

Financial Statements with Independent Auditors' Report

United Cerebral Palsy Association of Orange County (dba Unlimited Possibilities)

*As of and For the Year Ended June 30, 2022 (With Summarized Comparative
Information as of and for the year ended June 30, 2021)*

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
(DBA UNLIMITED POSSIBILITIES)**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	
Financial Statements	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
United Cerebral Palsy Association of Orange County (dba Unlimited Possibilities)

Opinion

We have audited the accompanying financial statements of the United Cerebral Palsy Association of Orange County (dba Unlimited Possibilities) (a nonprofit organization) (“UP”), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year 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 UP as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 UP and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 UP' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 UP'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 UP'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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Report on Summarized Comparative Information

We have previously audited UP's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Haskell & White LLP". The signature is written in a cursive, flowing style.

HASKELL & WHITE LLP

Irvine, California
December 19, 2022

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Statement of Financial Position
June 30, 2022
(with summarized comparative 2021 information)**

ASSETS	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents (Note 2)	\$ 26,786	\$ 78,797
Restricted cash (Note 2)	350,000	350,000
Accounts receivable, net of contractual allowances reserves of \$95,888 and \$53,034	1,244,447	1,092,351
Grant receivables	91,000	120,000
Investment in UST (Note 3)	24,080	72,508
Prepaid expenses and other assets	<u>20,148</u>	<u>83,359</u>
Total current assets	1,756,461	1,797,015
Furniture and equipment, net (Note 5)	390,532	370,082
Other assets		
Deposits	229,966	237,361
Operating lease right-of-use assets, net (Note 9)	<u>6,328,475</u>	<u>6,730,815</u>
Total assets	<u>\$ 8,705,434</u>	<u>\$ 9,135,273</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 372,295	\$ 137,317
Accrued payroll and related expenses	384,256	326,293
Unearned revenue	250	6,250
Operating lease right-of-use liabilities, short-term portion (Note 9)	269,942	180,163
Bridge loan (Note 6)	150,000	-
Line of credit (Note 7)	<u>695,145</u>	<u>-</u>
Total current liabilities	1,871,888	650,023
Long-term liabilities		
SBA emergency loans (Note 6)	149,359	150,000
Line of credit (Note 7)	-	475,000
Operating lease right-of-use liabilities, net of short-term portion (Note 9)	<u>6,646,988</u>	<u>6,563,730</u>
Total liabilities	<u>8,668,235</u>	<u>7,838,753</u>
Commitments and contingencies (Notes 6-13)		
Net assets		
Without donor restrictions	(22,801)	1,296,520
With donor restrictions (Note 10)	<u>60,000</u>	<u>-</u>
Total net assets	<u>37,199</u>	<u>1,296,520</u>
Total liabilities and net assets	<u>\$ 8,705,434</u>	<u>\$ 9,135,273</u>

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

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Statement of Activities
For the Year Ended June 30, 2022
(with summarized comparative 2021 information)**

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Revenues and support:				
Contributions:				
General contributions	\$ 678,547	\$ 69,009	\$ 747,556	\$ 563,194
Grant income	173,437	-	173,437	1,030,758
Contributed nonfinancial assets	38,978	-	38,978	139,468
Total contributions	890,962	69,009	959,971	1,733,420
Special events:				
Revenues	137,054	-	137,054	254,696
Direct expenses	(22,207)	-	(22,207)	(70,100)
Total special events, net	114,847	-	114,847	184,596
Program revenue:				
Therapy services	1,759,500	-	1,759,500	1,880,444
Respite connection	3,554,546	-	3,554,546	4,145,350
Total program revenue	5,314,046	-	5,314,046	6,025,794
Other support:				
Investment (loss) income, net	(5,227)	-	(5,227)	2,360
Miscellaneous expense	-	-	-	447
Total other support	(5,227)	-	(5,227)	2,807
Subtotal revenues and support	6,314,628	69,009	6,383,637	7,946,617
Net assets released from restriction	9,009	(9,009)	-	-
Total revenues and support	6,323,637	60,000	6,383,637	7,946,617
Expenses:				
Program expenses	5,655,492	-	5,655,492	5,513,933
Administrative and general	1,317,528	-	1,317,528	1,183,412
Fundraising	669,938	-	669,938	530,633
Total expenses	7,642,958	-	7,642,958	7,227,978
Change in net assets	(1,319,321)	60,000	(1,259,321)	718,639
Net assets, beginning of year	1,296,520	-	1,296,520	577,881
Net assets, end of year	\$ (22,801)	\$ 60,000	\$ 37,199	\$ 1,296,520

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

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Statement of Functional Expenses
For the Year Ended June 30, 2022
(with comparative 2021 information)**

	Program Services			Supporting Services		2022 Total	2021 Total
	Therapy Services	Respite Connection	Total Program	Administrative and General	Fundraising		
Salaries and related expenses	\$ 1,804,394	\$ 2,750,111	\$ 4,554,505	\$ 805,551	\$ 392,031	\$ 5,752,087	\$ 6,044,823
Other expenses:							
Facilities and equipment	659,146	79,774	738,920	94,248	33,280	866,448	569,757
Professional services	217,459	39,894	257,353	93,902	126,816	478,071	293,733
Travel and meetings	5,600	497	6,097	298	741	7,136	609
Other expenses	2,067	124	2,191	76,462	1,810	80,463	73,398
Business expenses	5,564	620	6,184	21,397	32,235	59,816	69,361
Insurance expenses	32,200	3,275	35,475	3,179	1,223	39,877	32,446
Depreciation	-	-	-	62,806	-	62,806	16,953
National and state affiliate	-	-	-	20,000	-	20,000	20,000
Supplies	50,154	1,188	51,342	738	1,359	53,439	31,502
Marketing	3,233	192	3,425	138,947	80,443	222,815	75,396
Total other expenses	<u>975,423</u>	<u>125,564</u>	<u>1,100,987</u>	<u>511,977</u>	<u>277,907</u>	<u>1,890,871</u>	<u>1,183,155</u>
Total expenses	<u>\$ 2,779,817</u>	<u>\$ 2,875,675</u>	<u>\$ 5,655,492</u>	<u>\$ 1,317,528</u>	<u>\$ 669,938</u>	<u>\$ 7,642,958</u>	<u>\$ 7,227,978</u>

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

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Statement of Cash Flows
For the Year Ended June 30, 2022
(with summarized comparative 2021 information)**

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (1,259,321)	\$ 718,639
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	62,806	16,953
Payroll Protection Program loan forgiveness	-	(910,755)
Amortization and accretion of operating leases	575,377	13,078
Investment loss (gain)	5,714	(3,532)
Loss on disposal of assets	-	7,819
Bad debt expense	42,854	79
Changes in operating assets and liabilities		
Accounts receivable and accrued expenses	(194,950)	(288,826)
Grants receivable	29,000	(120,000)
Prepaid expenses and other assets	63,211	(73,579)
Deposits	7,395	(208,561)
Accounts payable	234,978	108,322
Accrued payroll and related expenses	57,963	(70,947)
Unearned revenue	(6,000)	6,000
Net cash used in operating activities	(380,973)	(805,310)
Cash flows from investing activities		
Change in UST investments for SUI	42,714	(63,952)
Furniture and equipment acquisitions	(83,256)	(358,597)
Net cash used in investing activities	(40,542)	(422,549)
Cash flows from financing activities		
Draws (payments) on line of credit, net	219,504	(225,000)
Proceeds from bridge loan	150,000	-
Net cash provided by (used in) financing activities	369,504	(225,000)
Net decrease in cash, cash equivalents, and restricted cash	(52,011)	(1,452,859)
Cash, cash equivalents, and restricted cash, beginning of year	428,797	1,881,656
Cash, cash equivalents, and restricted cash, end of year	\$ 376,786	\$ 428,797
Cash and cash equivalents	\$ 26,786	\$ 78,797
Restricted cash	350,000	350,000
Total cash, cash equivalents, and restricted cash	\$ 376,786	\$ 428,797
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 15,280	\$ 1,000
Non-cash investing and financing activities:		
Disposals of fully-depreciated furniture and fixtures	\$ -	\$ 449,059

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

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended
June 30, 2022 and 2021**

1. Organization and Summary of Significant Accounting Policies

The mission of the United Cerebral Palsy Association of Orange County (dba Unlimited Possibilities) (“UP” 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, UP was established as United Cerebral Palsy of Orange County to assist people of all ages affected by cerebral palsy. With nearly 60-plus years of service, UP has observed a great demand for services for children with disabilities. In response, UP 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, UP’s services are highly individualized from simple delays to complicated lifetime conditions.

The services offered by UP 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. UP 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
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

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

Current Programs, Activities, and Accomplishments (continued)

UP 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
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

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

UP, 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.

Property and Equipment

UP'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 property 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
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

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

Property and Equipment (continued)

Property 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, 2022 and June 30, 2021.

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.

Financing lease right-of-use assets are recognized within property 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.

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

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

Accounts Receivable and Related Program Revenue

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 participants 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, 2022 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 Accounting Standards Codification ("ASC") 606.

UP 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. UP has recorded an allowance for doubtful accounts of \$0 at June 30, 2022 and 2021, respectively. Additionally, UP has recorded contractual allowance reserves of \$95,888 and \$53,034 at June 30, 2022 and 2021, respectively.

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

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.

Contributions of Nonfinancial Assets and Services

In September 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. The Organization adopted the new standard effective July 1, 2021, the first day of the Organization’s most recent fiscal year. The adoption of this ASU did not have a significant impact on the Organization’s financial statements, except for the additional disclosure requirements included below.

Contributed nonfinancial assets and services consisted of the following for the years ended June 30, 2022 and 2021:

<u>Description</u>	<u>2022</u>	<u>2021</u>
IT services	\$ 1,471	\$ 323
Labor services	3,278	-
Professional services	13,525	30,325
IT equipment	7,950	56,100
Office furniture	-	18,000
Supplies	12,754	34,720
Total contributed nonfinancial assets	<u>\$ 38,978</u>	<u>\$ 139,468</u>

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

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

Contributions of Nonfinancial Assets (continued)

UP recognized contributed nonfinancial assets within revenue, including various services, equipment, furniture, and supplies. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Donated supplies as noted above were used for programs or for fundraising events. Donated supplies and other services are valued and are reported at the actual purchase amounts or at the estimated fair value of similar products.

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.

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.

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

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

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

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.

Income Taxes

UP 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 UP has any uncertain tax positions as of June 30, 2022 and 2021. UP 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.

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

2. Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents at June 30, 2022 and 2021, consist of the following:

	2022	2021
Cash in bank	\$ 26,786	\$ 78,797
Restricted cash	350,000	350,000
Total cash and cash equivalents	\$ 376,786	\$ 428,797

The line of credit disclosed in Note 7 requires the Organization to maintain at all times a restricted cash account balance of \$350,000.

3. Investment in UST

In order to manage unemployment insurance costs, under the reimbursement method allowed for not-for-profit organizations, UP 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, 2022, 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:

Cash and cash equivalents	\$ 26,786
Restricted cash	350,000
Accounts receivable	1,244,447
Grants receivable	91,000
Investment in UST	24,080
Total financial assets	1,736,313
Less: amounts restricted by lender	350,000
Less: amounts in investments restricted for use to pay unemployment insurance	24,080
Total financial assets available for general expenditures within one year	\$ 1,362,233

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

4. Liquidity Disclosure (continued)

The table above reflects board designated reserve funds as unavailable because it is the Organization’s intention to invest those resources for that specific designation. However, in the case of need, the Board of Directors could appropriate such resources for general expenditure.

The accounts receivable and grants receivable are subject to implied time restrictions but are expected to be collected within one year. UP 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 \$1,236,000.

UP 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.

5. Property and Equipment

Property and equipment at June 30, 2022 and 2021, consist of the following:

	2022	2021
Furniture and equipment	\$ 384,016	\$ 355,025
Leasehold improvements	143,899	89,634
Less: accumulated depreciation	(137,383)	(74,577)
Net furniture and equipment	\$ 390,532	\$ 370,082

Depreciation expense for the years ended June 30, 2022 and 2021, was \$62,807 and \$16,953, respectively.

6. Debt

Bridge Loan

In March 2022, the Organization obtained a bridge loan of \$150,000 from their affiliate partner United Cerebral Palsy of the North Bay (“UCPNB”). The interest rate on the loan was 6.5%. The payment of principal plus interest of the loan was due upon maturity in July 2022. The Organization paid the bridge loan in full upon maturity and entered into a new bridge loan with UCPNB. See Note 13.

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

6. Debt (continued)

SBA EIDL

In May 2020, the Organization obtained a Small Business Administration (“SBA”) Economic Injury Disaster Loan (“EIDL”) of \$150,000. Monthly payments of interest and principal were deferred until November 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 approximately \$158,000 as of June 30, 2022. The proceeds of this EIDL loan must be solely used as working capital to alleviate economic injury caused by disaster. In August 2022, the Organization obtained an additional EIDL loan. See Note 13.

Future Minimum Principal Payments

Future minimum principal payments of loans as of June 30, 2022 are as follows:

Year Ending <u>June 30,</u>	<u>Amount</u>
2023	\$ 150,000
2024	9,767
2025	13,339
2026	13,711
2027	14,092
Thereafter	<u>98,450</u>
	<u><u>\$ 299,359</u></u>

7. Line of Credit

In October 2020, UP 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. As of June 30, 2022 and 2021, the interest rate on the loan was 7.25% and 4.25%, respectively. All borrowings are collateralized by substantially all assets of UP. The F&M loan had a balance of \$695,145 and \$475,000 as of June 30, 2022 and June 30, 2021, respectively. In October 2022, the line of credit was paid off in full.

The F&M line of credit agreement with the bank contains various covenants. At June 30, 2022, UP was in compliance with respect to all terms of the F&M loan and had a restricted cash balance of \$350,000.

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

8. Commitments and Contingencies

UP 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.

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.

As of June 30, 2022, the total operating right-of-use ("ROU") asset for the office space and copier was \$6,328,475, net of \$450,898 in accumulated amortization and the total operating lease liability was \$6,916,930, net of \$109,894 in accretion. This is compared to June 30, 2021, where the total operating ROU asset for the new office space was \$6,730,815, net of \$48,559 in amortization and the total operating lease liability was \$6,743,893, net of \$42,018 in accretion.

The Organization used a discount rate of 4.25% for the Dyer lease and 3.75% for the copier lease in determining the operating lease liabilities. These rates represent the incremental borrowing rate at the time of ASC 842 implementation.

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	\$ 118,161
Right of use asset obtained in exchange for	
new operating lease liability	\$ -
Weighted-average remaining lease term - operating leases (years)	7.04
Weighted-average discount rate - operating leases	2.12%

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

9. Leases (continued)

Maturities of operating lease ROU liabilities are as follows:

Year ending June 30,	Operating Leases
2023	\$ 536,018
2024	600,763
2025	661,801
2026	681,655
2027	702,104
Thereafter	5,910,905
Total lease payments	9,093,246
Less: imputed interest	(2,176,316)
Total	\$ 6,916,930
Less: current portion	(269,942)
Total operating right-of-use liabilities, net of current portion	\$ 6,646,988

Lease expense for the years ended June 30, 2022 and 2021 totaled \$676,065 and \$397,185, respectively.

10. Net Assets with Donor Restrictions

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

	2022	2021
Capital campaign	\$ 55,000	\$ -
Therapy program	5,000	-
Total net assets with donor restrictions	\$ 60,000	\$ -

Net assets totaling \$9,009 were released from donor restrictions due to the satisfaction of purpose or time restrictions during the year ended June 30, 2022.

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

11. Business Concentration

UP 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, 2022, was approximately \$3,949,000. These amounts are reported as part of program revenue in the statement of activities, which represent 62% of total revenue and support for the year ended June 30, 2022. At June 30, 2022, amounts included in accounts receivable totaled approximately \$838,000, which represents 63% of total accounts receivable in the statement of financial position.

The amount of revenue received for the year ended June 30, 2021, was approximately \$4,605,000. 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 approximately \$747,000, which represents 65%, of total accounts receivable in the statement of financial position.

12. Retirement Plan

UP sponsors a qualified 401(k) plan for all eligible employees. Employees may contribute a portion of their yearly compensation, with UP matching a discretionary contribution equal to a percentage of the amount of the employee deferral as determined each year by UP. For the years ended June 30, 2022 and 2021, UP elected to not match contributions. As such, there were no employer-matching contributions to the plan for the years ended June 30, 2022 and 2021.

13. Subsequent Events

Management has evaluated subsequent events through December 19, 2022, the date the financial statements were available to be issued, noting no events requiring disclosure.

In August 2022, the Organization entered into a new bridge loan with UCPNB for \$350,000. This loan had an interest rate of 6.50% and a maturity date of October 2022. The principal plus interest of this loan was paid off upon maturity.

In August 2022, the Organization obtained an additional EIDL loan for \$350,000. This loan had the same terms and maturity date as the original EIDL loan as discussed in Note 6.

**UNITED CEREBRAL PALSY ASSOCIATION OF ORANGE COUNTY
DBA UNLIMITED POSSIBILITIES**

**Notes to Financial Statements for the Years Ended (continued)
June 30, 2022 and 2021**

13. Subsequent Events (continued)

In August 2022, the Organization entered into a new loan for \$500,000 with an unrelated party. The loan is due in full in February 2023 and has a zero percent interest rate. In December 2022, the loan terms were amended to have the Organization begin monthly payments immediately. The loan was also amended to be due in December 2023 and the annual interest rate was changed to 7.25%.

In December 2022, the Organization entered into a new line of credit with the Bank of Southern California, N.A. for \$1,000,000. This line of credit has a maturity date of December 2029 and a variable interest rate, which consists of the Wall Street Journal prime rate plus 2.00%. The initial interest rate of the line of credit agreement is 9.00%.