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*. The Organization has adopted FASB Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*, 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:

<u>Net assets without donor restrictions</u>
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.

<u>Net assets with donor restrictions</u>
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, 2019, 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.

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

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 respect to grants and contracts receivable is limited due to the nature of the funding sources comprising the Organization's customer base. At June 30, 2019, management considers grants and contracts receivable to be collectible in full. Accordingly, an allowance is not considered necessary.

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 whom are local residents and are insured under payment arrangements with payors which include (1) Medicaid, (2) other third party payors including commercial carriers, health maintenance organizations, and (3) self-pay. 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, 2019, 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 receivable from all payors as of June 30, 2019:

Medicaid	20%
Other third-party payors	77%
Self-pay	3%
Total	100%

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

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 contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2019, all contributions receivable are due within 1 year. At June 30, 2019, management considers contributions receivable to be fully collectible and accordingly, an allowance is not considered necessary.

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.

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

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

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:

	Estimated Useful Lives
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 2019.

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.

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, 2019, gross client fees and insurance was $2,686,990 with related contractual deductions from revenue of $1,068,525. Client fees and insurance revenue, net of contractual allowances and discounts, by major payor sources, is as follows for the year ended June 30, 2019:

Medicaid	$ 258,068
Other third-party payors	873,114
Self-pay	487,283
Total	$ 1,618,465

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

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 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 restrictions. 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. However, if a donor restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as without donor restrictions.

For the year ended June 30, 2019, one donor comprised approximately 87% of total contribution revenue and accounted for approximately 65% of total contributions receivable at June 30, 2019. For this donor, the Organization is required to pay a fundraising fee. For the year ended June 30, 2019, this fundraising fee totaled $262,317, which is included in administrative fee in the accompanying statement of functional expenses.

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 in the Organization’s program services and fundraising campaigns. Donated materials and services consist of various fundraising items totaling $42,449 for the year ended June 30, 2019.

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 expenses. 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.

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

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.

The Organization’s federal Return of Organization Exempt from Income Tax (Form 990) for the years ended June 30, 2018, 2017, and 2016 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, 2019 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, as amended, 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. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU No. 2014-09 for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. 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.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* ASU 2018-08 is intended to clarify current guidance about whether a transfer of assets is a contribution or an exchange transaction. ASU 2018-08 will be effective for the Organization beginning in fiscal 2020. Early adoption is permitted. The ASU is intended to be applied on a modified prospective basis, but retrospective application is permitted. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

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 has estimated that if they were to adopt the standard for the year ended June 30, 2019, a non-current right-of-use asset of approximately $425,000 would be recorded and a corresponding current and non-current lease liability of approximately $179,000 and $246,000, respectively, would be recorded in the accompanying statement of financial position. The estimate was calculated using the minimum future lease payments (see Note 9) as adjusted by an estimated risk free rate of 2.12%.

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

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 adopted ASU 2016-14 in 2019. All amounts previously reported as temporarily restricted net assets have been reclassified to net assets with donor restrictions upon adoption of this standard.

In accordance with the amendments of this ASU, the Organization added and expanded disclosures around the presentation of expenses by function and nature and liquidity and availability of resources for the year.

A summary of the beginning net asset reclassifications at July 1, 2018 driven by the adoption of ASU 2016-14 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Without donor restrictions**	**With donor restrictions**	**Total**
As previously reported:			
Unrestricted	$ 10,243,110	$ -	$ 10,243,110
Temporarily restricted	-	498,761	498,761
Net assets, as reclassified	$ 10,243,110	$ 498,761	$ 10,741,871

Subsequent events – The Organization has evaluated subsequent events through November 5, 2019, 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 at June 30, 2019:

Arizona Early Intervention Program (AzEIP)	$ 172,275
Arizona Health Care Cost Containment System (AHCCCS)	39,255
Arizona Department of Economic Security, Division of Developmental Disabilities (DDD)	450,788
Total grants and contracts receivable	$ 662,318

For the year ended June 30, 2019, AzEIP, AHCCCS and DDD accounted for $1,120,773, $146,587 and $4,120,400, 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. Subsequent to June 30, 2019, the Organization did not renew its contract with AzEIP.

(3) Investments

Investments consist of the following at June 30, 2019:

Mutual funds:	
Fixed income	$ 1,812,815
Equity	2,174,162
Other	623,219
Real asset funds	307,276
Total investments	$ 4,917,472

Investment income for the year ended June 30, 2019 consists of:

Interest and dividend income	$ 151,559
Net unrealized gains	58,126
Net realized gains	45,405
Investment expenses	(39,685)
Total investment income	$ 215,405

(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, 2019:

	Level 1	Level 2	Level 3
Mutual funds:			
Fixed income:			
Domestic	$ 1,414,217	$ -	$ -
International	398,598	-	-
Equity:			
Domestic	1,564,185	-	-
International	609,977	-	-
Other	623,219	-	-
Real asset funds	307,276	-	-
Total investments at fair value	$ 4,917,472	$ -	$ -

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, 2019:

Land	$	1,139,730
Building and building improvements		5,202,248
Furniture and equipment		792,088
Vehicles		817,526
Total cost and donated value		7,951,592
Less accumulated depreciation and amortization		(3,485,112)
Property and equipment, net	$	4,466,480

Depreciation expense charged to operations totaled $307,563 for the year ended June 30, 2019.

(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% (5.25% as of June 30, 2019). The line of credit is collateralized by the Organization’s investment account with the bank totaling $983,587 in investments and $57,423 in cash equivalents as of June 30, 2019. The line of credit agreement matures on January 5, 2020.

(7) Net assets with donor restrictions

Net assets with donor restrictions consist of:		
Time restricted contributions receivable	$	116,991
Time restricted MAG vehicles		102,475
Contributions restricted for the investment in property and equipment		50,000
Other purpose restricted contributions		69,211
Total net assets with donor restrictions	$	338,677

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, 2019:

Satisfaction of purpose restrictions:		
MAG vehicles	$	108,385
Other		12,419
Total satisfaction of purpose restrictions		120,804
Expiration of time restrictions		330,962
Total releases of net assets with donor restrictions	$	451,766

(8) 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 has the ability to make discretionary matching and/or profit sharing contributions to the plan. The Organization contributed $216,654 to the plan during the year ended June 30, 2019.

(9) Leases

The Organization leases office space under operating leases that expire at various dates through April 2022 and equipment through March 2022:

Future minimum lease payments are as follows:

Years Ending June 30,		
2020	$	183,121
2021		165,857
2022		92,744
Total minimum future rental payments	$	441,722

Lease expense for the year ended June 30, 2019 totaled $286,732. 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.

(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, 2019, membership fees totaled $24,500, which is included in dues and subscriptions in the accompanying statement of functional expenses.

(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.

(11) Commitments and contingencies (continued)

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 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.

(12) 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 pan, excess cash is invested in investments and maintained in mutual fund investments.

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	$ 735,027
Receivables:	
Grants and contracts	662,318
Client fees and insurance	248,995
Contributions	116,991
Other	49,395
Cash restricted to investment in property and equipment	50,000
Investments	4,917,472
Total financial assets	6,780,198
Less:	
Investments collateralizing the line-of credit	(245,000)
Restricted by donors with purpose restrictions	(119,211)
Financial assets available to meet cash need for general expenditures within one year	$ 6,415,987

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, except as noted in the table above. The Organization also has a $500,000 line of credit, of which $255,000 was available at June 30, 2019, to meet cash flow needs.