AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2019

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CONTENTS

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

We have audited the accompanying consolidated financial statements of ***Aid to Adoption of Special Kids/Arizona and Subsidiaries***, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Aid to Adoption of Special Kids/Arizona and Subsidiaries*** as of June 30, 2019, 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.

Report on Summarized Comparative Information

We have previously audited ***Aid to Adoption of Special Kids/Arizona and Subsidiaries'*** 2018 consolidated financial statements, and our report dated November 15, 2018 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, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, ***Aid to Adoption of Special Kids/Arizona and Subsidiaries*** adopted Financial Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. Our opinion is not modified with respect to this matter.

Mayer Hoffman McCann P.C.

November 13, 2019

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019
(with comparative totals at June 30, 2018)

ASSETS

	2019	2018
CASH AND CASH EQUIVALENTS	$ 2,009,919	$ 3,664,137
INVESTMENTS	19,519,169	15,117,342
RECEIVABLES, net	1,210,576	1,594,826
PLEDGES RECEIVABLE, net	239,700	261,202
PREPAID EXPENSES AND OTHER ASSETS	32,803	72,965
PROPERTY AND EQUIPMENT, net	2,618,216	2,772,513
ENDOWMENT CASH	15,056	15,052
TOTAL ASSETS	$ 25,645,439	$ 23,498,037

LIABILITIES AND NET ASSETS

	2019	2018
NOTE PAYABLE	$ 60,000	$ 72,000
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	595,960	649,375
PAYABLE TO FUNDING SOURCE	114,228	-
TOTAL LIABILITIES	770,188	721,375
NET ASSETS		
Net assets without donor restrictions	24,595,551	22,475,460
Net assets with donor restrictions	279,700	301,202
TOTAL NET ASSETS	24,875,251	22,776,662
TOTAL LIABILITIES AND NET ASSETS	$ 25,645,439	$ 23,498,037

See Notes to Consolidated Financial Statements

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
SUPPORT AND REVENUES				
Government contracts	$ 8,389,410	$ -	$ 8,389,410	$ 8,928,873
Contributions	1,332,213	209,700	1,541,913	1,789,259
Fundraising event (net of direct donor benefits)	52,030	-	52,030	98,477
United Way and donor giving campaigns	302,620	-	302,620	183,338
Interest and dividend income	291,187	-	291,187	196,129
Realized and unrealized gains (losses) on investments	110,939	-	110,939	(37,107)
Other	28,500	-	28,500	9,875
Total support before net assets released from restrictions	10,506,899	209,700	10,716,599	11,168,844
Net assets released from restrictions	231,202	(231,202)	-	-
TOTAL SUPPORT AND REVENUES	10,738,101	(21,502)	10,716,599	11,168,844
EXPENSES				
Program services:				
Family Support Services	2,086,098	-	2,086,098	1,963,428
Specialized Foster Care	1,660,767	-	1,660,767	1,660,973
Regular Adoption & Foster Care	3,426,376	-	3,426,376	3,936,441
Community Funded Initiatives	329,764	-	329,764	331,841
Birth Parent Counseling	-	-	-	12,808
Total program services	7,503,005	-	7,503,005	7,905,491
Supporting services:				
Management and General	842,348	-	842,348	763,968
Fundraising	272,657	-	272,657	343,312
Total supporting services	1,115,005	-	1,115,005	1,107,280
TOTAL EXPENSES	8,618,010	-	8,618,010	9,012,771
CHANGE IN NET ASSETS	2,120,091	(21,502)	2,098,589	2,156,073
NET ASSETS, BEGINNING OF YEAR AS RESTATED	22,475,460	301,202	22,776,662	20,620,589
NET ASSETS, END OF YEAR	$ 24,595,551	$ 279,700	$ 24,875,251	$ 22,776,662

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	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	2019	2018
Payroll:									
Salaries - Full Time	$ 322,670	$ 301,046	$ 2,301,679	$ 188,917	$ 3,114,312	$ 471,879	$ 129,830	$ 3,716,021	$ 4,068,262
Salaries - Part Time	1,470,759	-	18,532	-	1,489,291	-	-	1,489,291	1,481,946
Payroll taxes	150,430	23,755	181,544	14,576	370,305	35,453	10,543	416,301	457,721
Benefits	31,567	9,177	107,194	10,544	158,482	23,541	4,709	186,732	193,487
Retirement	16,442	8,414	42,588	3,919	71,363	9,800	3,497	84,660	87,064
Total payroll	1,991,868	342,392	2,651,537	217,956	5,203,753	540,673	148,579	5,893,005	6,288,480
Family related services	-	1,242,037	241,099	68,004	1,551,140	-	8,359	1,559,499	1,659,814
Professional services	-	13,295	15,872	300	29,467	88,299	-	117,766	110,569
Occupancy	14,608	11,424	135,577	10,342	171,951	22,571	9,094	203,616	179,499
Advertising	-	-	6,114	-	6,114	-	49,279	55,393	102,235
Bad debts (recoveries)	36,092	15,627	40,119	-	91,838	-	-	91,838	(55,996)
Travel	3,620	14,235	108,275	11,422	137,552	2,446	1,995	141,993	146,291
Communications	3,571	6,179	37,213	3,539	50,502	4,389	2,150	57,041	74,510
Printing and copying	5,006	1,300	9,552	570	16,428	549	1,850	18,827	20,942
Office and general supplies	4,667	3,346	41,673	3,075	52,761	26,954	11,555	91,270	54,746
Postage and shipping	575	127	2,049	24	2,775	1,293	933	5,001	12,134
Insurance	-	102	-	-	102	114,611	-	114,713	109,210
Employee Recruitment, Training and Retention	13,938	2,013	34,811	6,555	57,317	1,960	4,723	64,000	54,049
Depreciation	11,103	8,690	102,418	7,977	130,188	17,186	6,923	154,297	212,886
Other	1,050	-	67	-	1,117	21,417	27,217	49,751	43,402
TOTAL FUNCTIONAL EXPENSES	$ 2,086,098	$ 1,660,767	$ 3,426,376	$ 329,764	$ 7,503,005	$ 842,348	$ 272,657	$ 8,618,010	$ 9,012,771

See Notes to Consolidated Financial Statements

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2019
(with comparative totals for the year ended June 30, 2018)

	2019	2018
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 2,098,589	$ 2,156,073
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts (recoveries)	91,838	(55,996)
Gain on forgiveness of note payable	(12,000)	(12,000)
Realized and unrealized (gains) losses on investments	(110,939)	37,107
Depreciation	154,297	212,886
Changes in discounts on pledges receivable	(4,998)	(662)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	292,412	(91,925)
Pledges receivable	26,500	(30,689)
Prepaid expenses and other assets	40,162	(12,849)
Increase (decrease) in:		
Accounts payable and accrued expenses	(53,415)	16,913
Payable to funding source	114,228	-
Net cash provided by operating activities	2,636,674	2,218,858
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(13,105)
Purchases of investments	(17,822,068)	(6,905,117)
Proceeds from maturities of investments	13,531,180	4,709,000
Net cash used in investing activities	(4,290,888)	(2,209,222)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(1,654,214)	9,636
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	3,679,189	3,669,553
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	$ 2,024,975	$ 3,679,189

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES

The Organization received $12,000 of forgiveness of debt for the years ended June 30, 2019 and 2018.

	2019	2018
Cash and cash equivalents	$ 2,009,919	$ 3,664,137
Endowment cash	15,056	15,052
	$ 2,024,975	$ 3,679,189

(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 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 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.

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, 2018 from which the summarized information was derived.

(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 its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities* and FASB ASC 958-325, *Not-for-Profit Entities – Investments – Other*. Under FASB ASC 958-320, the Organization is required to report investments in equity securities that have readily determinable fair values and all investments in 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. Negotiable certificates of deposit are valued using proprietary valuation models incorporating live data from active market makers and inter-dealer brokers as reported on electronic communication networks. The valuation models incorporate benchmark yields, reported trades, broker/dealer quotes, bids, offers, and other data. Under FASB ASC 958-325, certificates of deposit investments that are not debt securities are stated at amortized cost, which approximates fair value. Investments in money market funds are measured at fair value based on quoted market prices.

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.

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

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:

	Estimated Useful Lives
Building	30 years
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, 2019 and 2018.

Revenue recognition – The major source of support and revenue for the Organization is received under government contracts from the Arizona Department of Child Safety ("DCS") and Department of Economic Security Department of Developmental Disabilities ("DDD"). Revenues are recognized as actual expenditures are incurred and services are provided in accordance with the contracts and grants and their approved budgets. The 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 DCS and DDD contracts represented approximately 70% and 72% of total government contracts revenue for the years ended June 30, 2019 and 2018, respectively. Additionally, one other contract represented 12.6% of total government contract for the year ended June 30, 2019. And a different contract represented 12% of total government contracts for the year ended June 30, 2018. If these contracts are not renewed or are otherwise lost, the Organization's operations would be significantly impacted.

Program revenues from respite and adoption fees are recognized when the related services are performed. Revenue received in advance is recorded in deferred revenue in the accompanying consolidated statement of financial position.

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

(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.

Special events revenue – 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 event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The revenue is presented net of the direct costs of the special event which ultimately benefit the donor rather than the Organization in the accompanying consolidated statement of activities. Direct donor benefits for special events totaled $1,215 and $308 for 2019 and 2018, respectively.

Donated materials and services – 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.

Functional expenses – The 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:

Expense	Allocation method
Family related services	Number of kids in care
Occupancy, Communications, Printing and Copying, Depreciation	Number of employees

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was $55,393 and $102,235 for the years ended June 30, 2019 and 2018, respectively.

(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 its 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 2016, 2017 and 2018 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 2019 Form 990 has not been filed.

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

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

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* ASU 2018-08 is intended to clarify current guidance about whether a transfer of assets is a contribution of an exchange transaction. ASU 2018-08 is intended to clarify current guidance about whether a transfer of assets is a contribution of an exchange transaction. ASU 2018-08 is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The update is intended to be applied on a modified prospective basis, but retrospective application is permitted. The Organization is currently evaluating the full effect that the adoption will have on the consolidated financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02 – *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the 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, 2020. Early adoption is permitted. The Organization is currently evaluating the effect that the adoption of this standard will have on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of the amendments in ASU 2016-01 as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, is permitted for all entities that are not public business entities. The Organization is currently evaluating the effect that the adoption of this standard will have on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments of the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization adopted ASU 2016-18 in 2019 and accordingly, to conform to the current year presentation, reclassified cash held for endowment to be included in the total of cash and cash equivalents in the accompanying consolidated statement of cash flows. The following table summarizes the effects related to the adoption of ASU 2016-18 for the year ended June 30, 2018:

	June 30, 2018	
	As reported	**As adjusted**
Net cash used in investing activities	$ 2,209,227	$ 2,209,222
Net change in cash, cash equivalents, and restricted cash	$ 9,631	$ 9,636
Cash, cash equivalents, and restricted cash, beginning of period	$ 3,654,506	$ 3,669,553
Cash, cash equivalents, and restricted cash, end of period	$ 3,664,137	$ 3,679,189

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

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. The Organization adopted ASU 2016-14 in 2019.

In accordance with the amendments of this ASU, the Organization expanded disclosures around functional expenses and disclosed the liquidity and availability of resources. For the disclosures around liquidity and availability of resources, the Organization has elected not to present comparative information in the year of adoption as permitted by this ASU.

A summary of the beginning net asset reclassifications driven by the adoption of ASU No. 2016-14 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Without donor restrictions**	**With donor restrictions**	**Total net assets**
As previously classified:			
Unrestricted	$ 22,475,460	$ -	$ 22,475,460
Temporarily Restricted	-	291,202	291,202
Permanently Restricted	-	10,000	10,000
Net assets, as reclassified	$ 22,475,460	$ 301,202	$ 22,776,662

Subsequent events – The Organization has evaluated subsequent events through November 13, 2019 which is the date the consolidated financial statements were available to be issued.

(2) Investments

Investments consisted of the following as of June 30:

	2019	2018
Negotiable certificates of deposit (fair value)	$ 2,799,134	$ 10,565,050
US treasury bonds	16,720,035	4,534,221
Money market funds	-	18,071
Total investments	$ 19,519,169	$ 15,117,342

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, 2019 and 2018, the negotiable certificates of deposit are in individual amounts such that they are covered by FDIC insurance.

(3) Receivables

Receivables consisted of the following as of June 30:

	2019	2018
State contracts	$ 1,427,754	$ 1,704,255
Adoption fees	27,440	18,377
Other	5,270	50,409
Total receivables	1,460,464	1,773,041
Allowance for doubtful accounts	(249,888)	(178,215)
Net receivables	$ 1,210,576	$ 1,594,826

Three state contracts comprise approximately 68% of gross contracts receivable as of June 30, 2019, and three state contracts comprise approximately 59% of gross contracts receivable as of June 30, 2018.

Claims submitted under state contracts are recorded in support and revenues from government contracts in the accompanying statement of activities at the date services are performed although they are subject to a claims adjudication process by the Regional Behavioral Health Authority ("RBHA"). Claims related to state contracts which had not been fully adjudicated by the RHBA were $126,089 as of June 30, 2018. Management believes these claims will be favorably adjudicated.

As of June 30, 2019, the Organization reported less than the minimum number of encounters as stipulated in their contract with the RHBA's, and recorded a payable to funding sources of $114,228 representing potential amounts due to Mercy Care RBHA for the under-encounters.

(4) Pledges receivable

Pledges receivable consist of the following as of June 30:

	2019	2018
Receivable in less than one year	$ 239,700	$ 174,129
Receivable in two to five years	-	92,071
Total pledges receivable	239,700	266,200
Discounts to present value	-	(4,998)
Net pledges receivable	$ 239,700	$ 261,202

The estimated cash flow for pledges receivable are discounted over the collection period using a discount rate of 6.00%.

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 uncollectable pledges receivable had not been provided as of June 30, 2019 or 2018. Two donors comprised 100% of the gross pledges receivable balance at both June 30, 2019 and 2018.

(5) Property and equipment

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

	2019	2018
Cost and donated value:		
Building	$ 3,531,001	$ 3,531,001
Building improvements	706,163	706,163
Furniture and equipment	523,313	523,313
Total cost and donated value	4,760,477	4,760,477
Accumulated depreciation	(2,142,261)	(1,987,964)
Net property and equipment	$ 2,618,216	$ 2,772,513

Depreciation expense charged to operations was $154,297 and $212,886 for the years ended June 30, 2019 and 2018, 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 6) has been reduced by approximately $120,000 and $108,000 as of June 30, 2019 and 2018, respectively. The property is recorded at cost of approximately $581,000 with accumulated depreciation of approximately $305,000 and $286,000 at June 30, 2019 and 2018, respectively.

(6) 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:	
2020	$ 12,000
2021	12,000
2022	12,000
2023	12,000
2024	12,000
Total	$ 60,000

(7) Net assets with donor restrictions

Net assets with donor restrictions are restricted for purposes or periods as follows at June 30:

	2019	2018
Subject to expenditure for a specified purpose	$ 269,700	$ 291,202
Subject to restriction in perpetuity	10,000	10,000
Total net assets with donor restrictions	$ 279,700	$ 301,202

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.

During the years ended June 30, 2019 and 2018, the Organization released $231,202 and $264,251, 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.

(8) 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 $84,700, and $87,100 for the years ended June 30, 2019 and 2018, respectively.

(9) Leases

The Organization leases office equipment under operating lease agreements expiring through August 2022. Minimum future rental payments under noncancelable operating leases with remaining terms in excess of one year are as follows:

Years Ending June 30:	
2020	$ 4,503
2021	4,503
2022	4,503
2023	375
Total	$ 13,884

Total rental expense under operating leases with a term in excess of one month was $3,096 in 2019 and $6,396 in 2018. No renewal options are provided for in the leases; however, in the normal course of business, operating leases are generally renewed or replaced by other leases.

(10) Contributions

Contributions consisted of the following:

	2019	2018
Grants and foundations	$ 375,246	$ 562,545
Individual and civic donors	1,155,509	1,226,464
Corporate donors	11,158	250
Total contributions	$ 1,541,913	$ 1,789,259

One donor comprised 13% and 12% of contributions for the years ended June 30, 2019 and 2018, respectively.

(11) Fair value measurements

The following table summarizes the valuation of the Organization's assets and liabilities by the above FASB ASC 820 categories as of June 30, 2019:

	Level 1	Level 2	Level 3
Negotiable certificates of deposit	$ -	$ 2,799,134	$ -
US treasury bonds	-	16,720,035	-
Total	$ -	$ 19,519,169	$ -

The following table summarizes the valuation of the Organization's assets and liabilities by the above FASB ASC 820 categories as of June 30, 2018:

	Level 1	Level 2	Level 3
Negotiable certificates of deposit	$ -	$ 10,565,050	$ -
US treasury bonds	-	4,534,221	-
Money market funds	18,071	-	-
Total	$ 18,071	$ 15,099,271	$ -

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

(12) Contingencies

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

(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:

Cash and cash equivalents	$	2,009,919
Receivables, net		1,210,576
Pledges receivable, net		239,700
Investments		19,519,169
Endowment cash		15,056
Total financial assets	$	22,994,420
Less:		
Net assets with donor restrictions		(279,700)
Financial assets available to meet cash needs for general expenditure within one year	$	22,714,720

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.