

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

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020

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

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020

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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, 2020, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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, 2020, 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.

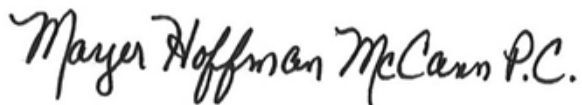
Report on Summarized Comparative Information

We have previously audited ***Aid to Adoption of Special Kids/Arizona and Subsidiaries'*** 2019 consolidated financial statements, and our report dated November 13, 2019 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, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Adoption of New Accounting Standards

As discussed in Note 1 to the consolidated financial statements, ***Aid to Adoption of Special Kids/Arizona and Subsidiaries*** changed their method of accounting for revenue from contracts with customers effective July 1, 2019 in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, under the modified retrospective method.

Additionally, as discussed in Note 1 to the consolidated financial statements, ***Aid to Adoption of Special Kids/Arizona and Subsidiaries*** adopted Financial Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, in 2020 under the modified prospective method. Our opinion is not modified with respect to these matters.



October 29, 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2020
(with comparative totals at June 30, 2019)

	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
CASH AND CASH EQUIVALENTS	\$ 3,396,754	\$ 2,009,919
INVESTMENTS	19,977,978	19,519,169
RECEIVABLES, net	1,380,604	1,210,576
PLEDGES RECEIVABLE, net	5,000	239,700
PREPAID EXPENSES AND OTHER ASSETS	39,945	32,803
PROPERTY AND EQUIPMENT, net	2,545,422	2,618,216
ENDOWMENT CASH	<u>15,060</u>	<u>15,056</u>
TOTAL ASSETS	<u>\$ 27,360,763</u>	<u>\$ 25,645,439</u>

<u>LIABILITIES AND NET ASSETS</u>		
NOTE PAYABLE	\$ 48,000	\$ 60,000
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	683,990	595,960
PAYABLE TO FUNDING SOURCE	<u>205,105</u>	<u>114,228</u>
TOTAL LIABILITIES	937,095	770,188
NET ASSETS		
Net assets without donor restrictions	26,383,668	24,595,551
Net assets with donor restrictions	<u>40,000</u>	<u>279,700</u>
TOTAL NET ASSETS	<u>26,423,668</u>	<u>24,875,251</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 27,360,763</u>	<u>\$ 25,645,439</u>

See Notes to Consolidated Financial Statements

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	Without Donor	With Donor	Total	
	Restrictions	Restrictions	2020	2019
SUPPORT AND REVENUES				
Government contracts	\$ 8,406,777	\$ -	\$ 8,406,777	\$ 8,389,410
Contributions	1,279,511	-	1,279,511	1,541,913
Fundraising event (net of direct donor benefits)	38,541	-	38,541	52,030
United Way and donor giving campaigns	196,225	-	196,225	302,620
Interest and dividend income	325,679	-	325,679	291,187
Realized and unrealized gains on investments	133,316	-	133,316	110,939
Other	12,000	-	12,000	28,500
Total support before net assets released from restrictions	10,392,049	-	10,392,049	10,716,599
Net assets released from restrictions	239,700	(239,700)	-	-
TOTAL SUPPORT AND REVENUES	10,631,749	(239,700)	10,392,049	10,716,599
EXPENSES				
Program services:				
Family Support Services	2,388,433	-	2,388,433	2,086,098
Specialized Foster Care	1,659,765	-	1,659,765	1,660,767
Regular Adoption & Foster Care	3,214,165	-	3,214,165	3,426,376
Community Funded Initiatives	307,286	-	307,286	329,764
Total program services	7,569,649	-	7,569,649	7,503,005
Supporting services:				
Management and General	869,707	-	869,707	842,348
Fundraising	404,276	-	404,276	272,657
Total supporting services	1,273,983	-	1,273,983	1,115,005
TOTAL EXPENSES	8,843,632	-	8,843,632	8,618,010
CHANGE IN NET ASSETS	1,788,117	(239,700)	1,548,417	2,098,589
NET ASSETS, BEGINNING OF YEAR	24,595,551	279,700	24,875,251	22,776,662
NET ASSETS, END OF YEAR	\$ 26,383,668	\$ 40,000	\$ 26,423,668	\$ 24,875,251

See Notes to Consolidated Financial Statements

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	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	2020	2019
Payroll:									
Salaries - Full Time	\$ 369,954	\$ 325,257	\$ 2,251,871	\$ 223,945	\$ 3,171,027	\$ 479,381	\$ 246,802	\$ 3,897,210	\$ 3,716,021
Salaries - Part Time	1,686,756	-	12,019	-	1,698,775	-	-	1,698,775	1,489,291
Payroll taxes	176,567	24,574	170,645	17,113	388,899	33,642	19,744	442,285	416,301
Benefits	36,467	5,826	99,616	11,341	153,250	21,824	10,837	185,911	186,732
Retirement	18,067	11,101	41,604	4,662	75,434	10,434	4,311	90,179	84,660
Total payroll	2,287,811	366,758	2,575,755	257,061	5,487,385	545,281	281,694	6,314,360	5,893,005
Family related services	-	1,228,855	166,157	6,853	1,401,865	-	-	1,401,865	1,559,499
Professional services	-	3,786	10,229	-	14,015	125,483	-	139,498	117,766
Occupancy	14,214	10,362	117,949	8,628	151,153	19,930	1,893	172,976	203,616
Advertising	-	-	4,493	-	4,493	-	45,690	50,183	55,393
Bad debts	38,417	17,245	38,545	-	94,207	-	-	94,207	91,838
Travel	4,150	14,786	90,269	14,123	123,328	3,475	2,703	129,506	141,993
Communications	3,992	4,563	44,375	3,573	56,503	5,776	2,515	64,794	57,041
Printing and copying	9,999	17	2,335	21	12,372	80	8,564	21,016	18,827
Office and general supplies	4,270	3,434	34,423	4,398	46,525	21,958	12,103	80,586	91,270
Postage and shipping	798	378	2,073	16	3,265	1,183	6,646	11,094	5,001
Insurance	-	-	-	-	-	117,389	-	117,389	114,713
Employee recruitment, training and retention	11,306	1,431	27,265	5,266	45,268	2,985	9,137	57,390	64,000
Depreciation	12,122	8,150	100,297	7,347	127,916	16,979	5,223	150,118	154,297
Other	1,354	-	-	-	1,354	9,188	28,108	38,650	49,751
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,388,433</u>	<u>\$ 1,659,765</u>	<u>\$ 3,214,165</u>	<u>\$ 307,286</u>	<u>\$ 7,569,649</u>	<u>\$ 869,707</u>	<u>\$ 404,276</u>	<u>\$ 8,843,632</u>	<u>\$ 8,618,010</u>

See Notes to Consolidated Financial Statements

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

	2020	2019
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 1,548,417	\$ 2,098,589
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	94,207	91,838
Gain on forgiveness of note payable	(12,000)	(12,000)
Realized and unrealized gains on investments	(133,316)	(110,939)
Depreciation	150,118	154,297
Changes in discounts on pledges receivable	-	(4,998)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(264,235)	292,412
Pledges receivable	234,700	26,500
Prepaid expenses and other assets	(7,142)	40,162
Increase (decrease) in:		
Accounts payable and accrued expenses	88,030	(53,415)
Payable to funding source	90,877	114,228
Net cash provided by operating activities	1,789,656	2,636,674
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(77,324)	-
Purchases of investments	(25,766,482)	(17,822,068)
Proceeds from maturities of investments	25,440,989	13,531,180
Net cash used in investing activities	(402,817)	(4,290,888)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,386,839	(1,654,214)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	2,024,975	3,679,189
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR	\$ 3,411,814	\$ 2,024,975

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES

The Organization received \$12,000 of forgiveness of debt for the years ended June 30, 2020 and 2019.

Cash and cash equivalents	\$ 3,396,754	\$ 2,009,919
Endowment cash	15,060	15,056
	\$ 3,411,814	\$ 2,024,975

See Notes to Consolidated Financial Statements

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

(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:

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

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

Prior year summarized information – The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2019 from which the summarized information was derived.

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

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

Management's use of estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

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

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

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Receivables – Receivables consist of program service fees and contracts receivable. The Organization is exposed to certain credit risks, and manages its risk by regularly reviewing its accounts and following collection procedures. The Organization provides an appropriate allowance for doubtful accounts. Receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables.

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

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

Promises to give – Unconditional promises to give (pledges) that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Organization's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectability. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

As of June 30, 2020, all pledges receivable are due within one year.

Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. All receivables are considered by management to be collectible in full and, accordingly, an allowance for uncollectible pledges receivable had not been provided as of June 30, 2020 or 2019. One donor comprised 100% of the gross pledges receivable balance at June 30, 2020, and two donors comprised 100% of the gross pledges receivable balance at June 30, 2019.

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

	<u>Estimated Useful Lives</u>
Building	30 years
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, 2020 and 2019.

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

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

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

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

Revenue is recognized as these services are provided in an amount that reflects the consideration it expects to be entitled to in exchange for its services, which is calculated as hours worked or days in care multiplied by agreed contract rates for each applicable contracts. The client simultaneously receives and consumes the benefits of the services as they are provided. The Organization applies the practical expedient to recognize revenue for these services over the term of the agreements commensurate with the amount it has right to invoice the customers.

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

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

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

The government contracts expire annually (June 30 or September 30 generally), and management expects the contracts to be renewed through the respective renewal process. Revenue recognized under DCS and DDD contracts represented approximately 67% and 70% of total government contracts revenue for the years ended June 30, 2020 and 2019, respectively. Additionally, one other contract represented 12.8% of total government contract for the year ended June 30, 2020. And a different contract represented 12.6% of total government contracts for the year ended June 30, 2019. If these contracts are not renewed or are otherwise lost, the Organization’s operations would be significantly impacted.

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

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

Contributions – The Organization adopted the amendments of FASB Accounting Standards Update (“ASU”) No. 2018-08, *Not-For-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective July 1, 2019 on a modified prospective basis for contributions received. ASU 2018-08 clarifies the characterization of grants as either reciprocal transaction (exchanges) or nonreciprocal transactions (contributions). ASU 2018-08 also provides additional guidance to distinguish between conditional and unconditional contributions. In accordance with ASU 2018-08, the Organization evaluates grants and contributions for evidence of the transfer of commensurate value from the Organization to the grantor or resource provider. The transfer of commensurate value from the Organization to the grantor or resource provider may include instances when a) the goods or services provided by the Organization directly benefit the grantor or resource provider or are for the sole use of the grantor or resource provider or b) the grantor or resource provider obtains proprietary rights or other privileges from the goods or services provided by the Organization. When such factors exist, the Organization accounts for the grants or contributions as exchange transactions under ASC 606, *Revenue from Contracts with Customers*, or other appropriate guidance. In the absence of these factors, the Organization accounts for the award under the contribution accounting model.

In the absence of the transfer of commensurate value from the Organization to the resource provider, the Organization evaluates the contribution for criteria indicating the existence of measurable barriers to entitlement for the Organization or the right of return to the resource provider. A barrier to entitlement is subject to judgment and generally represents an unambiguous threshold for entitlement that provides clarity to both the Organization and resource provider whether the threshold has been met and when. These factors may include measurable performance thresholds or limited discretion on the part of the Organization to use the funds. Should the existence of a measurable barrier to entitlement exist and be accompanied by a right of return of the funds to the resource provider or release of the resource provider from the obligation, the contribution is treated as a conditional contribution. If both the barrier to entitlement and right of return do not exist, the contribution is unconditional.

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

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

During the year ended June 30, 2020, the Organization received a conditional contribution of \$209,000. The conditions include achievement of specified metrics of adoptions or matches as well as hiring 3 recruiters during the period from July 1, 2020 – June 30, 2021. As of June 30, 2020, the conditions had not been met, therefore this transaction has not been recorded in the accompanying consolidated financial statements.

AID TO ADOPTION OF SPECIAL KIDS/ARIZONA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020
(with comparative totals for the year ended June 30, 2019)

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

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 and change in net assets. Direct donor benefits for special events totaled \$0 and \$1,215 for 2020 and 2019, 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:

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

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was \$50,183 and \$55,393 for the years ended June 30, 2020 and 2019, respectively.

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 2017, 2018 and 2019 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 2020 Form 990 has not been filed.

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

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.

The Organization adopted this standard as of July 1, 2019, using a modified retrospective approach, and the guidance is applied to the most current period presented, recognizing the cumulative effect of the adoption change as an adjustment to beginning net assets. The timing of revenue recognition was not affected by the adoption of Topic 606. As a result, there were no adjustment to net assets as of July 1, 2019.

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 or 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 adopted the amendments of the ASU for which the Organization is the resource recipient during 2020 using the modified prospective approach.

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 June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which allows certain entities to elect to defer the effective date of provisions of FASB ASU No. 2014-09 and ASU No. 2016-02. These entities may elect to adopt the guidance for revenue for annual reporting periods beginning after December 15, 2019. Additionally, under the amendments, entities may elect to adopt the lease guidance for fiscal years beginning after December 15, 2021.

Subsequent events – The Organization has evaluated subsequent events through October 29, 2020 which is the date the consolidated financial statements were available to be issued.

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(2) Investments

Investments consisted of the following as of June 30:

	2020	2019
Negotiable certificates of deposit (fair value)	\$ 4,392,692	\$ 2,799,134
US treasury bonds	7,058,036	16,720,035
Corporate bonds	5,209,386	-
Money market funds	3,317,864	-
Total investments	\$ 19,977,978	\$ 19,519,169

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. Negotiable certificates of deposit are scheduled to mature through August 2021. At June 30, 2020 and 2019, 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:

	2020	2019
State contracts	\$ 1,663,024	\$ 1,427,754
Adoption fees	21,299	27,440
Other	-	5,270
Total receivables	1,684,323	1,460,464
Allowance for doubtful accounts	(303,719)	(249,888)
Net receivables	\$ 1,380,604	\$ 1,210,576

Three state contracts comprise approximately 77% of gross contracts receivable as of June 30, 2020, and three state contracts comprise approximately 68% of gross contracts receivable as of June 30, 2019.

The Organization receives funding from RBHA in the form of block payments and the Organization submits encounter claims for services performed. Claims submitted under state contracts are recorded in support and revenues from government contracts in the accompanying statement of activities and change in net assets at the date services are performed although they are subject to a claims adjudication process by the Regional Behavioral Health Authority ("RBHA"). For the year ended June 30, 2020, the Organization received additional funding of \$90,877 from the RBHA. However, the Organization did not have any encounters stipulated in their contract with the RBHA to offset this funding received. As of June 30, 2020 and 2019, the Organization recorded a payable to funding source of \$205,105 and \$114,228, respectively for potential amounts due to Mercy Care RBHA for under-encounters.

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(4) Property and equipment

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

	2020	2019
Cost and donated value:		
Building	\$ 3,531,001	\$ 3,531,001
Building improvements	774,319	706,163
Furniture and equipment	532,481	523,313
Total cost and donated value	4,837,801	4,760,477
Accumulated depreciation	(2,292,379)	(2,142,261)
Net property and equipment	<u>\$ 2,545,422</u>	<u>\$ 2,618,216</u>

Depreciation expense charged to operations was \$150,118 and \$154,297 for the years ended June 30, 2020 and 2019, respectively.

During the year ended June 30, 2003, the City of Phoenix provided approximately \$180,000 to assist in the acquisition of certain property (a building). This property is available for the Organization's use in its continuing programs. Under the terms of the agreement with the City of Phoenix, the property is to be used for the contracted services for 20 years from the date of issuance of the Certificate of Completion, which occurred on October 1, 2003. Since inception of the forgivable loan, the \$180,000 obligation (see Note 5) has been reduced by \$132,000 and \$120,000 as of June 30, 2020 and 2019, respectively. The property is recorded at cost of approximately \$581,000 with accumulated depreciation of approximately \$324,000 and \$305,000 at June 30, 2020 and 2019, respectively.

(5) Note payable

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

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

Years Ending June 30:

2021	\$ 12,000
2022	12,000
2023	12,000
2024	12,000
Total	<u>\$ 48,000</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020
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(6) Net assets with donor restrictions

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

	2020	2019
Subject to expenditure for a specified purpose	\$ 30,000	\$ 269,700
Subject to restriction in perpetuity	10,000	10,000
Total net assets with donor restrictions	\$ 40,000	\$ 279,700

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, 2020 and 2019, the Organization released \$239,700 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.

(7) Pension plan

The Organization sponsors a 401(k) plan covering eligible employees. The Organization currently matches 100% of the participants' contributions for the first 4% of the participants' compensation. Contributions made by the Organization were approximately \$90,200, and \$84,700 for the years ended June 30, 2020 and 2019, respectively.

(8) Leases

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

<u>Years Ending June 30:</u>	
2021	\$ 8,483
2022	8,483
2023	4,354
2024	3,979
2025	1,326
Total	\$ 26,625

Total rental expense under operating leases with a term in excess of one month was \$8,640 in 2020 and \$3,096 in 2019. 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.

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(9) Contributions

Contributions consisted of the following:

	2020	2019
Grants and foundations	\$ 126,282	\$ 375,246
Individual and civic donors	1,132,527	1,155,509
Corporate donors	20,702	11,158
Total contributions	\$ 1,279,511	\$ 1,541,913

(10) 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, 2020:

	Level 1	Level 2	Level 3
Negotiable certificates of deposit	\$ -	\$ 4,392,692	\$ -
US treasury bonds	-	7,058,036	-
Corporate bonds	-	5,209,386	-
Money market funds	3,317,864	-	-
Total	\$ 3,317,864	\$ 16,660,114	\$ -

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

(11) Contingencies

In the ordinary course of conducting its business, the Organization may periodically be a defendant in various legal proceedings. 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 consolidated financial position nor results of operations of the Organization will be materially affected by the final outcome of any known legal proceedings.

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(12) Risks and uncertainties

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

In August 2020, the Organization applied for and received a forgivable Paycheck Protection Loan of \$1,216,000 as provided under the Federal Coronavirus Aid, Relief and Economic Security Act. The loan contains forgiveness provisions based on the use of the proceeds for qualifying costs. To the extent a portion of the loan does not meet the criteria to be forgiven, such amount bears interest at 1% and matures 5 years after receipt of the proceeds in August 2025. Monthly principal and interest payments are due beginning six months after receipt of the proceeds. The Organization anticipates the balance of the loan will be forgiven in accordance with stimulus regulations. However, there can be no assurance that such forgiveness will occur.

As of the date the consolidated financial statements were available to be issued, the Organization’s operations have not been significantly negatively impacted. However, the Organization continues to closely monitor the situation. Depending on the severity and duration of the pandemic, the Organization could experience a material negative impact to operations, cash flow, and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

(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:

	2020	2019
Cash and cash equivalents	\$ 3,396,754	\$ 2,009,919
Receivables, net	1,380,604	1,210,576
Pledges receivable, net	5,000	239,700
Investments	19,977,978	19,519,169
Endowment cash	15,060	15,056
Total financial assets	\$ 24,775,396	\$ 22,994,420
Less:		
Net assets with donor restrictions	(40,000)	(279,700)
Financial assets available to meet cash needs for general expenditure within one year	\$ 24,735,396	\$ 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.

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(13) Liquidity and availability of resources (continued)

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.