# CHILDREN'S CLINICS FOR REHABILITATIVE SERVICES
# DBA CHILDREN'S CLINICS

## YEARS ENDED JUNE 30, 2020 AND 2019

**CHILDREN'S CLINICS FOR REHABILITATIVE SERVICES DBA CHILDREN'S CLINICS**

**YEARS ENDED JUNE 30, 2020 AND 2019**

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BeachFleischman

Independent Auditors' Report

Board of Directors and Management
Children's Clinics for Rehabilitative Services dba Children's Clinics
Tucson, Arizona

We have audited the accompanying financial statements of Children's Clinics for Rehabilitative Services dba Children's Clinics (the Organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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



BeachFleischman PC • beachfleischman.com
1985 E. River Rd., Suite 201, Tucson, AZ 85718-7176 • 520.321.4600
2201 E. Camelback Rd., Suite 200, Phoenix, AZ 85016-3431 • 602.265.7011

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Clinics for Rehabilitative Services dba Children's Clinics as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BeachFleischman PC

Tucson, Arizona
December 8, 2020

**CHILDREN'S CLINICS FOR REHABILITATIVE SERVICES DBA CHILDREN'S CLINICS**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2020 AND 2019**

**ASSETS**

| | 2020 | 2019 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 2,356,879 | $ 1,694,586 |
| Investments | 4,138,736 | 3,997,515 |
| Patient accounts receivable | 1,748,246 | 2,345,459 |
| Other current assets | 194,283 | 189,747 |
| Total current assets | 8,438,144 | 8,227,307 |
| Equipment and leasehold improvements, net | 2,319,810 | 898,082 |
| Total assets | $ 10,757,954 | $ 9,125,389 |

**LIABILITIES AND NET ASSETS**

| | 2020 | 2019 |
|---|---|---|
| Current liabilities: | | |
| Note payable, bank | $ 1,496,909 | $ - |
| Accounts payable | 349,112 | 389,857 |
| Advances from providers | 400,000 | 605,000 |
| Accrued employee compensation | 534,859 | 470,567 |
| Other accrued expenses | 34,490 | 84,769 |
| Deferred revenue | 209,512 | 7,877 |
| Total current liabilities | 3,024,882 | 1,558,070 |
| Commitments and contingencies | | |
| Net assets: | | |
| Net assets without donor restrictions: | | |
| Invested in equipment and leasehold improvements | 2,319,810 | 898,082 |
| Undesignated | 5,413,262 | 6,669,237 |
| Total net assets | 7,733,072 | 7,567,319 |
| Total liabilities and net assets | $ 10,757,954 | $ 9,125,389 |

**CHILDREN'S CLINICS FOR REHABILITATIVE SERVICES DBA CHILDREN'S CLINICS**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED JUNE 30, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| Revenues and other support, without donor restrictions: | | |
| Patient service revenue | $ 9,194,439 | $ 10,531,680 |
| Other revenues | 1,769,054 | 170,988 |
| Investment income, net | 159,028 | 296,851 |
| Donated facility | 736,528 | 734,602 |
| Donated services | 6,113 | 8,738 |
| Contributions | 136,677 | 118,457 |
| | 12,001,839 | 11,861,316 |
| Expenses: | | |
| Program | 10,452,923 | 10,517,108 |
| Administrative and operating | 1,332,752 | 1,212,759 |
| Fundraising | 50,411 | 52,882 |
| | 11,836,086 | 11,782,749 |
| Change in net assets without donor restrictions | 165,753 | 78,567 |
| Net assets without donor restrictions, beginning | 7,567,319 | 7,488,752 |
| Net assets without donor restrictions, ending | $ 7,733,072 | $ 7,567,319 |

See notes to financial statements.

**CHILDREN'S CLINICS FOR REHABILITATIVE SERVICES DBA CHILDREN'S CLINICS**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2020**

| | Program | Administrative and operating | Fundraising | Total expenses |
|---|---|---|---|---|
| Salaries and benefits | $ 6,749,483 | $ 864,484 | $ 29,716 | $ 7,643,683 |
| Depreciation and amortization | 163,650 | 88,119 | - | 251,769 |
| Facility and facility insurance | 116,903 | 28,796 | - | 145,699 |
| Facility rent | 686,256 | 73,548 | - | 759,804 |
| Fees | 132,439 | 62,266 | 1,397 | 196,102 |
| Physician and other professional | 50,224 | 15,860 | - | 66,084 |
| Professional care of patients | 1,177,989 | - | - | 1,177,989 |
| Other | 35,243 | 15,165 | 6,750 | 57,158 |
| Outside services | 236,319 | 33,979 | 4,869 | 275,167 |
| Outreach | 154,540 | 14,688 | - | 169,228 |
| Repairs and maintenance | 292,544 | 85,033 | 2,400 | 379,977 |
| Supplies | 457,210 | 18,721 | 4,869 | 480,800 |
| Travel | 20,580 | 9,216 | 410 | 30,206 |
| Utilities | 179,543 | 22,877 | - | 202,420 |
| | $ 10,452,923 | $ 1,332,752 | $ 50,411 | $ 11,836,086 |

See notes to financial statements.

**CHILDREN'S CLINICS FOR REHABILITATIVE SERVICES DBA CHILDREN'S CLINICS**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2019**

| | Program | Administrative and operating | Fundraising | Total expenses |
|---|---|---|---|---|
| Salaries and benefits | $ 6,516,847 | $ 785,335 | $ 27,936 | $ 7,330,118 |
| Depreciation and amortization | 149,744 | 77,141 | - | 226,885 |
| Facility and facility insurance | 113,120 | 25,821 | - | 138,941 |
| Facility rent | 684,240 | 75,141 | - | 759,381 |
| Fees | 126,930 | 48,826 | - | 175,756 |
| Physician and other professional | 50,224 | 15,860 | - | 66,084 |
| Professional care of patients | 1,287,367 | - | - | 1,287,367 |
| Other | 51,224 | 13,450 | 7,822 | 72,496 |
| Outside services | 224,488 | 25,532 | 4,235 | 254,255 |
| Outreach | 136,116 | 11,630 | - | 147,746 |
| Repairs and maintenance | 286,308 | 80,065 | 2,400 | 368,773 |
| Supplies | 685,998 | 16,555 | 10,370 | 712,923 |
| Travel | 39,832 | 16,278 | 119 | 56,229 |
| Utilities | 164,670 | 21,125 | - | 185,795 |
| | $ 10,517,108 | $ 1,212,759 | $ 52,882 | $ 11,782,749 |

**CHILDREN'S CLINICS FOR REHABILITATIVE SERVICES DBA CHILDREN'S CLINICS**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets without donor restrictions | $ 165,753 | $ 78,567 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 251,769 | 226,885 |
| Loss on disposal of assets | - | 4,750 |
| Net realized gains on investments | (24,091) | (107,075) |
| Net unrealized gains on investments | (19,049) | (82,682) |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | 597,213 | (976,402) |
| Other current assets | (4,536) | (13,447) |
| Accounts payable | (40,745) | 19,812 |
| Advances from providers | (205,000) | 605,000 |
| Accrued employee compensation | 64,292 | 65,003 |
| Other accrued expenses | (50,279) | 6,286 |
| Deferred revenue | 201,635 | (3,664) |
| Total adjustments | 771,209 | (255,534) |
| Net cash provided by (used in) operating activities | 936,962 | (176,967) |
| Cash flows from investing activities: | | |
| Purchases of investments | (1,074,163) | (1,490,567) |
| Proceeds from sales of investments | 976,082 | 2,107,489 |
| Purchases of equipment and leasehold improvements | (1,673,497) | (409,676) |
| Net cash provided by (used in) investing activities | (1,771,578) | 207,246 |
| Cash flows from financing activities: | | |
| Net borrowings on note payable, bank | 1,496,909 | - |
| Net cash provided by financing activities | 1,496,909 | - |
| Net increase in cash and equivalents | 662,293 | 30,279 |
| Cash and cash equivalents, beginning | 1,694,586 | 1,664,307 |
| Cash and cash equivalents, ending | $ 2,356,879 | $ 1,694,586 |

See notes to financial statements.

1. Description of organization and summary of significant accounting policies:

Description of organization:

Children's Clinics for Rehabilitative Services dba Children's Clinics (Children's Clinics or Organization) is an Arizona not-for-profit corporation located in Tucson, Arizona. Children's Clinics was incorporated in June 1990 and initially formed by three corporations. Two of these corporations are corporate members (Members) and all have representation on the Board of Directors (the Board) of Children's Clinics. The Organization's viability is dependent upon the strength of the health care industry and its payors, and the Organization's ability to collect its receivables from third-party payors and patients.

Children's Clinics provides health care services to members of Children's Rehabilitative Services (CRS), a state program in southern Arizona, under subprovider agreements with UnitedHealthcare Insurance Company (UHC), Banner University Health Plans (Banner), and Health Net of Arizona, Inc. dba Arizona Complete Health (ACH). These services are provided to CRS enrollees through a contracted network of providers that includes the Organization, Banner University Medical Center (BUMC), Community Providers and TMC HealthCare (TMC). The Organization also provides health care services to non CRS members.

Basis of presentation:

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the AICPA Audit and Accounting Guide, *Health Care Entities*.

Estimates:

The preparation of financial statements in conformity with 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 financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Adoption of new accounting standards:

In June 2018, the FASB issued ASU No. 2018-08, "Not-for-Profit Entities (Topic 958)". The update clarifies the scope and accounting guidance for contributions received and contributions made. Effective July 1, 2019, the Organization adopted ASU 2018-08 utilizing the retrospective method. The Organization's revenue recognition practices for contributions under Topic 958 do not differ significantly from prior practices. Therefore, no changes were required to previously reported revenues as a result of the adoption and a retrospective analysis of account balance changes was not required.

1. Description of organization and summary of significant accounting policies (continued):

Adoption of new accounting standards (continued):

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." Topic 606 and all related Accounting Standards Updates supersedes previous revenue recognition requirements and establishes a core principle requiring the recognition of revenue to depict the transfer of care to its patients in an amount reflecting the consideration to which the entity expects to be entitled in exchange for providing those services. These amounts are due from patients, third-party payors (including insurers and government programs) and others and include variable consideration (reductions to revenue) for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews and investigations. Upon adoption, the revenue reported includes an implicit price concession which was previously reported as allowance for uncollectible accounts in the accompanying consolidated statements of activities and functional expenses. The new rule requires an entity to (1) identify the contract, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue based on a point in time or over time.

Effective July 1, 2019, the Organization adopted Topic 606 utilizing the full retrospective method. Under the full retrospective method, the standard was applied to each prior reporting period presented. In implementing Topic 606, the Organization was required to recalculate the revenue earned from providing services to patients in progress at the implementation date and to restate the revenues as if Topic 606 had been followed from the inception of the services. The Organization's revenue recognition practices under Topic 606 do not differ significantly from prior practices. Since no material differences were calculated, no retrospective analysis of patient service revenues was required.

Practical expedients and exemptions:

Upon the adoption of Topic 606, the Organization utilized certain permitted practical expedients and exemptions as follows:

- The portfolio approach was used to evaluate a portfolio of patient contracts with similar characteristics because it was determined that the effects of applying this method to the portfolio of patient contracts would produce the same results as if each contract in the portfolio was evaluated through the five-step approach individually. Based on historical collection trends and other analyses, the Organization believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

- The transaction price is not adjusted for the effects of a significant financing component if the Organization expects that the period between when the Organization provides services to patients and others and when the patient or third-party payors for that service will be one year or less, at the inception of the service. The Organization at times receives payments from third parties in excess of a year from the date of service. For those cases, the financing component is not deemed to be significant to the contract.

1. Description of organization and summary of significant accounting policies (continued):

Patient service revenue:

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. The majority of the Organization's services are provided under the subprovider agreements with UHC, Banner and ACH. Generally, the Organization bills patients and third-party payors within several days after the services are performed. Revenue is recognized as the performance obligations are satisfied. The Organization uses a portfolio approach to account for categories of patient contracts, in lieu of recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for outpatient revenues.

Performance obligations are determined based on the nature of the services provided by the Organization. All of the Organization's patient service revenues are outpatient in nature and are satisfied at a point in time. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Organization does not believe it is required to provide additional services under the transaction.

The Organization's initial estimate of the transaction price for services provided to patients is recognized at the amount of net consideration the Organization expects to be entitled to in exchange for providing patient care. This transaction price is derived as the sum of the standard charges for services provided, reduced by various elements of variable consideration, including contractual adjustments provided to third-party payors, discounts, implicit price concessions and other adjustments to our standard charges. Variable consideration is generally estimated using the expected value method. The Organization estimates explicit price concessions based on contractual agreements, discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with applicable patient portfolios. Subsequent changes to the estimate of the transaction price are recorded as adjustments to revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Patients who meet the Organization's criteria for charity care are provided care without charge or at amounts less than established rates. Amounts that are determined to qualify as charity care are not reported as revenue.

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from their established rates. These payment arrangements include:

Arizona Health Care Cost Containment System (AHCCCS) – Outpatient services rendered to AHCCCS program beneficiaries are reimbursed on prospectively determined per-visit amounts. Final determination of amounts reimbursed is subject to review by appropriate governmental authorities or their agents.

1. Description of organization and summary of significant accounting policies (continued):

Patient service revenue (continued):

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Other third-party payors – The Organization has also entered into payment agreements with other commercial insurance carriers and managed care organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are primarily affected by the payors. Patient service revenue by payor is as follows:

| | 2020 | 2019 |
|---|---|---|
| AHCCCS/Medicare | $ 8,487,736 | $ 9,514,788 |
| Commercial and other | 680,911 | 982,920 |
| Self pay | 25,792 | 33,972 |
| | $ 9,194,439 | $ 10,531,680 |

Contributions:

Unconditional promises to give cash and other assets to Children's Clinics are reported at fair value at the date the promise is received. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying statements of activities.

Cash and cash equivalents:

Children's Clinics considers all highly liquid debt instruments with an original purchased maturity of three months or less to be cash equivalents.

Children's Clinics places its cash and cash equivalents with various credit institutions. At times, such investments may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

1. Description of organization and summary of significant accounting policies (continued):

Patient accounts receivable:

The Organization grants unsecured credit to its patients and other third-party payors without interest. Accounts receivable are considered past due after 90 days. The Organization records contract assets in the form of estimated unbilled patient accounts receivable and third-party payor settlements that represent the Organization's unconditional right to consideration in exchange for the services they have transferred to a patient, but for which: (a) the patient or third-party payor has not paid, (b) payment is not yet due and (c) the Organization cannot yet bill the patient or third-party payor. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Investments and investment income:

Investments are measured at fair value in the statements of financial position. Investment income or loss (including realized gains and losses on investments) is included in other revenues in revenues and other support in the accompanying statements of activities. Net unrealized gains or losses on investments are recognized as a separate component of the change in unrestricted net assets.

Fair value measurements:

Fair value is defined as the price to sell an asset or transfer a liability between market participants in an orderly exchange in the principal or most advantageous market for that asset or liability. The fair value for qualifying alternative investments is determined based on the investment's net asset value as a practical expedient. Considerable judgment is required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in the financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value.

Equipment, leasehold improvements, depreciation and amortization:

Expenditures for major improvements or items that benefit future periods are capitalized at cost, if purchased, or at fair market value at date of gift, if donated. Expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years.

Net assets:

Net assets, support, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions.

1. Description of organization and summary of significant accounting policies (continued):

Net assets (continued):

- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional expenses:

Expenses other than hospital and physician expenses are allocated as program or administrative and operating expense based on the portion of administrative salaries and benefits. The allocation for 2020 and 2019 was 63% to hospital and physician and 34% to administrative and operating. Expenses that are specific to the program are not allocated.

Income taxes:

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation. The Organization is also exempt for state purposes. Accordingly, no income tax provision is made in the financial statements. Income from certain activities not directly related to Children's Clinic's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as administrative and operating expenses, if they occur.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to June 30, 2020 through December 8, 2020, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions, or internal designations.

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | $ 2,356,879 | $ 1,694,586 |
| Investments | 4,138,736 | 3,997,515 |
| Accounts receivable, net | 1,748,246 | 2,345,459 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 8,243,861 | $ 8,037,560 |

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a line of credit in the amount of $2,000,000 that it could draw upon as needed. At June 30, 2020 and 2019, the Organization had an outstanding balance of $1,496,909 on this line. There was no balance on the line at June 30, 2019.

3. Investments:

The market value of investments is as follows:

| | 2020 | 2019 |
|---|---|---|
| Mutual funds - equities | $ 3,018,971 | $ 3,092,835 |
| Mutual funds - fixed income | 1,119,765 | 904,680 |
| | $ 4,138,736 | $ 3,997,515 |

Net investment income consists of the following:

| | 2020 | 2019 |
|---|---|---|
| Interest and dividends | $ 115,888 | $ 107,094 |
| Net realized gains | 24,091 | 107,075 |
| Net unrealized gains | 19,049 | 82,682 |
| | $ 159,028 | $ 296,851 |

4. Fair value measurements:

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets or active markets that the Organization does not have access to;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At June 30, 2020, the fair value of assets measured on a recurring basis is as follows:

| | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Mutual funds: | | | | |
| Equity, U.S. | $ 2,107,760 | $ 2,107,760 | $ - | $ - |
| Equity, International | 911,211 | 911,211 | - | - |
| Fixed income | 1,119,765 | 1,119,765 | - | - |
| | $ 4,138,736 | $ 4,138,736 | $ - | $ - |

At June 30, 2019, the fair value of assets measured on a recurring basis is as follows:

| | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Mutual funds: | | | | |
| Equity, U.S. | $ 1,830,595 | $ 1,830,595 | $ - | $ - |
| Equity, International | 1,262,240 | 1,262,240 | - | - |
| Fixed income | 904,680 | 904,680 | - | - |
| | $ 3,997,515 | $ 3,997,515 | $ - | $ - |

4. Fair value measurements (continued):

The assets in the preceding tables were measured primarily using the market approach. The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds are valued at the closing price reported in the active market in which the individual securities are traded.

5. Equipment and leasehold improvements:

| | 2020 | 2019 |
|---|---|---|
| Equipment and software | $ 4,355,453 | $ 4,013,595 |
| Leasehold improvements | 1,652,518 | 271,601 |
| Work in progress | - | 49,277 |
| | 6,007,971 | 4,334,473 |
| Less accumulated depreciation and amortization | 3,688,161 | 3,436,391 |
| | $ 2,319,810 | $ 898,082 |

6. Note payable, bank:

The Organization has a $2,000,000 revolving line of credit with JPMorgan Chase Bank with no specified maturity date. Monthly interest payments are due at the LIBOR rate (0.2% at June 30, 2020) plus 1.9%. The line is collateralized by the Organization's investments and subject to certain nonfinancial covenants. The Organization had an outstanding balance related to this line of credit at June 30, 2020 of $1,496,909.

At June 30, 2019, the Organization had a $500,000 revolving line of credit with JPMorgan Chase Bank. Monthly interest payments were due at the prime rate (5.5% at June 30, 2019) plus 1.07%. The line was collateralized by substantially all assets of the Organization and subject to certain nonfinancial covenants. The Organization did not have an outstanding balance related to this line of credit at June 30, 2019.

7. Advances from providers:

Children's Clinics has recorded advances received from ACH and Banner due to delays in processing the Organization's claims. The amounts are unsecured and noninterest bearing. The balance due to Banner and ACH at June 30, 2019 was $605,000. The Organization repaid amounts owed to Banner in full during 2020. At June 30, 2020, the balance due to ACH is $400,000. In August 2020, the Organization signed an agreement with ACH to repay the amounts due in equal payments of $66,700 through February 2021.

8. Commitments and contingencies:

COVID-19:

The COVID-19 outbreak in the United States has caused business disruption. The extent of the COVID-19 impact on operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on patients, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 has impacted the financial statements is limited.

Paycheck Protection Program (PPP) loan:

In April 2020, the Organization was granted an unsecured PPP loan from Chase Bank in the amount of $1,589,672, pursuant to the CARES Act and the PPP Flexibility Act (the Acts). The loan bears interest at a rate of 1%. The Acts defer repayment of principal and interest to the earlier of the date of loan forgiveness or ten months after the last day of the chosen covered period. Under the terms of the PPP, certain amounts of the loans may be forgiven if they are used for covered expenses as described in the Acts. The Organization plans to use the entire loan amount for covered expenses. Under the PPP program, the Small Business Administration (SBA) may undertake an audit of a loan of any size. The audit would include the loan forgiveness application as well as whether the Organization met the eligibility requirements of the program and received the proper loan amount. The Organization has not applied for forgiveness as of December 8, 2020.

The Organization accounts for the PPP loan as a conditional contribution in accordance with ASC 958-605. The contribution is conditional based on the Organization incurring covered expenses, maintaining employee count, and limiting salary reductions. During 2020, the Organization recorded $1,589,672 as other supporting revenues based on its assessment of conditions that have been substantially met.

Operating leases:

Children's Clinics leases a building from Square and Compass, a related party with representation on the Board. The terms of the lease provide for annual payments of $1 through 2040 for all areas of the building used by the Organization, an amount below fair market value. Monthly rent for other areas of the building is determined on an annual basis, at fair market value rates. Children's Clinics is also required to pay all taxes and assessments, utilities, insurance, and property and facility maintenance. Donated facility revenue and rent expense of $736,528 and $734,602 for 2020 and 2019 have been recognized at fair market value for the portion of the building used in connection with patient and supporting services.

8. Commitments and contingencies (continued):

Compliance with laws and regulations:

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse regulations. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that Children's Clinics is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

9. Related parties:

Total expenses and amounts payable with related parties were as follows:

| | Expenses | Accounts payable |
|---|---|---|
| **2020** | | |
| BUMC | $ 717,557 | $ 69,080 |
| TMC | 341,568 | 25,996 |
| Square and Compass, other than rent | 23,276 | 1,217 |
| **2019** | | |
| BUMC | $ 754,297 | $ 66,488 |
| TMC | 327,757 | 26,785 |
| Square and Compass, other than rent | 24,779 | 1,437 |

Children's Clinics received $62,364 and $64,890 in contributions for 2020 and 2019 from Square and Compass, a related party, primarily to offset fees for patients who cannot afford treatment.

10. Retirement plan:

Children's Clinics has a 401(k) defined contribution retirement plan (the Plan) covering all eligible employees. Eligible employees may make contributions to the Plan not to exceed statutory limits. Children's Clinics matches employee contributions to the Plan up to 4% of the employee's base salary. Also, Children's Clinics is required to make a contribution of 1% of compensation for employees who were employed as of December 31, 1996. Participants vest 100% immediately in employee contributions and ratably over a period of four years in employer contributions. In 2020 and 2019, Children's Clinics made contributions to the Plan of approximately $201,800 and $190,500.

11. Concentration of credit risk:

Three third-party payors accounted for approximately 68% and 69% of total revenues in 2020 and 2019. Additionally, at June 30, 2020, approximately 39% of the Organization's accounts receivable was due from UHC, Banner and Mercy Care.

Two third-party payors accounted for approximately 72% and 71% of total hospital and physician expenses for professional care of patients for 2020 and 2019.

12. Subsequent event:

In July 2020, the Organization received a restricted contribution from Angel Charities in the amount of $700,000 for the purpose of constructing a care suite. Because the contribution is conditional upon the Organization operating the suite as directed in the contribution agreement for a minimum period of ten years, the contribution was recorded upon receipt and will be recognized as support in equal amounts over the ten-year agreement.

13. Pending pronouncement:

In February 2016, the FASB issued ASU 2016-02 "Leases". ASU 2016-02 requires a lessee to recognize in the statements of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2021, with early adoption permitted.

Management is currently evaluating the effect that this standard will have on the financial statements.