UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2022

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

Opinion

We have audited the financial statements of ***United Cerebral Palsy Association of Central Arizona, Inc.*** (the "Organization"), which comprise the statement of financial position as of June 30, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Mayer Hoffman McCann P.C.

October 24, 2023

UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2022

A S S E T S

CURRENT ASSETS	
Cash and cash equivalents	$ 1,708,571
Receivables:	
Client service	312,433
Contributions	1,731,123
Other	2,265
Prepaid expenses and other current assets	97,305
TOTAL CURRENT ASSETS	3,851,697
PROPERTY AND EQUIPMENT, net	3,716,572
INVESTMENTS	4,086,604
DEPOSITS	2,147
TOTAL ASSETS	$ 11,657,020

L I A B I L I T I E S A N D N E T A S S E T S

CURRENT LIABILITIES	
Accounts payable	$ 127,254
Accrued expenses	425,406
Conditional contribution liability	234,066
TOTAL CURRENT LIABILITES	786,726
NET ASSETS	
Net assets without donor restrictions	8,947,314
Net assets with donor restrictions	1,922,980
TOTAL NET ASSETS	10,870,294
TOTAL LIABILITES AND NET ASSETS	$ 11,657,020

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Client service revenue	$ 5,282,344	$ -	$ 5,282,344
Contributions	1,721,766	1,911,123	3,632,889
Special events	462,552	-	462,552
Less direct donor benefits	(63,639)	-	(63,639)
Investment loss	(313,419)	-	(313,419)
Other revenue	40,884	-	40,884
Net assets released from restrictions	20,607	(20,607)	-
TOTAL REVENUES AND SUPPORT	7,151,095	1,890,516	9,041,611
EXPENSES			
Program services	7,663,553	-	7,663,553
Support services	566,927	-	566,927
TOTAL EXPENSES	8,230,480	-	8,230,480
LOSS ON DISPOSAL/SALES OF PROPERTY AND EQUIPMENT	(1,530)	-	(1,530)
CHANGE IN NET ASSETS	(1,080,915)	1,890,516	809,601
NET ASSETS, BEGINNING OF YEAR	10,028,229	32,464	10,060,693
NET ASSETS, END OF YEAR	$ 8,947,314	$ 1,922,980	$ 10,870,294

UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

	Program Services				Support Services			
	Home Care	Children's Services	Adult Services	Total Program Services	Administration	Fundraising	Total Support Services	Total Expenses
Salaries and wages	$ 3,531,304	$ 1,584,253	$ 202,467	$ 5,318,024	$ 94,385	$ 187,172	$ 281,557	$ 5,599,581
Payroll taxes	260,615	119,339	14,766	394,720	6,723	14,028	20,751	415,471
Employee benefits	357,917	161,727	32,940	552,584	12,238	24,267	36,505	589,089
Total personnel costs	4,149,836	1,865,319	250,173	6,265,328	113,346	225,467	338,813	6,604,141
Professional services	213,157	196,838	12,090	422,085	25,937	48,396	74,333	496,418
Direct donor benefit	-	-	-	-	-	63,639	63,639	63,639
Community awareness	67	901	3	971	10	19,523	19,533	20,504
Dues and subscriptions	119,149	81,031	4,817	204,997	12,932	15,141	28,073	233,070
Grant expense	-	3,207	-	3,207	-	-	-	3,207
Insurance	17,312	35,784	5,940	59,036	1,696	4,267	5,963	64,999
Meals	-	27,358	-	27,358	1,848	-	1,848	29,206
Other employee related expenses	16,868	9,123	1,823	27,814	8,135	1,101	9,236	37,050
Other expense	11,437	3,901	911	16,249	1,681	938	2,619	18,868
Postage, printing and publishing	1,190	1,370	91	2,651	159	1,364	1,523	4,174
Supplies and equipment	26,234	50,951	8,272	85,457	3,722	2,790	6,512	91,969
Telephone	24,598	55,143	11,456	91,197	2,665	3,602	6,267	97,464
Training and education	5,852	4,648	236	10,736	547	263	810	11,546
Travel	10,904	858	12	11,774	36	148	184	11,958
Vehicle expenses	6,653	1,600	52,708	60,961	978	153	1,131	62,092
Occupancy	6,444	167,591	48,618	222,653	20,942	3,319	24,261	246,914
Depreciation	1,754	107,080	42,245	151,079	43,213	2,608	45,821	196,900
TOTAL EXPENSES	$ 4,611,455	$ 2,612,703	$ 439,395	$ 7,663,553	$ 237,847	$ 392,719	$ 630,566	$ 8,294,119

See Notes to Financial Statements

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 809,601
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	196,900
Net realized and unrealized losses on investments	341,710
Loss on disposal/sales of property and equipment	1,530
Contributions restricted to investment in property and equipment	(210,000)
Changes in operating assets and liabilities:	
Client service receivables	259,354
Contributions receivable	(1,731,123)
Other receivables	20,975
Prepaid expenses and other current assets	4,984
Accounts payable	(225,020)
Accrued expenses	9,220
Conditional contribution liability	185,253
Net cash used in operating activities	(336,616)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(179,872)
Proceeds from sales of investments	1,861,132
Purchases of investments	(2,679,422)
Change in deposits	6,190
Net cash used in investing activities	(991,972)
CASH FLOWS FROM FINANCING ACTIVITIES	
Collection of contributions restricted to investment in property and equipment	210,000
Net cash provided by financing activities	210,000
CHANGE IN CASH AND CASH EQUIVALENTS	(1,118,588)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,827,159
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,708,571

UNITED CEREBRAL PALSY ASSOCIATION
OF CENTRAL ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

(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:

<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, 2022, 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").

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

Client service receivables – At June 30, 2022, 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, 2022, all contributions receivable are due within one year. At June 30, 2022, 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 958-321, *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.

(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:

	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 2022.

Client service revenue recognition – The Organization earns revenue 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.

(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, 2022, 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 client service receivables, 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

(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 $341,088 for the year ended June 30, 2022.

Client service revenue by major payor sources, is as follows for the year ended June 30, 2022:

Arizona Department of Economic Security,	
Division of Developmental Disabilities (DDD)	70%
Medicaid	8%
Other third-party payors	16%
Self-pay	6%
Total	100%

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 accounts for contributions in accordance with FASB Accounting Standards Update ("ASU") No. 2018-08, *Not-For-Profit Entities (Topic 958)*. 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.

(1) <u>Organization operations and summary of significant accounting policies (continued)</u>

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. The Organization received insignificant in-kind contributions for the year ended June 30, 2022.

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.

(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, 2022, 2021, and 2020 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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, 2022, a non-current right-of-use asset of approximately $142,000 would be recorded and a corresponding current and non-current lease liability of approximately $36,000 and $106,000, 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 3.01%.

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 Organization adopted the ASU for the year ended June 30, 2022. There was no impact upon adoption as the Organization has an insignificant amount of contributed nonfinancial assets for fiscal year 2022.

Subsequent events – The Organization has evaluated subsequent events through October 24, 2023, which is the date the financial statements were available to be issued.

(2) Client service receivables

Client service receivables consist of the following at June 30, 2022:

Arizona Department of Economic Security, Division of Developmental Disabilities (DDD)	$	234,340
Other third-party payors		61,060
Medicaid		17,033
Total client service receivables	$	312,433

(3) Investments

Investments consist of the following at June 30, 2022:

Equity mutual funds:		
US large cap mutual funds	$	580,861
US mid cap mutual funds		362,238
US small cap mutual funds		77,600
Foreign large cap mutual funds		200,984
Total equity mutual funds		1,221,683
Fixed income:		
Bond mutual funds		1,526,221
Money market mutual funds		500,649
Total fixed income		2,026,870
Other assets:		
Managed strategic funds		838,051
Total investments	$	4,086,604

Investment income (loss) for the year ended June 30, 2022 consists of:

Interest and dividend income	$	56,845
Net unrealized losses		(388,465)
Net realized gains		46,755
Investment expenses		(28,554)
Total investment loss	$	(313,419)

UNITED CEREBRAL PALSY ASSOCIATION OF CENTRAL ARIZONA, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2022

(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, 2022:

	Level 1	Level 2	Level 3
Equity mutual funds:			
US large cap mutual funds	$ 580,861	$ -	$ -
US mid cap mutual funds	362,238	-	-
US small cap mutual funds	77,600	-	-
Foreign large cap mutual funds	200,984	-	-
Total equity mutual funds	1,221,683	-	-
Fixed income:			
Bond mutual funds	1,526,221	-	-
Money market mutual funds	500,649	-	-
Total fixed income	2,026,870	-	-
Other assets:			
Managed strategic funds	838,051	-	-
Total investments	$ 4,086,604	$ -	$ -

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, 2022:

Land	$ 1,139,730
Building and building improvements	4,858,254
Furniture and equipment	511,629
Vehicles	470,596
Total cost and donated value	6,980,209
Less accumulated depreciation	(3,263,637)
Property and equipment, net	$ 3,716,572

Depreciation expense charged to operations totaled $196,900 for the year ended June 30, 2022.

(6) Net assets with donor restrictions

Net assets with donor restrictions consist of the following at June 30, 2022:

Time restricted MAG vehicles	$	11,857
Time restricted pledge		125,000
Restricted for ELC and clinic services to youth		1,576,123
Restricted for purchase of equipment		210,000
Total net assets with donor restrictions	$	1,922,980

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, 2022:

Satisfaction of restrictions:		
MAG vehicles	$	11,858
Other		8,749
Total releases of net assets with donor restrictions	$	20,607

(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 $130,677 to the plan during the year ended June 30, 2022.

(8) Leases

The Organization leases office space under operating leases that expire at various dates through June 2027 and equipment through January 2025.

Future minimum lease payments are as follows:

Years Ending June 30,		
2023	$	37,513
2024		31,782
2025		30,008
2026		27,351
2027		27,624
Total minimum future rental payments	$	154,278

Lease expense for the year ended June 30, 2022 totaled $84,782. 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, 2022, membership fees totaled $24,500, which is included in dues and subscriptions expenses in the accompanying statement of functional expenses.

(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) Concentrations

For the year ended June 30, 2022, two donors comprised approximately 70% of total contribution revenue. One of these donors comprised approximately 91% of total contributions receivable as of June 30, 2022.

(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 plan, excess cash is invested and maintained in 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	$ 1,708,571
Receivables:	
Client service	312,433
Contributions	1,731,123
Other	2,265
Total financial assets	3,754,392
Less:	
Restricted by donors with purpose restrictions	(1,922,980)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,831,412

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.