

**AID TO ADOPTION OF SPECIAL KIDS/ARIZONA  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended June 30, 2022

**AID TO ADOPTION OF SPECIAL KIDS/ARIZONA  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended June 30, 2022

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

### AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

#### Opinion

We have audited the consolidated financial statements of ***Aid to Adoption of Special Kids/Arizona and Subsidiaries*** (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2022, and the changes in their net assets and their 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 Consolidated 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 Consolidated Financial Statements

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

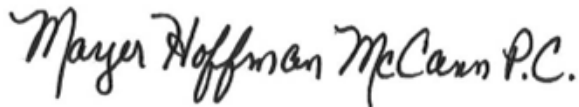
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated 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 consolidated 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.

## **Report on Summarized Comparative Information**

We have previously audited the Organization's 2021 consolidated financial statements, and our report dated December 17, 2021 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



December 21, 2022

**AID TO ADOPTION OF SPECIAL KIDS/ARIZONA  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

June 30, 2022  
(with comparative totals at June 30, 2021)

	<u><b>ASSETS</b></u>	<u><b>2022</b></u>	<u><b>2021</b></u>
CASH AND CASH EQUIVALENTS		\$ 4,757,390	\$ 3,831,935
RECEIVABLES, net		964,110	938,170
PLEDGES RECEIVABLE		-	35,000
PREPAID EXPENSES AND OTHER ASSETS		54,586	35,065
PROPERTY AND EQUIPMENT, net		2,292,817	2,411,498
INVESTMENTS		23,731,600	22,668,062
ENDOWMENT CASH		<u>15,065</u>	<u>15,061</u>
TOTAL ASSETS		<u>\$ 31,815,568</u>	<u>\$ 29,934,791</u>
 <u><b>LIABILITIES AND NET ASSETS</b></u> 			
NOTE PAYABLE		\$ 24,000	\$ 36,000
PAYCHECK PROTECTION PROGRAM LOAN		-	1,216,600
ACCOUNTS PAYABLE AND ACCRUED EXPENSES		748,675	765,253
DEFERRED REVENUE		382,942	-
PAYABLE TO FUNDING SOURCE		<u>245,912</u>	<u>245,912</u>
TOTAL LIABILITIES		1,401,529	2,263,765
NET ASSETS			
Net assets without donor restrictions		30,404,039	27,661,026
Net assets with donor restrictions		<u>10,000</u>	<u>10,000</u>
TOTAL NET ASSETS		<u>30,414,039</u>	<u>27,671,026</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 31,815,568</u>	<u>\$ 29,934,791</u>

See Notes to Consolidated Financial Statements

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

	Without Donor	With Donor	Total	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>2022</u>	<u>2021</u>
<b>SUPPORT AND REVENUES</b>				
Contributions				
Contributions of cash and other financial assets	\$ 2,251,996	\$ -	\$ 2,251,996	\$ 1,926,953
In-kind contributions	18,391	-	18,391	3,103
Government contracts	7,289,585	-	7,289,585	7,842,990
Interest and dividend income	81,790	-	81,790	142,127
Realized and unrealized loss on investments	(11,920)	-	(11,920)	(112,390)
Other	12,000	-	12,000	12,000
Total support and revenues before net assets released from restrictions	9,641,842	-	9,641,842	9,814,783
Net assets released from restrictions	-	-	-	-
<b>TOTAL SUPPORT AND REVENUES</b>	<u>9,641,842</u>	<u>-</u>	<u>9,641,842</u>	<u>9,814,783</u>
<b>EXPENSES</b>				
Program services:				
Family Support Services	2,196,868	-	2,196,868	2,397,441
Specialized Foster Care	1,706,440	-	1,706,440	1,618,796
Regular Adoption & Foster Care	2,842,010	-	2,842,010	3,024,449
Community Funded Initiatives	211,936	-	211,936	223,506
Total program services	6,957,254	-	6,957,254	7,264,192
Supporting services:				
Management and General	965,585	-	965,585	944,573
Fundraising	192,590	-	192,590	358,660
Total supporting services	1,158,175	-	1,158,175	1,303,233
<b>TOTAL EXPENSES</b>	<u>8,115,429</u>	<u>-</u>	<u>8,115,429</u>	<u>8,567,425</u>
<b>FORGIVENESS ON PAYCHECK PROTECTION PROGRAM LOAN</b>	<u>1,216,600</u>	<u>-</u>	<u>1,216,600</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	2,743,013	-	2,743,013	1,247,358
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>27,661,026</u>	<u>10,000</u>	<u>27,671,026</u>	<u>26,423,668</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 30,404,039</u>	<u>\$ 10,000</u>	<u>\$ 30,414,039</u>	<u>\$ 27,671,026</u>

See Notes to Consolidated Financial Statements

**AID TO ADOPTION OF SPECIAL KIDS/ARIZONA  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

	Program Services				Supporting Services		Totals		
	Family Support Services	Specialized Foster Care	Regular Adoption & Foster Care	Community Funded Initiatives	Total Program Services	Management and General	Fundraising	2022	2021
Payroll:									
Salaries - Full Time	\$ 433,830	\$ 358,079	\$ 2,090,631	\$ 163,329	\$ 3,045,869	\$ 544,520	\$ 106,237	\$ 3,696,626	\$ 3,916,569
Salaries - Part Time	1,484,331	-	9,000	-	1,493,331	-	-	1,493,331	1,663,241
Payroll taxes	166,312	30,553	174,471	13,127	384,463	41,396	8,878	434,737	439,484
Benefits	30,273	8,655	79,393	5,911	124,232	22,045	1,241	147,518	161,139
Retirement	20,593	12,357	44,240	3,928	81,118	14,716	81	95,915	98,037
Total payroll	2,135,339	409,644	2,397,735	186,295	5,129,013	622,677	116,437	5,868,127	6,278,470
Family related services	-	1,242,450	51,215	-	1,293,665	-	3,290	1,296,955	1,315,712
Professional services	3,500	1,965	15,012	-	20,477	122,016	-	142,493	148,345
Occupancy	19,536	13,491	119,000	7,215	159,242	24,442	6,950	190,634	148,570
Advertising	-	-	2,979	-	2,979	-	12,972	15,951	41,096
Bad debts (recoveries)	(1,016)	2,123	3,500	-	4,607	-	-	4,607	76,533
Travel	419	13,465	62,241	6,330	82,455	73	280	82,808	30,909
Communications	8,576	5,894	53,859	2,868	71,197	15,792	3,306	90,295	84,351
Printing and copying	59	595	1,477	20	2,151	65	786	3,002	6,513
Office and general supplies	4,425	3,137	24,284	1,311	33,157	29,511	4,136	66,804	81,621
Postage and shipping	23	139	806	11	979	913	1,606	3,498	4,917
Insurance	-	113	-	-	113	126,983	-	127,096	123,923
Employee recruitment, training and retention	9,118	2,595	13,622	2,023	27,358	1,674	161	29,193	40,320
Depreciation	15,784	10,829	96,280	5,863	128,756	19,753	5,638	154,147	151,006
Other	1,105	-	-	-	1,105	1,686	37,028	39,819	35,139
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 2,196,868</b>	<b>\$ 1,706,440</b>	<b>\$ 2,842,010</b>	<b>\$ 211,936</b>	<b>\$ 6,957,254</b>	<b>\$ 965,585</b>	<b>\$ 192,590</b>	<b>\$ 8,115,429</b>	<b>\$ 8,567,425</b>

See Notes to Consolidated Financial Statements

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

	2022	2021
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 2,743,013	\$ 1,247,358
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	4,607	76,533
Gain on forgiveness of note payable	(12,000)	(12,000)
Gain on forgiveness of Paycheck Protection Program Loan	(1,216,600)	-
Realized and unrealized loss on investments	11,920	112,390
Depreciation	154,147	151,006
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(30,547)	365,901
Pledges receivable	35,000	(30,000)
Prepaid expenses and other assets	(19,521)	4,880
Increase (decrease) in:		
Accounts payable and accrued expenses	(16,578)	81,263
Payable to funding source	-	40,807
Deferred revenue	382,942	-
Net cash provided by operating activities	2,036,383	2,038,138
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(35,466)	(17,082)
Purchases of investments	(9,573,751)	(24,181,237)
Proceeds from sales and maturities of investments	8,498,293	21,378,763
Net cash used in investing activities	(1,110,924)	(2,819,556)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program Loan	-	1,216,600
Net cash provided by financing activities	-	1,216,600
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	925,459	435,182
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	3,846,996	3,411,814
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$ 4,772,455	\$ 3,846,996

### SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES

The Organization received \$12,000 of forgiveness of debt for the years ended June 30, 2022 and 2021.

Cash and cash equivalents	\$ 4,757,390	\$ 3,831,935
Endowment cash	15,065	15,061
	\$ 4,772,455	\$ 3,846,996

See Notes to Consolidated Financial Statements



# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

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

**Organization operations** – *Aid to Adoption of Special Kids/Arizona and Subsidiaries* (the "Organization") is a private, non-profit adoption and child placement agency licensed by the Arizona Department of Child Safety, dedicated to the placement of special needs children into permanent, loving homes in the state of Arizona. The Organization's goal of building and preserving families is served through parent training, adoption placement, specialized medical foster care, post-placement support, and community education services.

The significant accounting policies followed by the Organization are summarized below:

**Principles of consolidation** – The accompanying consolidated financial statements include the accounts of *Aid to Adoption of Special Kids/Arizona* ("AASK"), *AASK Phoenix Property, LLC* ("AASK-Phoenix"), *AASK Peoria Property, LLC* ("AASK-Peoria") and *AASK Chandler Property, LLC* ("AASK-Chandler"). Collectively, the entities are referred to hereinafter as the Organization. In December 1988, AASK was incorporated in the state of Arizona. During the year ended June 30, 2014, AASK-Phoenix, AASK-Peoria, and AASK-Chandler were established for the purposes of owning and operating real property solely for the Organization's use. Each subsidiary was organized as a single-member limited liability company with AASK as the sole member. All significant intercompany transactions and accounts have been eliminated in consolidation.

**Basis of presentation** – The accompanying consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Organizations – Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding their 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 their accounts on the accrual basis of accounting. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

**Prior year summarized information** – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2021 from which the summarized information was derived.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

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

**Management's use of estimates** – The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Cash and cash equivalents** – Cash includes cash and, at times, cash equivalents that consist of highly liquid financial instruments purchased with original maturities of three months or less. Cash deposits in each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

**Investments** – The Organization accounts for their equity securities in accordance with FASB ASC 958-321, *Not-for-Profit Entities – Investments – Equity Securities* and their debt securities in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt Securities*. Under FASB ASC 958-320 and FASB ASC 958-321, the Organization reports investments in equity and debt securities, including negotiable certificates of deposit, at fair value. The fair value of securities with readily determinable fair values is based upon quoted market prices or publicly available net asset values. If quoted market prices are not available, fair value is determined using one, or a combination, of the following methods (1) a matrix pricing for similar instruments, (2) quoted prices for recent trading activity of assets with similar characteristics to the instrument or (3) using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk and a credit value adjustment to consider the likelihood of counterparty nonperformance, after consideration for the impact of collateralization and netting agreements, if applicable.

**Fair value measurement** – FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. The Organization adopted FASB ASC 820 for assets and liabilities subject to fair value measurement on a recurring and non-recurring basis. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring 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.

**Receivables** – Receivables consist of program service fees and contracts receivable. The Organization is exposed to certain credit risks, and manages its risk by regularly reviewing its accounts and following collection procedures. The Organization provides an appropriate allowance for doubtful accounts. Receivables are stated at the amount management expects to collect. 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 accounts. 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 receivables.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

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

**Promises to give** – Unconditional promises to give (pledges) 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 other parties, 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 support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

As of June 30, 2022, there were no pledges receivable outstanding.

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 a credit to pledges receivable. All receivables are considered by management to be collectible in full and, accordingly, an allowance for uncollectible pledges receivable had not been provided as of June 30, 2021. One donor comprised 100% of the gross pledges receivable balance at June 30, 2021.

**Property and equipment** – Purchased property and equipment is recorded at cost and donated property and equipment is recorded at its fair value at the date of contribution to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations. Depreciation is computed on a straight-line basis over the following estimated range of useful lives:

	<u>Estimated Useful Lives</u>
Building	30 years
Buildings improvements	15 years
Furniture and equipment	3 - 15 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 the carrying amount or fair value less costs to sell. The Organization has reviewed its long-lived assets and has found no impairment has occurred during the years ended June 30, 2022 and 2021.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

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

**Revenue recognition** – The Organization’s government contract revenue is generated from contracts with customers. Revenue is recognized as the promised services are provided to eligible customers. Revenue is recognized at an amount that reflects the consideration the Organization expects to be entitled in exchange for those services. This consideration is based on approved rates per service provided as evidenced in its underlying contracts with Arizona Department of Child Safety (“DCS”), Department of Economic Security Division of Developmental Disabilities (“DDD”), Gila River Indian Community (“GRIC”), Salt River Pima-Maricopa Indian Community (“SRPM”), Community Health Nursing Services (“NICP”), and Arizona Health Care Cost Containment System (“AHCCCS”).

The Organization’s primary services provided to clients include recruiting, training, and assisting families to become licensed to be foster homes with the State of Arizona or certified to become adoptive families. Additional services include respite, attendant care, and habilitation support. These services are provided through direct agreements with clients, and the Organization provides these services using its employees. The Organization can bill for services rendered to qualified individuals at underlying fixed rates by each contract.

Revenue is recognized as these services are provided in an amount that reflects the consideration it expects to be entitled to in exchange for its services, which is calculated as hours worked or days in care multiplied by agreed contract rates for each applicable contract. 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 agreements commensurate with the amount it has the right to invoice customers.

Amounts are billed as service hours or days in care are provided in accordance with the contract terms, at monthly intervals, in the month following the month of service, generally resulting in receivables. Payment is typically due within 60-90 days.

The Organization applies the right to invoice practical expedient to its revenue contracts, and recognizes revenue as invoiced, since the Organization’s right to payment is for an amount that corresponds directly with value provided to the clients based on the Organization’s performance to date. Performance obligations relate to contracts all with durations of one year. As a result, the Organization is not required to separately disclose aggregate amounts of unsatisfied (or partial satisfied) performance obligations as of the end of the period.

*Direct cost of services* – Direct costs of services are composed primarily of salaries and wages, payroll taxes, and payroll-related insurance for the employees. These costs to fulfill contracts are expensed as incurred.

The government contracts expire annually (June 30 or September 30 generally), and management expects the contracts to be renewed through the respective renewal process. Revenue recognized under two state contracts represented approximately 76% and 71% of total government contracts revenue for the years ended June 30, 2022 and 2021, respectively. In addition, one other contract represented 11.6% of total government contracts revenue for the year ended June 30, 2021. If these contracts are not renewed or are otherwise lost, the Organization’s operations would be significantly impacted.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

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

**Contributions** – In accordance with ASC 958-605, 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.

The Organization recognizes amounts received from unconditional contributions at the time the Organization receives notification of the award. Contributions that include conditions imposed by the grantor or resource provider are recognized when those conditions are met by the Organization.

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 depending on the nature of the 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 consolidated statement of activities and change in net assets as net assets released from restrictions.

During the year ended June 30, 2021, the Organization received a conditional contribution of \$210,000. The conditions include achievement of specified metrics of adoptions or matches as well as hiring 3 recruiters during the period from July 1, 2021 – June 30, 2022. As of June 30, 2022, these conditions were met and the full amount of the conditional contribution was recognized as revenue during the fiscal year. During the year ended June 30, 2022, the Organization received another conditional contribution of \$210,000. The conditions include achievement of specified metrics of adoptions or matches as well as hiring 3 recruiters during the period from July 1, 2022 – June 30, 2023. As of June 30, 2022, these conditions have not been met, therefore no revenue is recognized.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

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

**Donated non-financial assets (in-kinds)** – In September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Organization implemented ASU 2020-07 during the year ended June 30, 2022 and presents contributed nonfinancial assets separately on the consolidated statement of activities and change in net assets.

Donated materials and services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of the 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.

During the years ended June 30, 2022 and 2021, the Organization received \$18,391 and \$3,103, respectively, of donated goods which are included in in-kind contributions in the accompanying consolidated statement of activities and change in net assets. These donations consisted of toys and school supplies received as part of the Organization's fundraising programs (backpack drive).

In-kind contributions are valued using estimated prices of identical or similar services and products in the local retail markets (Level 2 inputs). The Organization's general practice is to utilize donated items at the program level for which the items were intended to support. During the years ended June 30, 2022 and 2021, the Organization did not monetize any other in-kind contributions and there were no donor restrictions on the in-kind contributions.

**Functional expenses** – The consolidated statement of functional expenses presents the natural classification detail of expense by function. Certain costs have been allocated among the programs and support 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 activity or other appropriate indicators.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Allocation method</u>
Occupancy, Communications, Printing and Copying, Depreciation	Number of employees

**Advertising** – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was \$15,951 and \$41,096 for the years ended June 30, 2022 and 2021, respectively.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

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

**Income tax status** – AASK qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and, accordingly, there is no provision for income taxes. In addition, AASK 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. AASK-Phoenix, AASK-Chandler, and AASK-Peoria are disregarded entities for tax purposes. Income determined to be unrelated business taxable income (“UBTI”) would be taxable.

The Organization evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts.

AASK’s Federal Return of Organizations Exempt from Income Tax (Form 990) for fiscal year 2019, 2020 and 2021 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the fiscal year 2022 Form 990 has not been 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 balance sheet 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. The ASU is effective for fiscal years beginning after December 15, 2021 under ASU No 2020-05. Early adoption is permitted. The Organization is currently evaluating the effect that the adoption of this standard will have on the consolidated financial statements.

**Subsequent events** – The Organization has evaluated subsequent events through December 21, 2022 which is the date the consolidated financial statements were available to be issued.

**(2) Investments**

Investments consisted of the following as of June 30:

	2022	2021
Negotiable certificates of deposit (fair value)	\$ 498,284	\$ 1,200,996
Cash and cash equivalents	23,233,316	-
US treasury bonds	-	9,192,709
Corporate bonds	-	992,000
Money market funds	-	11,282,357
Total investments	\$ 23,731,600	\$ 22,668,062

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk 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 consolidated financial statements. At June 30, 2022 and 2021, the cash and cash equivalents and negotiable certificates of deposit are in individual amounts such that they are covered by FDIC insurance.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

### (3) Receivables

Receivables consisted of the following as of June 30:

	2022	2021
State contracts	\$ 1,284,995	\$ 1,256,756
Adoption fees	16,433	16,238
Total receivables	1,301,428	1,272,994
Allowance for doubtful accounts	(337,318)	(334,824)
Net receivables	\$ 964,110	\$ 938,170

Three state contracts comprise approximately 73% and 67% of gross contracts receivable as of June 30, 2022 and 2021, respectively.

The Organization receives funding from Regional Behavioral Health Authority (“RBHA”) in the form of block payments and the Organization submits encounter claims for services performed. Claims submitted under state contracts are recorded in support and revenues from government contracts in the accompanying consolidated statement of activities and change in net assets at the date services are performed although they are subject to a claims adjudication process by the RBHA. The Organization has received funding from the RBHA, however the Organization did not have any encounters stipulated in their contract with the RBHA to offset this funding received. As of June 30, 2022 and 2021, the Organization recorded a payable to funding source of \$245,912 for potential amounts due to Mercy Care RBHA for under-encounters.

### (4) Property and equipment

Property and equipment consists of the following as of June 30:

	2022	2021
Cost and donated value:		
Building	\$ 3,531,001	\$ 3,531,001
Building improvements	809,862	780,556
Furniture and equipment	549,486	543,326
Total cost and donated value	4,890,349	4,854,883
Accumulated depreciation	(2,597,532)	(2,443,385)
Net property and equipment	\$ 2,292,817	\$ 2,411,498

Depreciation expense charged to operations was \$154,147 and \$151,006 for the years ended June 30, 2022 and 2021, respectively.

During the year ended June 30, 2003, the City of Phoenix provided approximately \$180,000 to assist in the acquisition of certain property (a building). This property is available for the Organization’s use in its continuing programs. Under the terms of the agreement with the City of Phoenix, the property is to be used for the contracted services for 20 years from the date of issuance of the Certificate of Completion, which occurred on October 1, 2003. Since inception of the forgivable loan, the \$180,000 obligation (see Note 5) has been reduced by \$156,000 and \$144,000 as of June 30, 2022 and 2021, respectively. The property is recorded at cost of approximately \$581,000 with accumulated depreciation of approximately \$363,000 and \$344,000 at June 30, 2022 and 2021, respectively.



# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

(5) **Note payable**

The Organization entered into a Construction Loan Contract (“Loan”), funded by the Community Development Block Grant (“CDBG”) Program on March 3, 2003, with the City of Phoenix. The Certificate of Completion was received from the City of Phoenix on October 1, 2003. The assistance was not to exceed \$180,000, and was used by the Organization for the acquisition of property. The CDBG Loan is secured by a 20-year lien on the real property. So long as the Organization complies with the grant restrictions, the Loan is forgivable in annual installments of \$12,000 beginning in year 6 through year 20 based on the effective date of the Loan, at a rate of 6.67% per year. If the Organization fails to comply with the grant restrictions, the Organization will be required to repay the current balance of the note on demand.

The outstanding balance will be forgiven in future periods as follows:

**Years Ending June 30:**

2023	\$	12,000
2024		<u>12,000</u>
Total	\$	<u>24,000</u>

(6) **Net assets with donor restrictions**

During 2000, the Organization received \$10,000 to establish an endowed charitable fund. The interest and dividend earnings are to be used to support services for families of adopted children with special needs. These funds are subject to restriction in perpetuity. The Organization did not have any other net assets with donor restrictions at June 30, 2022 and 2021.

During the years ended June 30, 2022 and 2021, the Organization released \$0 and \$30,000, respectively, of net assets with donor restrictions based on the cash received in satisfaction of pledges receivable and by incurring expenses satisfying the restricted purposes.

(7) **Pension plan**

The Organization sponsors a 401(k) plan covering eligible employees. The Organization currently matches 100% of the participants' contributions for the first 4% of the participants' compensation. Contributions made by the Organization were approximately \$95,900 and \$98,000 for the years ended June 30, 2022 and 2021, respectively.

**AID TO ADOPTION OF SPECIAL KIDS/ARIZONA  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

**(8) Leases**

The Organization leases office equipment under operating lease agreements expiring through October 2024. Minimum future rental payments under noncancelable operating leases with remaining terms in excess of one year are as follows:

**Years Ending June 30:**

2023	\$	4,730
2024		3,979
2025		<u>1,326</u>
Total	\$	<u>10,035</u>

Total rental expense under operating leases with a term in excess of one month was \$9,746 in 2022 and \$10,395 in 2021. 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) Contributions**

Contributions consisted of the following:

	<u>2022</u>	<u>2021</u>
Grants and foundations	\$ 487,817	\$ 379,589
Individual and civic donors	1,528,644	1,337,698
United Way and donor giving campaigns	248,445	187,219
Corporate donors	<u>5,481</u>	<u>25,550</u>
Total contributions	<u>\$ 2,270,387</u>	<u>\$ 1,930,056</u>

**(10) Fair value measurement**

The following table summarizes the valuation of the Organization's assets and liabilities by the above FASB ASC 820 categories as of June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Negotiable certificates of deposit	\$ -	\$ 498,284	\$ -

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

**(10) Fair value measurement (continued)**

The following table summarizes the valuation of the Organization's assets and liabilities by the above FASB ASC 820 categories as of June 30, 2021:

	Level 1	Level 2	Level 3
Negotiable certificates of deposit	\$ -	\$ 1,200,996	\$ -
US treasury bonds	-	9,192,709	-
Corporate bonds	-	992,000	-
Money market funds	11,282,357	-	-
Total	\$ 11,282,357	\$ 11,385,705	\$ -

The Organization holds no other assets or liabilities required to be measured at fair value on a recurring or nonrecurring basis.

**(11) Contingencies**

In the ordinary course of conducting its business, the Organization may periodically be a defendant in various legal proceedings. If there are any estimated loss contingencies in excess of amounts covered by business liability insurance such amounts would be included in accrued expenses. It is the best judgment of management that neither the consolidated financial position nor results of operations of the Organization will be materially affected by the final outcome of any known legal proceedings.

**(12) Risks and uncertainties**

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on government contracts/funders and donors, all of which are uncertain and cannot be predicted. Additionally, the outbreak could impact the Organization’s ability to receive contributions and collections of receivables. The pandemic has also negatively impacted U.S. and global financial markets and the Organization’s investments have experienced significant volatility.

In August 2020, the Organization applied for and received a forgivable Paycheck Protection Loan of \$1,216,600 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act. The loan contains forgiveness provisions based on the use of the proceeds for qualifying costs. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount bears interest at 1% and matures 5 years after receipt of the proceeds in August 2025. Monthly principal and interest payments are due beginning six months after receipt of the proceeds.

The Organization used the proceeds for eligible costs and the loan was forgiven on July 1, 2021. Upon receipt of the legal release from the obligation, the Organization recorded a gain on forgiveness of the loan in the amount of \$1,216,600 during the year ended June 30, 2022.

# AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2022  
(with comparative totals for the year ended June 30, 2021)

**(12) Risks and uncertainties (continued)**

During the year ended June 30, 2022, the Organization received a total of approximately \$383,000 in temporary incentive payments, of which 80% is required to be distributed to its employees by December 31, 2022. Effective December 2022, this distribution date was extended to February 28, 2023. As of June 30, 2022, the Organization had not incurred any qualifying expenses thus the entire amount is recorded as deferred revenue in the accompany consolidated balance sheet at June 30, 2022. Subsequent to June 30, 2022, the Organization received an additional \$259,000 in incentive payments.

**(13) Liquidity and availability of resources**

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

	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 4,757,390	\$ 3,831,935
Receivables, net	964,110	938,170
Pledges receivable, net	-	35,000
Investments	23,731,600	22,668,062
Endowment cash	15,065	15,061
Total financial assets	29,468,165	27,488,228
Less:		
Net assets with donor restrictions	(10,000)	(10,000)
Financial assets available to meet cash needs for general expenditure within one year	\$ 29,458,165	\$ 27,478,228

The Organization monitors its cash flows to ensure fulfillment of all obligations. The Organization's practice is to maintain balances in the operation accounts to support a minimum of 60 days of operations but no more than 120 days of operations.

As part of the Organization's liquidity management process, assets are managed to be available as operating expenses incurred become due. The Organization's Investment Policy for Excess Cash allows for cash in excess of the amount needed for current operations to be invested in highly liquid FDIC insured bank Certificates of Deposit or US government obligations to achieve a maturities ladder for these investments equally over a rolling five year period. Due to low yields on government backed securities, the Organization has moved certain investments into liquid, fully insured money market accounts.