

Financial Statements with Independent Auditors' Report

United Cerebral Palsy Association of Orange County

*As of and For the Year Ended June 30, 2021 (With Summarized Comparative
Information as of and for the year ended June 30, 2020)*

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
United Cerebral Palsy Association of Orange County

We have audited the accompanying financial statements of the United Cerebral Palsy Association of Orange County (a nonprofit organization) ("UCP-OC"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the UCP-OC as of June 30, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, beginning July 1, 2020, UCP-OC adopted new accounting guidance as prescribed by Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* and ASU No. 2016-02, *Leases*. Our opinion was not modified with respect to these matters.

Other Matter

Report on Summarized Comparative Information

We have previously audited UCP-OC 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



HASKELL & WHITE LLP

Irvine, California
December 10, 2021

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Statement of Financial Position
June 30, 2021
(with summarized comparative 2020 information)

ASSETS		
	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents (Note 2)	\$ 78,797	\$ 1,881,656
Restricted cash (Note 2)	350,000	-
Accounts receivable, net of contractual allowances reserves of \$53,034 and \$169,138	1,092,351	803,604
Grant receivables	120,000	-
Investment in UST (Note 3)	72,508	5,024
Prepaid expenses and other assets	83,359	9,780
Total current assets	<u>1,797,015</u>	<u>2,700,064</u>
Furniture and equipment, net (Note 5)	370,082	36,257
Other assets		
Deposits	237,361	28,800
Operating lease right-of-use assets, net (Note 9)	6,730,815	-
Total assets	<u>\$ 9,135,273</u>	<u>\$ 2,765,121</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 137,317	\$ 28,995
Accrued payroll and related expenses	326,293	397,240
Unearned revenue	6,250	250
Operating lease right-of-use liabilities, short-term portion (Note 9)	180,163	-
SBA emergency loans, short-term portion (Note 6)	-	446,996
Total current liabilities	<u>650,023</u>	<u>873,481</u>
Long-term liabilities		
SBA emergency loans, net of short-term portion (Note 6)	150,000	613,759
Line of credit (Note 7)	475,000	700,000
Operating lease right-of-use liabilities, net of short-term portion (Note 9)	6,563,730	-
Total liabilities	<u>7,838,753</u>	<u>2,187,240</u>
Commitments and contingencies (Note 6-12)		
Net assets		
Without donor restrictions	1,296,520	546,881
With donor restrictions (Note 10)	-	31,000
Total net assets	<u>1,296,520</u>	<u>577,881</u>
Total liabilities and net assets	<u>\$ 9,135,273</u>	<u>\$ 2,765,121</u>

See accompanying notes to financial statements and independent auditor's report

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Statement of Activities
For the Year Ended June 30, 2021
(with summarized comparative 2020 information)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Revenues and support:				
Contributions:				
General contributions	\$ 563,194	\$ -	\$ 563,194	\$ 425,720
Grant income	1,030,758	-	1,030,758	278,642
In-kind gifts	139,468	-	139,468	5,742
Total contributions	<u>1,733,420</u>	<u>-</u>	<u>1,733,420</u>	<u>710,104</u>
Special events:				
Revenues	254,696	-	254,696	102,514
Direct expenses	(70,100)	-	(70,100)	(39,503)
Total special events, net	<u>184,596</u>	<u>-</u>	<u>184,596</u>	<u>63,011</u>
Program revenue:				
Therapy services	1,880,444	-	1,880,444	1,581,670
Respite connection	4,145,350	-	4,145,350	3,909,120
Recreation	-	-	-	6,758
Total program revenue	<u>6,025,794</u>	<u>-</u>	<u>6,025,794</u>	<u>5,497,548</u>
Other support:				
Investment income	2,360	-	2,360	6,168
Miscellaneous	447	-	447	3,015
Total other support	<u>2,807</u>	<u>-</u>	<u>2,807</u>	<u>9,183</u>
Subtotal revenues and support	7,946,617	-	7,946,617	6,279,846
Net assets released from restriction	31,000	(31,000)	-	-
Total revenues and support	<u>7,977,617</u>	<u>(31,000)</u>	<u>7,946,617</u>	<u>6,279,846</u>
Expenses:				
Program expenses	5,513,933	-	5,513,933	5,113,141
Administrative and general	1,183,412	-	1,183,412	1,050,447
Fundraising	530,633	-	530,633	458,240
Total expenses	<u>7,227,978</u>	<u>-</u>	<u>7,227,978</u>	<u>6,621,828</u>
Change in net assets	749,639	(31,000)	718,639	(341,982)
Net assets, beginning of year	546,881	31,000	577,881	919,863
Net assets, end of year	<u>\$ 1,296,520</u>	<u>\$ -</u>	<u>\$ 1,296,520</u>	<u>\$ 577,881</u>

See accompanying notes to financial statements and independent auditor's report

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

**Statement of Functional Expenses
For the Year Ended June 30, 2021
(with comparative 2020 information)**

	Program Services			Supporting Services		2021 Total	2020 Total
	Therapy Services	Respite Connection	Total Program	Administrative and General	Fundraising		
Salaries and related expenses	\$ 1,711,644	\$ 3,220,977	\$ 4,932,621	\$ 741,803	\$ 370,399	\$ 6,044,823	\$ 5,694,640
Other expenses:							
Facilities and equipment	329,022	63,495	392,517	125,456	51,784	569,757	403,633
Professional services	114,747	32,154	146,901	141,675	5,157	293,733	298,351
Travel and meetings	86	-	86	156	367	609	10,852
Other expenses	4,422	497	4,919	65,435	3,044	73,398	54,167
Business expenses	3,377	58	3,435	45,022	20,904	69,361	54,320
Insurance expenses	6,544	6,544	13,088	16,359	2,999	32,446	34,810
Depreciation	-	-	-	16,953	-	16,953	19,412
National and state affiliate	-	-	-	20,000	-	20,000	18,333
Supplies	15,974	3,769	19,743	10,553	1,206	31,502	32,277
Marketing	-	623	623	-	74,773	75,396	1,033
Total other expenses	474,172	107,140	581,312	441,609	160,234	1,183,155	927,188
Total expenses	\$ 2,185,816	\$ 3,328,117	\$ 5,513,933	\$ 1,183,412	\$ 530,633	\$ 7,227,978	\$ 6,621,828

See accompanying notes to financial statements and independent auditor's report

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Statement of Cash Flows For the Year Ended June 30, 2021 (with summarized comparative 2020 information)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 718,639	\$ (341,982)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	16,953	19,412
Payroll Protection Program loan forgiveness	(910,755)	-
Amortization and accretion of operating leases	13,078	-
Investment (gain) loss	(3,532)	739
Loss on disposal of assets	7,819	-
Bad debt expense	79	3,893
Changes in operating assets and liabilities		
Accounts receivable and accrued expenses	(288,826)	39,263
Grants receivable	(120,000)	17,525
Prepaid expenses and other assets	(73,579)	(4,969)
Deposits	(208,561)	-
Accounts payable	108,322	(13,457)
Unearned revenue	6,000	-
Accrued payroll and related expenses	(70,947)	132,493
Net cash used in operating activities	(805,310)	(147,083)
Cash flows from investing activities		
Use of UST investments for SUI	(63,952)	35,030
Furniture and equipment acquisitions	(358,597)	(1,589)
Net cash (used in) provided by investing activities	(422,549)	33,441
Cash flows from financing activities		
(Payments) draws from line of credit, net	(225,000)	189,000
Proceeds from SBA emergency loans	-	1,060,755
Net cash (used in) provided by financing activities	(225,000)	1,249,755
Net (decrease) increase in cash, cash equivalents, and restricted cash	(1,452,859)	1,136,113
Cash, cash equivalents, and restricted cash, beginning of year	1,881,656	745,543
Cash, cash equivalents, and restricted cash, end of year	\$ 428,797	\$ 1,881,656
Cash and cash equivalents	\$ 78,797	\$ 1,881,656
Restricted cash	350,000	-
Total cash, cash equivalents, and restricted cash	\$ 428,797	\$ 1,881,656
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 1,000	\$ 26,454
Non-cash investing and financing activities:		
Disposals of fully-depreciated furniture and fixtures	\$ 449,059	\$ -
Operating right-of-use assets resulting from the adoption of ASC 842	\$ 6,679,372	\$ -
Operating right-of-use liabilities resulting from the adoption of ASC 842	\$ 6,785,911	\$ -

See accompanying notes to financial statements and independent auditor's report

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies

The mission of the United Cerebral Palsy Association of Orange County (“UCP-OC” or the “Organization”) is to help children with disabilities reach their full potential and improve the quality of life for their families.

Current Programs, Activities, and Accomplishments

Founded in 1953, UCP-OC was established as United Cerebral Palsy of Orange County to assist people of all ages affected by cerebral palsy. With nearly to 60-plus years of service, UCP-OC has observed a great demand for services for children with disabilities. In response, UCP-OC has streamlined its focus to children while broadening the programs offered, as well as the range of disabilities served to include autism spectrum disorder, cerebral palsy, Down syndrome, and other developmental delays. In order to help every child reach his/her full potential, UCP-OC’s services are highly individualized from simple delays to complicated lifetime conditions.

The services offered by UCP-OC are as follows:

Therapy Services: Physical, occupational, and speech therapy are provided by licensed therapists in one-on-one situations or small groups. Multidisciplinary therapy is focused on building skills in the areas of mobility, functional ability, and use of language. Early intervention therapy and instruction is specifically designed to help children from birth to five years old, with one or more developmental disability, accomplish developmental milestones and mitigate long-term issues.

Respite Connection: Respite Connection provides critically needed “respite” for families facing the challenges of a special needs child by providing skilled caregivers who are able to care for medically fragile and behaviorally challenged children. This program helps to keep children at home with their families where they have a greater chance of prospering in society. Inclusive childcare provides a safety net for working parents and an opportunity for children with special needs to be included in a typical after-school-care setting. Highly skilled one-on-one aides work collaboratively with center staff to properly assess and evaluate special needs children and include them with their developmentally typical peers.

Recreation: Recreation offers a wide variety of after-school activities and community-based classes that allow children with disabilities to participate in activities not readily available to them, including yoga, dance, drawing and painting, music, and gymnastics. UCP-OC also offers a number of special recreation opportunities throughout the year. However, such activities were placed on hold due to COVID-19.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Current Programs, Activities, and Accomplishments (continued)

UCP-OC works collaboratively with Children’s Hospital of Orange County and the University of Irvine, California Medical Center, as well as local pediatricians and nonprofit organizations to offer targeted services and therapies to children with disabilities and their families.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles in the United States of America (“GAAP”). A summary of significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Net Asset Classification

The financial statements present net assets and changes in net assets in two classes of net assets that are based upon the existence or nonexistence of donor-imposed restrictions. The two classes of net assets are as follows:

Net Assets With Donor Restrictions – Net assets with donor restrictions are resources that are restricted by a donor for a specified purpose or for use in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature and the Organization must continue to use these resources in accordance with the donor’s stipulations. The Organization’s unspent contributions are included in this class if the donor has limited their use. When a donor’s restriction is satisfied, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

If a donor restriction expires within the same period in which the support is recognized, such support is reported as an increase in net assets without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets without donor restrictions are resources available to support the Organizations’ operations. The only limits on the use of these net assets, if any, are broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of operations.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risks and Uncertainties

UCP-OC, through the investment in UST, invests in various types of investment securities, which 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 the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position, to the extent that the investment account is material.

Cash and Cash Equivalents

Cash and cash equivalents have been defined as petty cash, demand deposits, and highly liquid investments purchased with an original maturity of 90 days or less, which is neither held for nor restricted by donors for long-term purposes.

The Organization maintains cash balances on deposit at financial institutions. At times throughout the year, the Organization will have amounts on deposit at financial institutions that exceed the Federal Deposit Insurance Corporation insurance limits. Management of the Organization believes there is no significant risk with respect to such deposits.

Restricted Cash

Restricted cash relates to reserve accounts as required by lenders.

Furniture and Equipment

UCP-OC's fixed assets are stated at cost when purchased or fair market value when donated and are depreciated over their estimated useful lives of three to seven years using the straight-line method. Expenditures of \$1,000 or more for major renewals and betterments that extend the useful lives of furniture and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the useful life of the asset are charged to expense as incurred.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Furniture and Equipment (continued)

Furniture and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If an asset is determined to be impaired, impairment expense to be recognized is measured as the amount by which the carrying value of the asset exceeds its fair value. No impairment losses were recognized in the financial statements for the years ended June 30, 2021 and June 30, 2020.

Leases

Effective July 1, 2020, the Organization adopted the new lease standard provisions of Accounting Standards Codification (“ASC”) 842. The Organization elected the modified retrospective method for all lease arrangements with a cumulative-effect adjustment as of July 1, 2020. Results for reporting periods beginning on or after July 1, 2020 are presented under ASC 842, while prior period amounts were not adjusted and are reported in accordance with the Company’s historic accounting under ASC 840, Leases.

Management determines if a contract is or contains a lease at the inception or modification of such contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

Operating lease right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the expected lease term on the lease commencement date. When the implicit lease rate is not determinable, management uses the Organization’s incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future minimum lease payments. The expected lease terms include options to extend or terminate the lease when it is reasonably certain the Organization will exercise such options. Lease expense for minimum lease payments is recognized on a straight-line basis over the expected lease terms.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Leases (continued)

Financing lease right-of-use assets are recognized within furniture and equipment, net on the Organization's statement of financial position. The Organization recognizes interest expense on the financing lease liabilities utilizing the effective interest method. The right-of-use asset is generally amortized to depreciation and amortization expense on a straight-line basis over the lease term. Currently, the Organization does not have any financing lease right-of-use assets or liabilities.

The Organization elected the package of practical expedients in transition for leases that commenced prior to July 1, 2020, and therefore did not reassess (i) whether any expired or existing contracts are, or contain, leases, (ii) the lease classification for any expired or existing leases, and (iii) initial direct costs for any existing leases. For all asset classes, the Organization elected to (i) not recognize a right-of-use asset and lease liability for leases with a term of 12 months or less and (ii) not separate non-lease components from lease components, and have accounted for combined lease and non-lease components as a single lease component.

Accounts Receivable and Related Program Revenue

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in GAAP. The underlying principle of the new guidance is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what the entity expects to receive in exchange for the goods or services. The ASU also required expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard effective July 1, 2020, the first day of the Organization's most recent fiscal year, using the modified retrospective approach.

The adoption of this ASU did not have a significant impact on the Organization's financial statements. The majority of the Organization's revenue arrangements generally consist of a single performance obligation to transfer promised services. Based on the Organization's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable and Related Program Revenue (continued)

The Organization records revenue based on a five-step model which includes: (1) identifying a contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price among the performance obligations; and (5) recognizing revenue as each of the various performance obligations are satisfied. The Organization only applies the five-step model to contracts when it is probable that it will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer.

Program fee revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for services provided to children with cerebral palsy. These amounts are due from the parents/guardians of the participants. The Organization bills the program fees on a monthly basis, according to contract. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Organization does not believe it is required to provide additional goods or services to the participant. Program fees receivable are primarily amounts due from fees billed to children of the Organization's programs and are presented net of allowance for doubtful accounts.

Payments received in advance for future services are deferred and recognized as revenue when the performance obligations are met. For the year under ended June 30, 2021 there were no advanced payments and as such, no deferred revenue in the accompanying statement of financial position, which would have been considered a contract liability under ASC 606.

UCP-OC bills insurance companies for services provided to covered clients. Amounts recorded at the time of service as revenue and the related accounts receivable are equal to the amount billed, less any contractual adjustments expected to be made by the insurance companies. Accounts receivable are periodically evaluated for collectability based on past credit history with insurance companies and their current financial condition. The allowance for doubtful accounts is determined on the basis of loss experience, economic conditions in the industry, and the financial stability of insurance companies. UCP-OC has recorded an allowance for doubtful accounts of \$0 at June 30, 2021 and 2020, respectively. Additionally, UCP-OC has recorded contractual allowance reserves of \$53,034 and \$169,138 at June 30, 2021 and 2020, respectively.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions Receivable and Support Revenues

The Organization recognizes contributions when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. If the restrictions expire in the fiscal year in which the contributions are recognized, they are reported in net assets without donor restrictions. When restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions through the net assets released from restriction line item on the statement of activities. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Donations

In-kind donations are contributions of donated noncash assets and services measured on a nonrecurring basis and are recorded at fair value in the period received. There were \$108,820 and \$3,342 of in-kind goods for the years ended June 30, 2021 and 2020, respectively.

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements, as there is no objective basis of deriving their value. \$30,648 and \$2,400 of the volunteer services provided to UCP-OC during the year ended June 30, 2021 and 2020, respectively, met the criteria for recognition.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurement, which clarifies that entities should disclose information about the uncertainty of fair value measurements as of the reporting date. ASU 2018-13 removes the requirement to disclose the amount and reasons for transfers between Level 1 and 2 of the fair value hierarchy table, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. ASU 2018-13 requires transfers out of and into Level 3 and purchases and issues of Level 3 assets and liabilities to be disclosed.

Also required to be disclosed is liquidation timing of an investee's assets and the date when restrictions from redemption might lapse. ASU 2018-13 is effective for nonpublic entities for fiscal years beginning after December 15, 2019. A reporting entity should apply amendments retrospectively to all periods presented. The Organization adopted ASU 2018-13 for the year ending June 30, 2021. Adoption of these changes did not have a material impact on the Organization's financial statements.

Cash equivalents and investment in UST are all valued using Level 1 inputs.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities and equipment, and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, supplies, travel, business expenses, insurance, and other, which are allocated on the basis of estimates of time and effort. Administrative and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fundraising activities in conjunction with its other activities.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Income Taxes

UCP-OC is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is also exempt from California income or franchise taxes under Revenue and Taxation Code Section 23701d.

Management does not believe that UCP-OC has any uncertain tax positions as of June 30, 2021 and 2020. UCP-OC evaluates its tax positions and would recognize a loss contingency associated with an uncertain tax position when it is probable that a liability has been incurred as of the statement of financial position date and the amount of the loss can be reasonably estimated. The amount recognized would be subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

Pending Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The new guidance is intended to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The amendments in this ASU require that entities (1) present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and (2) disclose the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021. The Organization is currently evaluating the effect the provisions of this ASU will have on the financial statements.

2. Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents at June 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Cash in bank and petty cash	\$ 78,797	\$ 1,529,687
Money market funds	-	351,969
Restricted cash	<u>350,000</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 428,797</u>	<u>\$ 1,881,656</u>

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

3. Investment in UST

In order to manage unemployment insurance costs, under the reimbursement method allowed for not-for-profit organizations, UCP-OC submits amounts to a United States Trust (“UST”) account quarterly and the administrator of the trust makes quarterly payments based on the statement provide by the Employment Development Department. Minimal interest and fees are earned and incurred through this account. The investment is considered current due to the continuous use of the funds for unemployment insurance costs.

4. Liquidity Disclosure

As of June 30, 2021, the Organization has financial assets available for general expenditure, which is without donor or other restrictions limiting their use, within one year of the statement of financial position comprising the following:

Financial assets, at year-end:

Cash and cash equivalents	\$ 78,797
Restricted cash	350,000
Accounts receivable	1,092,351
Grants receivable	120,000
Investment in UST	72,508
Total financial assets	<u>1,713,656</u>

Less those unavailable for general expenditures within one year, due to:

Cash restricted by lender	350,000
Investment restricted for use to pay unemployment insurance	72,508
	<u>422,508</u>

Amount available for general expenditures within one year \$ 1,291,148

The accounts receivable and grants receivable are subject to implied time restrictions but are expected to be collected within one year. UCP-OC has a goal to maintain financial assets, which consist of cash and cash equivalents, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$1,183,000.

UCP-OC has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization currently does not utilize investment options beyond the cash equivalents and UST account.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

5. Furniture and Equipment

Furniture and equipment at June 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 444,659	\$ 328,563
Less: accumulated depreciation	<u>(74,577)</u>	<u>(292,306)</u>
Net furniture and equipment	<u>\$ 370,082</u>	<u>\$ 36,257</u>

Depreciation expense for the years ended June 30, 2021 and 2020, was \$16,953 and \$19,412, respectively.

6. SBA Emergency Loans

SBA Emergency Loan (PPP)

In April 2020, the Organization obtained a Small Business Administration (“SBA”) loan as a part of the Paycheck Protection Program related to the global pandemic, COVID-19. The SBA loan principal was \$910,755, with a fixed interest rate of 1.00%. Loan forgiveness is permitted based on conditional terms. The Organization received full forgiveness of the SBA loan in November 2020. The Organization recorded the loan forgiveness as grant income in the statements of activities for the year ended June 30, 2021.

SBA EIDL

In May 2020, the Organization obtained a SBA Economic Injury Disaster Loan (“EIDL”) of \$150,000. Monthly payments of interest and principal start in May 2022 and the EIDL loan matures in January 2050. The EIDL loan contained a 2.75% fixed interest rate. Outstanding principal and interest under the agreement was \$154,232 at June 30, 2021. The proceeds of this EIDL loan must be solely used as working capital to alleviate economic injury caused by disaster.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2021 and 2020**

6. SBA Emergency Loans (continued)

SBA EIDL (continued)

Future minimum principal payments of the EIDL loan as of June 30, 2021 are as follows:

Year Ending June 30,	Amount
2022	\$ -
2023	595
2024	3,624
2025	3,725
2026	3,829
Thereafter	138,227
	<u>\$ 150,000</u>

7. Line of Credits

In August 2017, UCP-OC entered into a revolving line of credit loan with Citizens Business Bank (“Citizens loan”). The Citizens loan was extended and provides for borrowings through September 2020 (the maturity date) of up to a maximum amount of \$700,000. Borrowings bear a variable interest rate equal to the bank’s prime rate, not to be less than 3.25%, payable monthly. All borrowings are collateralized by substantially all assets of UCP-OC. The Citizens loan has an interest rate of 3.75% and a balance of \$700,000 as of June 30, 2020. The Citizens loan was paid off in July 2020.

In October 2020, UCP-OC entered into a revolving line of credit loan with Farmers & Merchants Bank (“F&M loan”). The F&M loan provides for borrowings through October 2022 (the maturity date) of up to a maximum amount of \$700,000. Borrowings bear a variable interest rate equal to the bank’s prime rate plus 1%, not to be less than 4.25%, payable monthly. All borrowings are collateralized by substantially all assets of UCP-OC. The F&M loan has an interest rate of 4.25% and balance of \$475,000 as of June 30, 2021.

The F&M line of credit agreement with the bank contains various covenants. At June 30, 2021, UCP-OC was in compliance with respect to all terms of the F&M loan.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

8. Commitments and Contingencies

Litigation

UCP-OC experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") outbreak as a pandemic. The outbreak of COVID-19 continues to cause domestic and global disruption in operations for many businesses, however, there has been no significant impact to the Organization's operations. Management has instituted cost-saving measures due to the uncertainties regarding the ultimate impact of COVID-19 and will continue to closely monitor the situation to ensure resources are focused and effectively managed. The duration and intensity of the impact of COVID-19 and potential disruption to the Organization's operations and assets are uncertain and could adversely affect future financial results.

9. Leases

The Organization has two operating leases. The first operating lease is for copier equipment which commenced in March 2019 and terminates in February 2024. The second operating lease is for the Organization's offices located at Dyer Road in Santa Ana, California. This lease commenced in June 2021 and provides 18,307 square feet of office space. The office lease terminates in November 2034.

Upon adoption of ASC 842 on July 1, 2020, the Organization had one lease in effect which qualified for implementation. As such, the Organization recorded an operating lease right-of-use ("ROU") asset and operating ROU lease liability of \$59,768, respectively. As of June 30, 2021, the total operating ROU asset for the copier lease is \$44,272, net of \$15,496 in amortization and the total operating lease liability is \$44,272 net of \$1,977 in accretion.

In June 2021, the Organization entered into a lease agreement for new office space. As such, the Organization recorded an ROU asset and operating ROU lease liability of \$6,719,605 and \$6,726,144, respectively, with the difference due to deferred rent that was reclassified against the ROU asset value. As of June 30, 2021, the total operating ROU asset for the new office space is \$6,686,543, net of \$33,063 in amortization and the total operating lease liability is \$6,699,621, net of \$23,822 in accretion.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2021 and 2020**

9. Leases (continued)

The Organization used a discount rate of 4.25% as of July 1, 2021 and 3.75% as of June 1, 2020 in determining the operating lease liabilities. This rate represents the incremental borrowing rate at that time.

Short-term leases with initial terms of twelve months or less are not capitalized.

The following tables present the Organization's lease costs and other lease information:

Other information

Cash paid for amounts included in the measurement of lease liabilities

Operating cash flows from operating leases	\$ 67,816
Right of use asset obtained in exchange for new operating lease liability	\$ 6,719,605
Weighted-average remaining lease term - operating leases (years)	8.04
Weighted-average discount rate - operating leases	4.00%

Maturities of operating lease ROU liabilities are as follows:

Year ending June 30,	Operating Leases
<u>2022</u>	\$ 118,161
2023	536,018
2024	600,762
2025	661,800
2026	681,655
Thereafter	<u>6,613,009</u>
Total lease payments	9,211,405
Less: imputed interest	(2,467,512)
Total	<u><u>\$ 6,743,893</u></u>

Rent expense for the years ended June 30, 2021 and 2020 totaled \$397,185 and \$326,075, respectively.

UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY

Notes to Financial Statements for the Years Ended (continued) June 30, 2021 and 2020

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
Therapy program	\$ -	\$ 31,000
Total net assets with donor restrictions	<u>\$ -</u>	<u>\$ 31,000</u>

Net assets totaling \$31,000 were released from donor restrictions due to the satisfaction of purpose or time restrictions during the year ended June 30, 2021.

11. Business Concentration

UCP-OC receives a substantial portion of its revenue and support from the Regional Center of Orange County (“RCOC”) in the form of cost reimbursements for services provided to its clients. The amount of revenue received for the year ended June 30, 2021, was \$4,605,203. These amounts are reported as part of program revenue in the statement of activities, which represent 59% of total revenue and support for the year ended June 30, 2021. At June 30, 2021, amounts included in accounts receivable totaled \$747,310, which represent 65%, of total accounts receivable in the statement of financial position.

The amount of revenue received for the year ended June 30, 2020, was \$4,407,099. These amounts are reported as part of program revenue in the statement of activities, which represent 71% of total revenue and support for the year ended June 30, 2020. At June 30, 2020, amounts included in accounts receivable totaled \$719,521, which represent 74%, of total accounts receivable in the statement of financial position.

12. Retirement Plan

UCP-OC sponsors a qualified 401(k) plan for all eligible employees. Employees may contribute a portion of their yearly compensation, with UCP-OC matching a discretionary contribution equal to a percentage of the amount of the employee deferral as determined each year by UCP-OC. For the years ended June 30, 2021 and 2020, UCP-OC elected to not match contributions. As such, there were no employer-matching contributions to the plan for the years ended June 30, 2021 and 2020.

13. Subsequent Events

Management has evaluated subsequent events through December 10, 2021, the date the financial statements were available to be issued, noting no events requiring disclosure.