Children's Clinics for Rehabilitative Services dba Children's Clinics

Years Ended June 30, 2025 and 2024

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Children's Clinics for Rehabilitative Services dba Children's Clinics

Years Ended June 30, 2025 and 2024

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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, 2025 and 2024, 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, 2025 and 2024, 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.

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.

BeachFleischman PLLC

Tucson, Arizona
December 9, 2025

Children's Clinics for Rehabilitative Services dba Children's Clinics

Statements of Financial Position

June 30, 2025 and 2024

Assets

	2025	2024
Current assets:		
Cash and cash equivalents	$ 1,070,116	$ 1,107,630
Restricted cash	420,000	490,000
Investments	3,787,869	4,171,279
Accounts receivable	3,863,181	3,693,249
Contract assets	191,929	32,322
Other current assets	232,779	122,427
Total current assets	9,565,874	9,616,907
Property and equipment, net	2,484,663	2,262,899
Prepaid expenses, net of current portion	488,466	-
Total assets	$ 12,539,003	$ 11,879,806

Liabilities and Net Assets

	2025	2024
Current liabilities:		
Line of credit	$ -	$ 458,333
Current portion of obligations under finance lease	60,742	-
Accounts payable	723,058	279,687
Accounts payable, related party	118,593	134,686
Accrued employee compensation	1,138,449	1,050,334
Other accrued expenses	14,686	53,800
Current portion of deferred support	70,000	70,000
Total current liabilities	2,125,528	2,046,840
Finance lease obligations, net of current portion	199,608	-
Deferred support, net of current portion	350,000	420,000
Total liabilities	2,675,136	2,466,840
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Invested in property and equipment	2,064,663	1,772,899
Undesignated	7,566,240	7,592,685
Total net assets without donor restrictions	9,630,903	9,365,584
With donor restrictions	232,964	47,382
Total net assets	9,863,867	9,412,966
Total liabilities and net assets	$ 12,539,003	$ 11,879,806

See notes to financial statements.

Children's Clinics for Rehabilitative Services dba Children's Clinics

Statement of Activities

Year Ended June 30, 2025

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Patient service revenue	$ 14,144,797	$ -	$ 14,144,797
Grant revenue	92,810	92,564	185,374
Contributions	222,835	295,925	518,760
Donated facility	1,111,960	-	1,111,960
Donated services	7,200	-	7,200
Other revenues	41,830	-	41,830
Investment income, net	498,168	-	498,168
Net assets released from restrictions	202,907	(202,907)	-
	16,322,507	185,582	16,508,089
Expenses:			
Program	14,117,602	-	14,117,602
Administrative and operating	1,765,048	-	1,765,048
Fundraising	174,538	-	174,538
	16,057,188	-	16,057,188
Change in net assets	265,319	185,582	450,901
Net assets, beginning	9,365,584	47,382	9,412,966
Net assets, ending	$ 9,630,903	$ 232,964	$ 9,863,867

See notes to financial statements.

Children's Clinics for Rehabilitative Services dba Children's Clinics

Statement of Activities

Year Ended June 30, 2024

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Patient service revenue	$ 13,097,166	$ -	$ 13,097,166
Grant revenue	18,760	143,240	162,000
Contributions	339,973	10,000	349,973
Donated facility	1,099,000	-	1,099,000
Donated services	7,388	-	7,388
Other revenues	21,528	-	21,528
Investment loss, net	640,007	-	640,007
Net assets released from restrictions	216,822	(216,822)	-
	15,440,644	(63,582)	15,377,062
Expenses:			
Program	13,251,612	-	13,251,612
Administrative and operating	1,556,966	-	1,556,966
Fundraising	124,710	-	124,710
	14,933,288	-	14,933,288
Change in net assets	507,356	(63,582)	443,774
Net assets, beginning	8,858,228	110,964	8,969,192
Net assets, ending	$ 9,365,584	$ 47,382	$ 9,412,966

See notes to financial statements.

Children's Clinics for Rehabilitative Services dba Children's Clinics

Statement of Functional Expenses

Year Ended June 30, 2025

	Program	Administrative and operating	Fundraising	Total expenses
Salaries and benefits	$ 9,070,686	$ 1,213,632	$ 116,122	$ 10,400,440
Depreciation and amortization	400,331	21,070	-	421,401
Facility and facility insurance	153,738	31,277	-	185,015
Occupancy	1,035,551	93,335	-	1,128,886
Fees	156,810	85,326	-	242,136
Physician and other professional	60,266	19,032	-	79,298
Professional care of patients	1,434,976	-	-	1,434,976
Other	32,621	28,284	-	60,905
Outside services	196,754	33,373	58,416	288,543
Outreach	181,238	84,009	-	265,247
Repairs and maintenance	444,585	111,119	-	555,704
Supplies	702,952	20,767	-	723,719
Travel	71,478	17,924	-	89,402
Utilities	175,616	5,900	-	181,516
	$ 14,117,602	$ 1,765,048	$ 174,538	$ 16,057,188

Children's Clinics for Rehabilitative Services dba Children's Clinics

Statement of Functional Expenses

Year Ended June 30, 2024

	Program	Administrative and operating	Fundraising	Total expenses
Salaries and benefits	$ 8,399,776	$ 1,061,711	$ 89,741	$ 9,551,228
Depreciation and amortization	318,688	30,904	-	349,592
Facility and facility insurance	126,014	32,166	-	158,180
Occupancy	1,034,935	84,926	-	1,119,861
Fees	173,275	67,698	-	240,973
Physician and other professional	60,266	19,032	-	79,298
Professional care of patients	1,508,031	-	-	1,508,031
Other	35,397	29,881	-	65,278
Outside services	226,303	40,947	-	267,250
Outreach	138,297	20,661	34,969	193,927
Repairs and maintenance	367,160	112,107	-	479,267
Supplies	659,004	21,414	-	680,418
Travel	41,992	16,073	-	58,065
Utilities	162,474	19,446	-	181,920
	$ 13,251,612	$ 1,556,966	$ 124,710	$ 14,933,288

Children's Clinics for Rehabilitative Services dba Children's Clinics

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Change in net assets	$ 450,901	$ 443,774
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	421,401	349,592
Gain on disposal of assets	(24,440)	-
Net realized gains on investments	(257,733)	(33,363)
Net unrealized gains on investments	(132,739)	(519,930)
Changes in operating assets and liabilities:		
Accounts receivable	(169,932)	(490,287)
Contract assets	(159,607)	(23,505)
Other current assets	(110,352)	16,170
Prepaid expenses	(488,466)	-
Accounts payable	443,371	25,672
Accounts payable, related party	(16,093)	42,600
Accrued employee compensation	88,115	110,928
Other accrued expenses	(39,114)	(42,154)
Deferred support	(70,000)	(70,000)
Total adjustments	(515,589)	(634,277)
Net cash used in operating activities	(64,688)	(190,503)
Cash flows from investing activities:		
Purchases of investments	(517,160)	(475,629)
Proceeds from sales of investments	1,291,042	721,303
Purchases of property and equipment	(328,445)	(233,307)
Proceeds from sale of property and equipment	29,328	-
Net cash provided by investing activities	474,765	12,367
Cash flows from financing activities:		
Net borrowings (repayments) on line of credit	(458,333)	458,333
Payments on finance lease obligations	(59,258)	-
Net cash provided by (used in) financing activities	(517,591)	458,333
Net increase (decrease) in cash and equivalents	(107,514)	280,197
Cash and cash equivalents, beginning	1,597,630	1,317,433
Cash and cash equivalents, ending	$ 1,490,116	$ 1,597,630
Summary of cash and cash equivalents:		
Cash and cash equivalents	$ 1,070,116	$ 1,107,630
Restricted cash	420,000	490,000
	$ 1,490,116	$ 1,597,630

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 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 in southern Arizona of Children's Rehabilitative Services (CRS), a state program, 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*.

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):

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.

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 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 credit loss 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.

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

Patient service revenue (continued):

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 Medicaid program 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:

	2025	2024
AHCCCS/Medicaid	$ 12,959,727	$ 11,780,576
Commercial and other	1,162,586	1,279,358
Self pay	22,484	37,232
	$ 14,144,797	$ 13,097,166

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.

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

In-kind contributions:

Support arising from donated goods and services is valued at fair market value. Donated services are recognized in the consolidated financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

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.

Restricted cash and cash equivalents consists of amounts received with donor imposed restrictions. All donor imposed restrictions on restricted cash and cash equivalents are temporary in nature.

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 conditional 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, 2023, the balance of net patient accounts receivable was $3,202,962 and the balance of contract assets was $8,817.

Investments and investment income:

Investments are measured at fair value in the statements of financial position. Investment gains and losses are included in the statements of activities as changes in net assets without donor restrictions unless their use is restricted by explicit donor-imposed stipulations or legal requirements.

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

Fair value measurements:

Fair value is defined as the price to sell an asset between market participants as of the measurement date. Fair value measurements assume the asset is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and that the market participants are independent, knowledgeable, able and willing to transact an exchange. GAAP also clarifies that the reporting entity's nonperformance risk (credit risk) should be considered in valuing liabilities.

GAAP establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). 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 methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property and equipment:

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.

Asset	Useful life
Equipment	5 - 15 years
Software	5 years
Leasehold improvements	5 - 20 years

Leases:

The Organization recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Organization determines if an arrangement is a lease at inception and when the terms of an existing contract are changed.

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

Leases (continued):

Lease assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. The Company uses the implicit rate when it is readily determinable. As most of the Organization's leases do not provide an implicit rate, management uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. Finance lease assets are amortized over the lease term unless there is a transfer of title or purchase option reasonably certain of exercise, in which case the asset life is used. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Finance lease assets are included in property and equipment in the accompanying statements of financial position.

The Organization's lease agreement has lease and non-lease components. For their equipment leases, the Organization has elected to account for the lease and non-lease components as a single lease.

The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Impairment of long-lived assets:

The Organization reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of the long-lived assets is less than the carrying amount, the asset is considered impaired. Impairment losses would be measured as the amount by which the carrying amount exceeds the fair value of the asset. There was no impairment of long-lived assets recognized for 2025 and 2024.

Functional expenses:

Expenses related directly to the care of patients such as hospital, physician and contracted medical services are recorded as program expense. Occupancy expenses are allocated as program, administrative and operating, or fundraising expense based on the square footage utilized. Other expenses are allocated based on the portion of administrative salaries and benefits.

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.

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

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to June 30, 2025 through December 9, 2025, 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.

	2025	2024
Cash and cash equivalents	$ 1,070,116	$ 1,107,630
Restricted cash	420,000	490,000
Investments	3,787,869	4,171,279
Patient accounts receivable	3,863,181	3,693,249
Total financial assets	9,141,166	9,462,158
Restricted cash	(420,000)	(490,000)
Restricted by donor with time or purpose restrictions	(232,964)	(47,382)
Financial assets available to meet cash needs for general expenditures within one year	$ 8,488,202	$ 8,924,776

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.

3. Accounts receivable:

	2025	2024
Patient accounts receivable	$ 3,724,202	$ 3,520,054
Other receivables	138,979	173,195
	$ 3,863,181	$ 3,693,249

4. Investments:

The market value of investments is as follows:

	2025	2024
Mutual funds - equities	$ 2,775,351	$ 3,194,433
Mutual funds - fixed income	837,262	840,912
Mutual funds - target date funds	175,256	135,934
	$ 3,787,869	$ 4,171,279

Net investment income consists of the following:

	2025	2024
Interest and dividends	$ 138,553	$ 115,825
Net realized gains	257,733	33,363
Net unrealized gains	132,739	519,930
Investment fees	(30,857)	(29,111)
	$ 498,168	$ 640,007

5. 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.

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.

5. Fair value measurements (continued):

At June 30, 2025, 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.	$ 2,093,946	$ 2,093,946	$ -	$ -
Equity, International	681,405	681,405	-	-
Fixed income	837,262	837,262	-	-
Target date	175,256	175,256	-	-
	$ 3,787,869	$ 3,787,869	$ -	$ -

At June 30, 2024, 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.	$ 2,273,316	$ 2,273,316	$ -	$ -
Equity, International	921,117	921,117	-	-
Fixed income	840,912	840,912	-	-
Target date	135,934	135,934	-	-
	$ 4,171,279	$ 4,171,279	$ -	$ -

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.

6. Property and equipment:

	2025	2024
Equipment and software	$ 5,444,488	$ 5,031,948
Leasehold improvements	2,311,955	2,264,328
Work in process	105,731	32,638
	7,862,174	7,328,914
Less accumulated depreciation and amortization	5,377,511	5,066,015
	$ 2,484,663	$ 2,262,899

7. Leases

The Organization has a finance lease for office equipment with initial noncancelable terms in excess of one year that expires in June 2029. Additionally, this lease contains a renewal options for one year. Because the Organization is not reasonably certain to exercise this renewal option, the optional period is not included in determining the lease term, and associated payments under the renewal option are excluded from lease payments. As of June 30, 2025, assets recorded under finance leases were $302,608 and accumulated amortization associated with finance leases was $60,522.

The components of lease cost are as follows:

	2025	2024
Finance lease cost:		
Amortization of finance lease assets, included in depreciation and amortization	$ 60,522	$ -
Interest, included in interest expense	13,009	-
Total lease cost	$ 73,531	$ -

Cash flow information related to leases is as follows:

	2025	2024
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows - finance leases	$ 12,026	$ -
Financing cash flows - finance leases	59,259	-
Lease assets obtained in exchange for lease liabilities:		
Finance leases	302,608	-

Other information related to leases is as follows:

	2025	2024
Lease term (in years) and discount rate:		
Weighted-average remaining lease term, finance leases	4.0	-
Weighted-average discount rate, finance leases	4.5 %	- %

7. Leases (continued):

The maturities of lease liabilities as of June 30, 2025 were as follows:

Year ending June 30,	Finance
2026	$ 71,285
2027	71,285
2028	71,285
2029	71,285
Total lease payments	285,140
Less interest	24,790
Present value of lease liabilities	$ 260,350

The present value of lease liabilities are reported in the statements of financial position as follows:

	2025	2024
Current portion of obligations under finance leases	$ 60,742	$ -
Finance lease obligations, net of current portion	199,608	-
	$ 260,350	$ -

8. Line of credit:

The Organization has a $500,000 revolving line of credit with a bank with no specified maturity date. Monthly interest payments are due at the prime rate (7.50% and 8.50% at June 30, 2025 and June 30, 2024) 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, 2025. The Organization had an outstanding balance related to this line of credit at June 30, 2024 of $458,333.

9. 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, 2025 and 2024 is $420,000 and $490,000.

10. Commitments and contingencies:

Paycheck Protection Program (PPP) loan:

The Organization obtained a $1,589,672 loan under the PPP that was forgiven in June 2021. The SBA may undertake a review of a loan of any size during the ten-year period following forgiveness. The review will 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 timing and outcome of any SBA review is not known.

Donated 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. Fair market value is based on comparable rates per square foot of similar commercial buildings, a Level 2 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 occupancy expense of $1,111,960 and $1,099,000 has been recognized at fair market value for 2025 and 2024.

Practice support agreement:

Children's Clinics entered into a practice support agreement with TMC, a related party, to sublicense TMC's Electronic Medical Record (EMR) software. The initial term of the agreement is effective upon the go-live date of the software for a five year period, and will then automatically renew for additional one-year periods until either party provides a six-month notice of cancellation. The Organization is obligated to pay the implementation costs to TMC associated with the software included in the agreement, plus an ongoing monthly access fee of $815 per provider. The total amount of the implementation obligation is approximately $1,149,000. The Organization has prepaid $574,666 as of June 30, 2025, of which 488,466 has been capitalized as long-term prepaid expenses in the accompanying statements of financial position and $86,200 has been capitalized as other current assets. The implementation costs will be amortized over the five year initial term of the arrangement on a straight-line basis in accordance with GAAP beginning in September 2025. The remaining balance will be paid in 2026.

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 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
2025		
BUMC	$ 792,732	$ 74,723
TMC	369,328	43,154
Square and Compass	716	716
2024		
BUMC	$ 794,547	$ 57,808
TMC	327,977	74,556
Square and Compass	20,860	2,322

Children's Clinics received $71,090 and $76,612 in contributions for 2025 and 2024 from Square and Compass, primarily to offset fees for patients who cannot afford treatment.

12. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purposes or periods:

	2025	2024
Subject to expenditure for specified purpose:		
Childhood Experiences and Adaptive Recreation	$ 24,958	$ -
Del Webb Foundation - audiology	-	37,382
Pilot Parents	199,329	-
TMC - Educational video series grant	8,677	10,000
	$ 232,964	$ 47,382

13. 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 2025 and 2024, Children's Clinics made contributions to the Plan of approximately $288,000 and $252,400.

The Organization has a nonqualified deferred compensation plan for an officer under Section 457(f) of the IRC. As of June 30, 2025 and 2024, the Organization has informally funded the plan in the amount of $175,256 and $135,934, 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 2025 and 2024, 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 $25,260 and $38,934 for 2025 and 2024. At June 30, 2025 and 2024, a deferred compensation liability of $164,733 and $157,081 is recorded in accrued employee compensation in the statements of financial position.

14. Concentration of credit risk:

Revenues from UHC, Banner and ACH accounted for approximately 83% of total revenues in 2025 and 2024. Additionally, at June 30, 2025, four providers make up approximately 86% of the Organization's accounts receivable.

One provider accounted for approximately 55% and 53% of total hospital and physician expenses for professional care of patients for 2025 and 2024.

15. Reclassifications:

The 2024 financial statements have been reclassified in order to conform to the 2025 financial statement presentation. The reclassifications had no effect on net assets at June 30, 2024 or on change in net assets for the year then ended.