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

YEARS ENDED JUNE 30, 2022 AND 2021

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

YEARS ENDED JUNE 30, 2022 AND 2021

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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

Opinion

We have audited the accompanying financial statements of Children's Clinics for Rehabilitative Services dba Children's Clinics, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Clinics for Rehabilitative Services dba Children's Clinics as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Children's Clinics for Rehabilitative Services dba Children's Clinics's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Children's Clinics for Rehabilitative Services dba Children's Clinics'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.

Beach Fleischman PLLC

Tucson, Arizona
October 19, 2022

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

ASSETS

	2022	2021
Current assets:		
Cash and cash equivalents	$ 1,500,190	$ 1,473,659
Restricted cash	630,000	700,000
Investments	3,448,901	5,288,933
Patient accounts receivable	2,556,817	2,327,636
Other current assets	228,298	198,879
Total current assets	8,364,206	9,989,107
Equipment and leasehold improvements, net	2,589,628	2,278,928
Total assets	$ 10,953,834	$ 12,268,035

LIABILITIES AND NET ASSETS

Current liabilities:		
Current portion of long-term debt	$ -	$ 491,219
Accounts payable	244,030	252,963
Accrued employee compensation	842,750	717,578
Other accrued expenses	103,748	54,524
Current portion of deferred support	70,000	70,000
Total current liabilities	1,260,528	1,586,284
Long-term debt, net of current portion	-	847,157
Deferred support, net of current portion	560,000	630,000
Total liabilities	1,820,528	3,063,441
Commitments and contingencies		
Net assets:		
Net assets without donor restrictions:		
Invested in equipment and leasehold improvements	1,959,628	1,578,928
Undesignated	7,173,678	7,625,666
Total net assets	9,133,306	9,204,594
Total liabilities and net assets	$ 10,953,834	$ 12,268,035

See notes to financial statements.

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

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Revenues and other support, without donor restrictions:		
Patient service revenue	$ 12,001,034	$ 11,308,099
Other revenues	141,146	266,084
Contributions	573,107	210,372
Donated facility	777,000	736,528
Donated services	9,113	8,738
Investment income (loss), net	(426,706)	1,238,519
	13,074,694	13,768,340
Expenses:		
Program	11,460,150	10,865,319
Administrative and operating	1,585,198	1,368,517
Fundraising	100,634	62,982
	13,145,982	12,296,818
Change in net assets without donor restrictions	(71,288)	1,471,522
Net assets without donor restrictions, beginning	9,204,594	7,733,072
Net assets without donor restrictions, ending	$ 9,133,306	$ 9,204,594

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program	Administrative and operating	Fundraising	Total expenses
Salaries and benefits	$ 7,432,874	$ 1,010,131	$ 62,936	$ 8,505,941
Depreciation and amortization	210,009	123,339	-	333,348
Facility and facility insurance	116,856	31,380	-	148,236
Facility rent	723,731	74,130	-	797,861
Fees	178,781	97,622	2,949	279,352
Physician and other professional	96,377	15,860	-	112,237
Professional care of patients	1,250,318	-	-	1,250,318
Other	13,001	16,661	2,442	32,104
Outside services	209,560	32,208	21,786	263,554
Outreach	84,380	19,535	-	103,915
Repairs and maintenance	374,604	118,552	2,120	495,276
Supplies	593,766	16,124	8,329	618,219
Travel	24,570	9,509	72	34,151
Utilities	151,323	20,147	-	171,470
	$ 11,460,150	$ 1,585,198	$ 100,634	$ 13,145,982

See notes to financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program	Administrative and operating	Fundraising	Total expenses
Salaries and benefits	$ 7,099,446	$ 908,184	$ 34,848	$ 8,042,478
Depreciation and amortization	209,202	112,647	-	321,849
Facility and facility insurance	119,244	30,057	-	149,301
Facility rent	686,256	71,132	-	757,388
Fees	157,851	65,795	3,567	227,213
Physician and other professional	77,070	19,521	-	96,591
Professional care of patients	1,255,701	-	-	1,255,701
Other	15,412	10,583	7,175	33,170
Outside services	132,945	8,684	5,100	146,729
Outreach	78,095	15,122	-	93,217
Repairs and maintenance	320,555	95,314	1,040	416,909
Supplies	547,977	11,548	10,493	570,018
Travel	10,443	679	759	11,881
Utilities	155,122	19,251	-	174,373
	$ 10,865,319	$ 1,368,517	$ 62,982	$ 12,296,818

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (71,288)	$ 1,471,522
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	333,348	321,849
Net realized gains on investments	(321,844)	(145,673)
Net unrealized (gains) losses on investments	903,833	(994,524)
Changes in operating assets and liabilities:		
Patient accounts receivable	(229,181)	(579,390)
Other current assets	(29,419)	(4,596)
Accounts payable	(8,933)	(96,149)
Advances from providers	-	(400,000)
Accrued employee compensation	125,172	182,719
Other accrued expenses	49,224	20,034
Deferred support	(70,000)	490,488
Total adjustments	752,200	(1,205,242)
Net cash provided by operating activities	680,912	266,280
Cash flows from investing activities:		
Purchases of investments	(708,413)	(1,390,017)
Proceeds from sales of investments	1,966,456	1,380,017
Purchases of equipment and leasehold improvements	(644,048)	(280,967)
Net cash provided by (used in) investing activities	613,995	(290,967)
Cash flows from financing activities:		
Net borrowings on note payable, bank	-	3,091
Principal payments on long-term debt	(1,338,376)	(161,624)
Net cash used in financing activities	(1,338,376)	(158,533)
Net decrease in cash and equivalents	(43,469)	(183,220)
Cash and cash equivalents, beginning	2,173,659	2,356,879
Cash and cash equivalents, ending	$ 2,130,190	$ 2,173,659
Summary of cash and cash equivalents:		
Cash and cash equivalents	$ 1,500,190	$ 1,473,659
Restricted cash	630,000	700,000
	$ 2,130,190	$ 2,173,659

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

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 the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions. Actual results could differ from those estimates and assumptions.

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.

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

Patient service revenue (continued):

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 or payor'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.

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.

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

Patient service revenue (continued):

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:

	2022	2021
AHCCCS/Medicare	$ 11,001,733	$ 10,455,950
Commercial and other	977,784	839,538
Self pay	21,517	12,611
	$ 12,001,034	$ 11,308,099

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. Deferred support represents amounts received for which the donor restrictions have not been 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.

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. At July 1, 2020, the balance of net patient accounts receivable was $1,748,246.

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

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 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.

- 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.

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

Functional expenses:

Expenses other than those related directly to the care of patients such as hospital, physician and contracted medical services are allocated as program or administrative and operating expense based on the portion of administrative salaries and benefits. The allocation for 2022 and 2021 was 63% and 65% to hospital and physician and 37% and 35% 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 (IRC) 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, 2022 through October 19, 2022, 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.

	2022	2021
Cash and cash equivalents	$ 1,500,190	$ 1,473,659
Restricted cash	630,000	700,000
Investments	3,448,901	5,288,933
Patient accounts receivable	2,556,817	2,327,636
Total financial assets	8,135,908	9,790,228
Restricted by donor with time or purpose restrictions	(630,000)	(700,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 7,505,908	$ 9,090,228

2. Liquidity and availability of financial assets (continued):

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 $500,000 that it could draw upon as needed. The Organization did not have an outstanding balance on the line at June 30, 2022 and 2021.

3. Investments:

The market value of investments is as follows:

	2022	2021
Mutual funds - equities	$ 2,657,509	$ 4,279,967
Mutual funds - fixed income	707,866	1,008,966
Mutual funds - target date funds	83,526	-
	$ 3,448,901	$ 5,288,933

Net investment income (loss) consists of the following:

	2022	2021
Interest and dividends	$ 155,283	$ 98,322
Net realized gains	321,844	145,673
Net unrealized gains (losses)	(903,833)	994,524
	$ (426,706)	$ 1,238,519

4. Fair value measurements:

The asset'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.

4. Fair value measurements (continued):

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, 2022, 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.	$ 1,828,071	$ 1,828,071	$ -	$ -
Equity, International	829,438	829,438	-	-
Fixed income	707,866	707,866	-	-
Target date	83,526	83,526	-	-
	$ 3,448,901	$ 3,448,901	$ -	$ -

At June 30, 2021, 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.	$ 2,776,459	$ 2,776,459	$ -	$ -
Equity, International	1,503,508	1,503,508	-	-
Fixed income	1,008,966	1,008,966	-	-
	$ 5,288,933	$ 5,288,933	$ -	$ -

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:

	2022	2021
Equipment and software	$ 4,714,474	$ 4,502,701
Leasehold improvements	2,218,511	1,665,670
Work in progress	-	120,567
	6,932,985	6,288,938
Less accumulated depreciation and amortization	4,343,357	4,010,010
	$ 2,589,628	$ 2,278,928

6. Note payable, bank:

The Organization has a $500,000 revolving line of credit with JPMorgan Chase Bank with no specified maturity date. Monthly interest payments are due at the prime rate (4.75% and 3.25% at June 30, 2022 and June 30, 2021) plus 1.07%. The line is 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, 2022 and June 30, 2021.

7. Long-term debt:

In February 2021, the Organization converted the balance on a $2,000,000 revolving line of credit with JPMorgan Chase Bank to an installment loan with a principal balance of $1,500,000. The loan was payable in monthly installments of $43,444 including interest at 2.7% and was collateralized by substantially all assets of the Organization. The Organization had an outstanding balance related to this loan at June 30, 2021 of $1,338,376. The Organization repaid the loan balance in full during 2022.

8. Deferred support:

In August 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 as deferred support and will be recognized as support in equal annual amounts over the ten-year agreement. As part of the conditional contribution, the Organization is required to keep a separate cash balance equal to the amount of the remaining restriction. The amount of the contribution included in deferred support and restricted cash at June 30, 2022 and 2021 is $630,000 and $700,000.

9. 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 applied for forgiveness with the lender in April 2021 and received forgiveness of $1,589,672 from the Small Business Administration (SBA) in June 2021.

The SBA may undertake a review of a loan of any size during the ten-year period following forgiveness or repayment of the loan. The review may include the loan forgiveness application, eligibility for the program, as well as whether the Company received the proper loan amount. The timing and outcome of any SBA review is not known.

The Organization accounted for the PPP loan as a conditional contribution in accordance with ASC 958-605. The contribution was conditional based on the Organization incurring covered expenses, maintaining employee count, and limiting salary reductions. During 2021, the Organization recorded the remaining balance on the loan of $60,512 in other supporting revenues as of the date of forgiveness.

10. Commitments and contingencies:

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. The lease has a termination clause under certain circumstances. Monthly rent for other areas of the building is determined on an annual basis, at fair market value rates. Fair market value is based on comparable rates per square foot of similar commercial buildings, a Level 3 fair value measurement under GAAP. 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 $777,000 and $736,528 for 2022 and 2021 has been recognized at fair market value for the portion of the building used in connection with patient and supporting services.

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.

10. Commitments and contingencies (continued):

Compliance with laws and regulations (continued):

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.

Legal:

From time to time, the Organization may be party to certain pending or threatened lawsuits arising out of or incident to the ordinary course of business for which it carries general liability and other insurance coverages. In the opinion of management and based upon consultation with legal counsel, resolution of any pending or threatened lawsuits will not have a material adverse effect on the Organization's financial statements.

11. Related parties:

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

	Expenses	Accounts payable
2022		
BUMC	$ 732,432	$ 68,335
TMC	250,289	22,229
2021		
BUMC	$ 760,796	$ 69,700
TMC	295,827	21,276

Children's Clinics received $370,051 and $140,597 in contributions for 2022 and 2021 from Square and Compass, a related party, primarily to offset fees for patients who cannot afford treatment.

12. Retirement plans:

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. Participants vest 100% immediately in employee contributions and ratably over a period of four years in employer contributions. In 2022 and 2021, Children's Clinics made contributions to the Plan of approximately $226,700 and $208,600.

12. Retirement plans (continued):

The Organization has a nonqualified deferred compensation plan for an officer under Section 457(f) of the IRC. As of June 30, 2022, the Organization has informally funded the plan in the amount of $83,526, which is included in investments in the accompanying statements of financial position. Children's Clinics will contribute a discretionary amount to the Plan each year. For 2022 and 2021, the Organization contributed 12% of compensation as defined. The Organization accrues a liability under the Plan for compensation earned by the officer over the vesting period. The officer is 50% vested upon 5 years of service, 75% at 7 years of service and 100% vested after 10 years. Compensation expense was $21,027 and $89,136 for 2022 and 2021. At June 30, 2022 and 2021, a deferred compensation liability of $110,163 and $89,136 is recorded in accrued employee compensation in the statements of financial position.

13. Concentration of credit risk:

Revenues from UHC, Banner and ACH accounted for approximately 80% and 75% of total revenues in 2022 and 2021. Additionally, at June 30, 2022, approximately 46% of the Organization's accounts receivable was due from UHC, Banner and Mercy Care.

Two providers accounted for approximately 59% and 72% of total hospital and physician expenses for professional care of patients for 2022 and 2021.

14. Reclassifications:

The 2021 financial statements have been reclassified in order to conform to the 2022 financial statement presentation. The reclassifications had no effect on retained earnings at June 30, 2021 or on net income for the year then ended.

15. 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.