

# **UCAN and Affiliates**

Consolidated Financial Report  
June 30, 2020

## Contents

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Independent auditor's report	1-2
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Consolidated financial statements	
Consolidated statement of financial position	3-4
Consolidated statement of activities	5-6
Consolidated statement of functional expenses	7-8
Consolidated statement of cash flows	9
Notes to consolidated financial statements	10-27

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Supplementary information	
Schedule of institutional properties	28
Statement of total program revenue and expenses	29-30
Note to supplementary information	31

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
UCAN and Affiliates

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of UCAN and Affiliates (UCAN) which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

### Auditor's 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 auditor's 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 auditor considers internal control relevant to the entity'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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UCAN and Affiliates as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Report on Summarized Comparative Information**

We have previously audited UCAN's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 27, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*RSM US LLP*

Chicago, Illinois  
January 28, 2021

## UCAN and Affiliates

### Consolidated Statement of Financial Position June 30, 2020 (With Comparative Totals for 2019)

	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13,027	\$ -
Accounts receivable, net of allowance for doubtful accounts of \$1,121,759 for 2020 and \$878,343 for 2019	5,651,662	6,428,043
Grants receivable	838,781	1,031,053
Pledges receivable, net of allowance for doubtful accounts of \$195,504 for 2020 and \$262,812 for 2019	1,560,455	1,169,929
Prepaid expenses and other current assets	1,143,868	328,870
	<u>9,207,793</u>	<u>8,957,895</u>
Pledges receivable, net of allowance for doubtful accounts of \$81,481 for 2020 and \$39,168 for 2019	<u>2,333,449</u>	<u>1,680,632</u>
Investments	<u>9,873,058</u>	<u>11,317,069</u>
Institutional properties:		
Land	3,036,630	3,036,630
Land improvements	279,194	200,074
Buildings and improvements	44,193,509	43,925,485
Furniture and equipment	7,400,215	6,966,503
Leasehold improvements	137,735	137,735
Motor vehicles	671,168	520,469
Works of art	35,000	35,000
	<u>55,753,451</u>	<u>54,821,896</u>
Less accumulated depreciation	<u>(14,948,086)</u>	<u>(13,305,170)</u>
	<u>40,805,365</u>	<u>41,516,726</u>
NMTC restricted fee reserve cash account	133,872	221,065
NMTC leveraged loans receivable	21,307,060	21,307,060
Beneficial interest in trusts	11,168,307	11,438,243
	<u>32,609,239</u>	<u>32,966,368</u>
	<u>\$ 94,828,904</u>	<u>\$ 96,438,690</u>

See notes to consolidated financial statements.

UCAN and Affiliates

Consolidated Statement of Financial Position (Continued)  
June 30, 2020 (With Comparative Totals for 2019)

	2020	2019
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 2,332,357	\$ 2,688,272
Checks outstanding in excess of bank balances	-	90,535
Accrued expenses	601,116	540,459
Deferred revenue	10,725	10,725
Accrued payroll and benefits	2,570,240	2,296,815
Accrued vacation	1,102,428	967,704
Deferred compensation	24,000	24,000
Operating line of credit	3,557,885	3,590,612
Current portion of notes payable, net	14,990	14,345
Current portion of construction term loan	109,906	104,817
Current portion of UTHC construction term loan	187,544	187,544
Current portion of TIF bridge loan	-	500,000
Current portion of capital leases	61,943	28,380
	<u>10,573,134</u>	<u>11,044,208</u>
Long-term liabilities:		
Notes payable, net	197,030	221,801
Construction term loan, net	1,579,025	1,684,473
UTHC construction term loan, net	810,372	934,372
TIF bridge loan, net	-	489,015
Federal Home Loan Bank note, net	1,288,931	1,288,874
NMTC notes payable, net	33,108,021	32,953,584
Bonds payable, net	8,200,330	8,194,657
Capital lease obligation	162,743	84,760
Deferred compensation	4,887	28,887
Accrued pension	1,042,770	818,106
	<u>46,394,109</u>	<u>46,698,529</u>
Net assets:		
Without donor restrictions	22,165,407	23,958,836
With donor restrictions	15,696,254	14,737,117
	<u>37,861,661</u>	<u>38,695,953</u>
	<u>\$ 94,828,904</u>	<u>\$ 96,438,690</u>

See notes to consolidated financial statements.

## UCAN and Affiliates

### Consolidated Statement of Activities Year Ended June 30, 2020 (With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support, revenue and gains:				
Program support:				
Government	\$ 38,618,816	\$ -	\$ 38,618,816	\$ 37,536,894
Private agency/third-party	37,251	-	37,251	31,921
Services in-kind	51,962	-	51,962	61,064
Other/miscellaneous	8,998	-	8,998	63,823
	<u>38,717,027</u>	<u>-</u>	<u>38,717,027</u>	<u>37,693,702</u>
Public support:				
Contributions	167,188	2,999,165	3,166,353	2,102,989
Gifts in-kind	-	-	-	60,337
Bequests	57,261	-	57,261	79,230
Foundations	120,719	2,631,194	2,751,913	3,413,742
Benefit income, net of expenses of \$90,751 and \$164,943, respectively	618,691	-	618,691	763,872
Trust income	552,499	-	552,499	579,190
	<u>1,516,358</u>	<u>5,630,359</u>	<u>7,146,717</u>	<u>6,999,360</u>
Revenue and gains (losses):				
Investment and dividend income, net	94,073	-	94,073	202,577
Net realized and unrealized loss	(3,150)	(269,936)	(273,086)	(1,172)
Rental income	14,800	-	14,800	23,200
TIF redevelopment revenues	500,000	-	500,000	500,000
	<u>605,723</u>	<u>(269,936)</u>	<u>335,787</u>	<u>724,605</u>
Net assets released from restrictions:				
Satisfaction of donor/funder restrictions	4,401,286	(4,401,286)	-	-
	<u>45,240,394</u>	<u>959,137</u>	<u>46,199,531</u>	<u>45,417,667</u>
Expenses:				
Program services:				
Therapeutic youth home	10,331,090	-	10,331,090	9,360,084
Professional foster parenting	5,854,072	-	5,854,072	5,859,108
Independent living/transitional living	4,536,658	-	4,536,658	5,092,151
UCAN academy	6,272,619	-	6,272,619	5,996,776
Youth development/prevention/other	5,036,279	-	5,036,279	4,588,030
Housing support services	2,041,663	-	2,041,663	2,431,417
Clinical and counseling services	1,222,060	-	1,222,060	1,270,288
Teen parenting services network	3,041,041	-	3,041,041	3,473,598
Family-based services	84,140	-	84,140	81,585
Volunteer program	614,856	-	614,856	577,857
	<u>39,034,478</u>	<u>-</u>	<u>39,034,478</u>	<u>38,730,894</u>
Support services:				
Development	1,018,532	-	1,018,532	1,012,120
Other support services	835,222	-	835,222	1,017,648
Management and general	5,882,151	-	5,882,151	5,001,799
	<u>7,735,905</u>	<u>-</u>	<u>7,735,905</u>	<u>7,031,567</u>
	<u>46,770,383</u>	<u>-</u>	<u>46,770,383</u>	<u>45,762,461</u>

UCAN and Affiliates

**Consolidated Statement of Activities (Continued)**  
**Year Ended June 30, 2020 (With Comparative Totals for 2019)**

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<b>Net changes in net assets before other item</b>	\$ (1,529,989)	\$ 959,137	\$ (570,852)	\$ (344,794)
Other item:				
Pension-related changes other than net periodic pension cost	(263,440)	-	(263,440)	(254,351)
<b>Net changes in net assets</b>	(1,793,429)	959,137	(834,292)	(599,145)
Net assets:				
Beginning of year	23,958,836	14,737,117	38,695,953	39,295,098
End of year	<u>\$ 22,165,407</u>	<u>\$ 15,696,254</u>	<u>\$ 37,861,661</u>	<u>\$ 38,695,953</u>

See notes to consolidated financial statements.

## UCAN and Affiliates

### Consolidated Statement of Functional Expenses Year Ended June 30, 2020 (With Comparative Totals for 2019)

	Program Services								
	Therapeutic Youth Home	Professional Foster Parenting	Independent Living/ Transitional Living	UCAN Academy	Youth Development/ Prevention/ Other	Housing Support Services	Clinical and Counseling Services	Teen Parenting Services Network	Family - Based Services
Salaries and wages	\$ 6,256,655	\$ 1,912,244	\$ 2,537,156	\$ 3,966,808	\$ 3,350,350	\$ 1,086,130	\$ 837,227	\$ 2,019,035	\$ 57,453
Employee health and retirement	532,435	162,809	215,183	371,672	302,477	109,791	78,913	156,827	7,577
Payroll taxes and other employee benefits	882,296	194,251	265,516	411,077	349,071	112,158	87,380	194,534	6,506
	<u>7,671,386</u>	<u>2,269,304</u>	<u>3,017,855</u>	<u>4,749,557</u>	<u>4,001,898</u>	<u>1,308,079</u>	<u>1,003,520</u>	<u>2,370,396</u>	<u>71,536</u>
Program consultants/contractual	294,697	392,912	134,837	312,468	51,019	507,722	5,716	194,821	181
Training and staff development	43,237	14,774	20,011	36,795	62,992	14,486	10,996	23,698	328
Program supplies	397,145	39,146	48,156	160,761	102,022	15,855	15,874	5,132	70
Recreation activity	32,365	19,112	8,666	9,038	43,768	995	-	363	-
Tuition and school fees	140	74	1,721	-	-	-	-	-	-
Specific assistance	89,311	1,611,383	568,936	1,784	99,948	21,453	84,884	119,068	3
Rental of equipment, buildings and vehicles	-	760,617	-	402,000	405	22,968	14,899	45,696	1,500
Local transportation	31,953	200,508	118,648	6,319	107,933	40,025	22,515	66,894	5,720
Interest	252,243	17,182	44,948	112,088	6,550	2,590	1,735	7,054	120
Occupancy	647,804	362,604	320,436	209,558	113,789	40,659	14,187	66,595	1,425
Office and computer supplies	18,486	11,080	4,394	9,736	24,226	8,374	2,406	9,928	111
Telephone	21,175	26,148	37,264	12,722	53,642	15,961	14,115	32,104	1,333
Postage	4,470	2,435	1,200	5,667	4,009	1,248	311	777	6
Printing and publication	998	601	342	527	1,481	620	385	1,705	7
Membership dues	-	-	-	-	-	535	1,707	-	-
Subscription and reference material	61	28	160	39	36	12	9	3,770	1
Bad debt expense	-	-	-	-	-	-	-	-	-
Insurance	58,387	25,962	25,098	37,017	34,199	11,711	8,338	25,951	685
Gifts in-kind	-	-	-	-	-	-	-	-	-
Miscellaneous	63,562	12,206	42,393	20,116	206,112	5,319	3,040	508	97
	<u>9,627,420</u>	<u>5,766,076</u>	<u>4,395,065</u>	<u>6,086,192</u>	<u>4,914,029</u>	<u>2,018,612</u>	<u>1,204,637</u>	<u>2,974,460</u>	<u>83,123</u>
Depreciation	703,670	87,996	141,593	186,427	122,250	23,051	17,423	66,581	1,017
	<u>\$ 10,331,090</u>	<u>\$ 5,854,072</u>	<u>\$ 4,536,658</u>	<u>\$ 6,272,619</u>	<u>\$ 5,036,279</u>	<u>\$ 2,041,663</u>	<u>\$ 1,222,060</u>	<u>\$ 3,041,041</u>	<u>\$ 84,140</u>

## UCAN and Affiliates

### Consolidated Statement of Functional Expenses (Continued) Year Ended June 30, 2020 (With Comparative Totals for 2019)

	Volunteer Program	Total Program Services	Support Services			Total Support Services	Total 2020	Total 2019
			Development	Other Support Services	Management and General			
Salaries and wages	\$ 102,515	\$ 22,125,573	\$ 596,178	\$ 116,533	\$ 2,975,793	\$ 3,688,504	\$ 25,814,077	\$ 25,273,550
Employee health and retirement	5,438	1,943,122	35,597	47,640	150,418	233,655	2,176,777	1,729,627
Payroll taxes and other employee benefits	9,840	2,512,629	55,258	10,670	253,962	319,890	2,832,519	2,403,271
	<u>117,793</u>	<u>26,581,324</u>	<u>687,033</u>	<u>174,843</u>	<u>3,380,173</u>	<u>4,242,049</u>	<u>30,823,373</u>	<u>29,406,448</u>
Program consultants/contractual	1,495	1,895,868	143,616	284,925	645,310	1,073,851	2,969,719	3,226,426
Training and staff development	1,273	228,590	3,011	3,921	(17,439)	(10,507)	218,083	261,981
Program supplies	707	784,868	11,056	3,433	28,465	42,954	827,822	752,029
Recreation activity	-	114,307	-	1,565	834	2,399	116,706	156,791
Tuition and school fees	-	1,935	-	-	-	-	1,935	6,631
Specific assistance	369,350	2,966,120	20	7	(300)	(273)	2,965,847	3,061,528
Rental of equipment, buildings and vehicles	-	1,248,085	-	-	-	-	1,248,085	1,245,960
Local transportation	60,913	661,428	1,362	15,117	8,870	25,349	686,777	938,319
Interest	430	444,940	567	44,617	86,106	131,290	576,230	673,712
Occupancy	3,004	1,780,061	26,387	278	689,142	715,807	2,495,868	2,372,138
Office and computer supplies	3,221	91,962	34,635	275	219,532	254,442	346,404	256,665
Telephone	122	214,586	4,183	2,693	229,958	236,834	451,420	477,320
Postage	17	20,140	2,496	14	13,117	15,627	35,767	52,632
Printing and publication	13	6,679	35,610	2,675	5,238	43,523	50,202	64,006
Membership dues	50	2,292	(10)	-	53,283	53,273	55,565	51,254
Subscription and reference material	2	4,118	4,212	261	21,056	25,529	29,647	5,516
Bad debt expense	-	-	-	243,416	-	243,416	243,416	247,019
Insurance	1,855	229,203	6,165	1,690	120,079	127,934	357,137	271,365
Gifts in-kind	51,962	51,962	55	-	-	55	52,017	121,401
Miscellaneous	(164)	353,189	31,793	43,197	147,268	222,258	575,447	427,639
	<u>612,043</u>	<u>37,681,657</u>	<u>992,191</u>	<u>822,927</u>	<u>5,630,692</u>	<u>7,445,810</u>	<u>45,127,467</u>	<u>44,076,780</u>
Depreciation	2,813	1,352,821	26,341	12,295	251,459	290,095	1,642,916	1,685,681
	<u>\$ 614,856</u>	<u>\$ 39,034,478</u>	<u>\$ 1,018,532</u>	<u>\$ 835,222</u>	<u>\$ 5,882,151</u>	<u>\$ 7,735,905</u>	<u>\$ 46,770,383</u>	<u>\$ 45,762,461</u>

See notes to consolidated financial statements.

## UCAN and Affiliates

### Consolidated Statement of Cash Flows Year Ended June 30, 2020 (With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities:		
Net changes in net assets	\$ (834,292)	\$ (599,145)
Adjustments to reconcile net changes in net assets to net cash provided by operating activities:		
Provision for bad debts	243,416	247,019
Depreciation	1,642,916	1,685,681
Amortization of deferred financing costs	194,537	227,435
Net realized/unrealized loss (gain) on investment securities	3,150	(106,857)
Unrealized loss on beneficial interest in trusts	269,936	108,029
Pension-related changes other than net periodic pension cost	263,440	254,351
Changes in:		
Receivables	(318,106)	(1,466,696)
Prepaid expenses and other current assets	(814,998)	47,849
Accounts payable and accrued expenses	22,356	(83,501)
Accrued pension contribution and deferred compensation	(62,776)	(59,326)
Deferred revenue	-	(108,576)
<b>Net cash provided by operating activities</b>	<b>609,579</b>	<b>146,263</b>
Cash flows from investing activities:		
Proceeds from sales of investment securities	1,677,770	2,551,898
Purchases of investment securities	(236,909)	(2,867,817)
Purchases of institutional properties	(780,856)	(486,477)
<b>Net cash provided by (used in) investing activities</b>	<b>660,005</b>	<b>(802,396)</b>
Cash flows from financing activities:		
Payment of deferred financing costs	(8,500)	-
Net (repayments) borrowings on operating line of credit	(32,727)	555,803
Repayment of construction term loan	(103,250)	(90,482)
Repayment of notes payable	(24,464)	(24,464)
Repayment of UTHC construction term loan	(135,656)	(133,943)
Repayment of TIF bridge loan	(1,000,000)	(500,000)
Payments on capital lease	(39,153)	(14,750)
<b>Net cash used in financing activities</b>	<b>(1,343,750)</b>	<b>(207,836)</b>
<b>Decrease in cash, cash equivalents and restricted cash</b>	<b>(74,166)</b>	<b>(863,969)</b>
Cash, cash equivalents and restricted cash:		
Beginning of year	221,065	1,085,034
End of year	<b>\$ 146,899</b>	<b>\$ 221,065</b>
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 13,027	\$ -
NMTC restricted fee reserve cash account	133,872	221,065
	<b>\$ 146,899</b>	<b>\$ 221,065</b>
Supplemental disclosure of cash flow information:		
Fixed asset acquisitions financed through capital leases	<b>\$ 150,699</b>	<b>\$ 127,890</b>
Interest paid	<b>\$ 601,491</b>	<b>\$ 680,276</b>

See notes to consolidated financial statements.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

UCAN is a not-for-profit human services organization supported financially by government funding, foundations, and private contributions. UCAN offers a range of human services to children and families in the areas of child welfare, counseling, teen parenting, education, youth development and public housing. Referrals and funding come primarily from the Illinois Department of Children and Family Services (DCFS), the Chicago Board of Education, the Chicago Housing Authority and the Chicago Department of Family and Support Services. UCAN received approximately 55 percent of its revenue from DCFS and approximately 14 percent of its revenue from Chicago Public Schools during 2020. Accounts receivable from DCFS and Chicago Public Schools comprised approximately 70 and 18 percent, respectively, of UCAN's total accounts receivable balances as of June 30, 2020.

UCAN established UCAN Title Holding Company (UTHC) and UCAN Title Holding Company II (UTHC II), affiliated Illinois not-for-profit corporations which are exempt from income taxes under Section 501(c)(2) of the Internal Revenue Code (IRC) and applicable state law. UCAN is the sole voting member of UTHC and UTHC II, which hold title to UCAN's new campus located at 3640 and 3605 West Fillmore St. in Chicago, Illinois. UTHC and UTHC II were formed to facilitate New Markets Tax Credit (NMTC) transactions for the New Campus project construction. Throughout the remainder of these notes, the term UCAN will refer to UCAN, UTHC and UTHC II, collectively, unless otherwise indicated.

**Principles of consolidation:** The consolidated financial statements include the accounts of UCAN and its affiliates, UTHC and UTHC II. Any significant intercompany balances and transactions have been eliminated in consolidation.

**Basis of presentation:** UCAN prepares its consolidated financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recognized when obligations are incurred.

For financial reporting purposes, UCAN's net assets are classified as with and without donor restrictions based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are those net assets that are not subject to donor-imposed stipulations. Net assets with donor restrictions have been restricted by donors to be maintained by UCAN in perpetuity or are those whose use by UCAN has been limited by donors to a specific time period or purpose. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the restrictions have been met or have expired.

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

**Cash:** Cash includes cash on hand and demand deposits with banks. UCAN maintains its cash at bank accounts which, at times, may exceed federally insured limits. UCAN has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Accounts receivable and grants receivable:** Accounts receivable primarily consist of amounts due from the Illinois Department of Children and Family Services, the Chicago Board of Education, the Chicago Housing Authority and the Chicago Department of Human Services for program services provided. Grants receivable represent funds due from private funders for program services provided under grant agreements. Accounts receivable are net of an allowance for doubtful accounts, determined based on historical experience and analysis of specific accounts. Uncollectible accounts are written off in the year they are deemed to be worthless.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Investments:** Investments are presented in the consolidated financial statements at fair value in accordance with accounting principles generally accepted in the United States of America. Realized and unrealized gains (losses) and investment and dividend income, net of related fees and costs, are reflected in the consolidated statement of activities. Investments received as contributions are recorded at fair value at the date of receipt. UCAN's investment portfolio is subject to various risks, such as interest rate, credit and overall market volatility. Because of these risks, it is possible that changes in the fair value of investments may occur and that such changes could materially affect UCAN's consolidated financial statements.

**Institutional properties:** Institutional properties are carried at cost and are depreciated over the estimated useful lives of the assets utilizing the straight-line method. Leasehold improvements are depreciated over the lesser of the useful life of the asset or the lease term. Upon sale or retirement of institutional properties, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is allocated among program and supporting services in the consolidated statement of activities.

**Asset impairment:** UCAN reviews the recoverability of long-lived assets when circumstances indicate that the carrying amount may not be recoverable. The carrying amount of assets held and used is generally not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the use and eventual disposition of the asset, or for assets held for sale if it exceeds market value. If UCAN identifies impairment for long-lived assets to be held and used, UCAN compares the assets' current carrying value to the assets' fair value. Fair value is based on current market values or discounted future cash flows. UCAN records impairment when the carrying value exceeds fair market value. There were no impairment indicators during the year ended June 30, 2020.

**Deferred financing costs:** Fees paid in connection with notes payable and fees paid relating to financings for the NMTC transaction have been capitalized as deferred financing costs and are being amortized using the straight-line method (which approximates the interest method) over the term of the bonds and over the 7-year NMTC compliance period, respectively. Unamortized deferred financing costs of \$359,203 are net of accumulated amortization of \$1,725,378 at June 30, 2020. Unamortized deferred financing costs are net against the related debt on the consolidated statement of financial position. Amortization expense was \$191,210 for fiscal year 2020 and is included in occupancy expense on the statement of functional expenses.

**NMTC restricted fee reserve cash account:** Certain NMTC fees payable over the 7-year compliance period were required to be deposited into an account subject to a blocked account agreement. See Note 13.

**Deferred revenue:** Income from government grants is recognized to the extent that expenses have been incurred for the purposes specified by the grantor during the period. Amounts expended in excess of amounts received from the grantor are accounted for as receivables, while amounts received in excess of amounts expended are recorded as deferred revenue.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Revenue recognition:** Contributions received, including unconditional promises and noncash assets, are recognized as revenue when the donor's commitment is made. All contributions are recorded at their fair value. Unconditional promises are recognized at the present value of the estimated future cash flows, net of allowances, which are determined based on historical experience and analysis of specific promises. Unconditional promises to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contributions in accordance with donor-imposed restrictions, if any. Conditional promises, consisting mostly of grants from government agencies and foundations, are recognized when the barriers have been substantially met (generally when qualifying expenses have been incurred and all other grant requirements have been met). UCAN has received conditional promises to give, which generally represent unexpended government grants, amounting to approximately \$2,457,000 which have not been recognized, because UCAN has not yet met the related barriers. These amounts will be subject to recognition as UCAN incurs qualifying expenses and performs its duties under the terms of the grant agreements. Contributions are reported as increases in net asset with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. UCAN has elected the simultaneous release policy for government grants, which allows the organization to recognize restricted conditional contributions directly in net assets without donor restrictions when the condition is met, which is generally when qualifying expenditures have been incurred.

Donated materials and other noncash donations are recorded as contributions at their estimated fair values on the date received. Many individuals volunteer their time and perform a variety of tasks that assist UCAN with its programs and administration, but these donated services are not reflected in the consolidated financial statements because they do not meet the requirements for inclusion. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. UCAN reports such contributions at their estimated fair value when received. For the year ended June 30, 2020, UCAN recorded in-kind contribution revenue of \$51,962 consisting of training services, food, travel and miscellaneous supplies.

Bequests from estates are generally recognized when received, which is after the probate court declares the will valid.

**Functional allocation of expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and are presented by natural and functional classification in the statement of functional expenses. Expenses related only to one program or supporting function are charged directly to that function, while expenses benefitting more than one functional area are allocated on a rational basis. Personnel costs which benefit more than one functional category are allocated based on estimates of time and effort. Other shared costs related to occupancy such as depreciation and utilities are allocated to programs and supporting activities based on estimates of building use.

**Income tax status:** UCAN is exempt from income taxes under Section 501(c)(3) of the IRC and applicable state law, except for taxes pertaining to unrelated business income, if any. UTHC and UTHC II were organized and incorporated in Illinois as not-for-profit organizations in May 2013 and February 2014, respectively. UTHC and UTHC II have received a favorable determination letter from the Internal Revenue Service stating that they are exempt from income taxes under the provisions of Section 501(c)(2) of the IRC of 1986, as amended, except for income taxes, if any, pertaining to unrelated business income.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

UCAN follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, UCAN may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of UCAN and various positions related to the potential sources of unrelated business taxable income. There were no uncertain tax positions identified or recorded as assets or liabilities during the reporting period covered by these consolidated financial statements.

UCAN, UTHC, and UTHC II file Forms 990 in the U.S. federal jurisdiction and the state of Illinois.

**Estimates:** In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Accounting pronouncements adopted:** During fiscal year 2020, UCAN adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires that the statement of cash flows explain the change during the period of total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. These financial statements reflect the updated standard.

During fiscal year 2020, UCAN adopted ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Benefit Cost*. The amendments in this ASU require that the service cost component of net benefit cost be presented on the statement of activities in the same line item(s) as other compensation costs for services rendered during the period. All remaining components of net benefit cost must be reported outside the subtotal for income from operations. This standard did not have a significant effect on UCAN's consolidated financial statements.

**Recent accounting pronouncement:** In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for UCAN for its fiscal year ending June 30, 2021. UCAN is currently evaluating the impact on its consolidated financial statements of implementing the pending ASUs.

**Subsequent events:** UCAN has evaluated subsequent events for potential recognition and/or disclosure through January 28, 2021, the date the consolidated financial statements were issued.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 2. Liquidity and Availability

The following table represents the financial assets and liquidity resources available for general expenditures within one year of June 30, 2020:

Financial assets at year end:

Receivables:

Cash and cash equivalents	\$ 13,027
Accounts receivable	5,651,662
Grants receivable	838,781
Pledges receivable (due in less than 1 year)	1,560,455
Investments	9,873,058
NMTC restricted fee reserve cash account	133,872
Expected distribution from beneficial interest in trusts	580,000
Total financial assets	<u>18,650,855</u>

Less amounts not available to be used within one year:

NMTC restricted fee reserve cash account	(133,872)
Investments being held as collateral	(8,335,000)
Net assets with donor imposed restrictions	<u>(634,043)</u>
	<u>(9,102,915)</u>

Financial assets available to meet cash needs for general expenditures within one year

\$ 9,547,940

UCAN regularly monitors liquidity required to meet its annual operating needs. UCAN has various sources of liquidity available, including cash, marketable securities, distributions from beneficial interest in trusts and an operating line of credit. UCAN also receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing and central to its annual operations to be available to meet cash needs for general expenditures.

#### Note 3. Pledges Receivable

Pledges receivable are summarized as follows at June 30, 2020:

Unconditional promises expected to be collected in:

Less than one year	\$ 1,848,829
One to five years	2,558,811
	<u>4,407,640</u>
Less: Unamortized discount at 3%	(143,881)
Less: Allowance for uncollectibles	(369,855)
	<u>\$ 3,893,904</u>

Net pledges receivable are presented in the consolidated statement of financial position at June 30, 2020:

Current	\$ 1,560,455
Long-term	2,333,449
	<u>\$ 3,893,904</u>

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 4. Fair Value Measurements

UCAN follows the accounting guidance on fair value measurements and disclosure, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this guidance as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.

Level 2. Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. UCAN's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risks associated with investing in those instruments. For the fiscal year ended June 30, 2020, the application of valuation techniques applied to similar assets and liabilities has been consistent with techniques used in the previous years.

Transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with UCAN's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the year ended June 30, 2020, there were no such transfers.

**Investments securities:** The fair value of publically traded equity and fixed income mutual funds is based upon market quotations of national security exchanges and is categorized as Level 1 in the fair value hierarchy.

**Beneficial interest in trusts:** The fair value of UCAN's beneficial interest in trusts was provided by the respective trustees. UCAN's beneficial interest is classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity-specific estimates of cash flows). Since UCAN has an irrevocable right to receive the income earned from the trusts' assets, the fair value of UCAN's beneficial interest is estimated to approximate the fair value of the trusts' assets.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 4. Fair Value Measurements (Continued)

The following table summarizes UCAN's investments accounted for at fair value using the fair value hierarchy as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 7,567,330	\$ -	\$ -	\$ 7,567,330
Equity mutual funds:				
U.S. equity index	734,809	-	-	734,809
Large growth	795,398	-	-	795,398
International	774,998	-	-	774,998
Fixed income mutual fund	523	-	-	523
Beneficial interest in trusts	-	-	11,168,307	11,168,307
	<u>\$ 9,873,058</u>	<u>\$ -</u>	<u>\$ 11,168,307</u>	<u>\$ 21,041,365</u>

Financial instruments classified as Level 3 in the fair value hierarchy represent UCAN's investments in financial instruments in which UCAN has used at least one significant unobservable input in the valuation model.

The following table presents a reconciliation of activity for the Level 3 financial instruments:

	Beneficial Interest in Trusts
Balance, July 1, 2019	\$ 11,438,243
Unrealized losses on beneficial interest in trusts	(269,936)
Balance, June 30, 2020	<u>\$ 11,168,307</u>

#### Note 5. NMTC Leveraged Loans Receivable

In 2014, UCAN made leveraged loans to two qualified equity investment funds (QEIs) linked to UCAN's financing obtained through the NMTC program (Note 13). In 2015, UCAN made additional leveraged loans to two QEIs.

The loans accrue interest at a fixed rate, with interest-only payable quarterly at rates ranging from 1 percent to 1.49 percent over the first seven years (Compliance Period); quarterly principal and interest (stated rate) payments are then required through 2045.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 5. NMTC Leveraged Loans Receivable (Continued)

Notes receivable at June 30, 2020, are as follows:

UCAN USB Investment Fund, LLC with interest accruing at an annual rate of 1%; 1% interest-only quarterly payments are due through April 2021, and then principal and interest payments of \$98,036 are due quarterly through maturity in 2044.	\$ 2,012,100
UCAN Investment Fund, LLC with interest accruing at an annual rate of 1%; 1% interest-only quarterly payments are due through April 2021, and then principal and interest payments of \$744,000 are due quarterly through maturity in 2044.	13,448,800
USBCDC Investment Fund 142, LLC with interest accruing at an annual rate of 1.07%; 1.07% interest-only bi-annual payments are due through August 2022, and then principal and interest payments of \$221,195 are due bi-annually through maturity in 2045.	4,501,360
USBCDC Investment Fund 142, LLC with interest accruing at an annual rate of 1.49%; 1.49% interest-only bi-annual payments are due through October 2022, and then principal and interest payments of \$69,252 are due bi-annually through maturity in 2045.	1,344,800
	<u>\$ 21,307,060</u>

After the Compliance Period, there are put and call agreements between UCAN and the investor in the QEI funds. It is anticipated that the NMTC investor will put their option and UCAN will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. This action will essentially result in forgiveness of these loans as well as extinguishment of UCAN's debt described in Note 12. Interest income was \$247,149 for the year ended June 30, 2020.

#### Note 6. Lease Commitments

UCAN has four property operating lease agreements, which expire at various dates through June 2023. The total future minimum payments under the leases are as follows:

2021	\$ 624,832
2022	519,996
2023	444,888
	<u>\$ 1,589,716</u>

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 6. Lease Commitments (Continued)

UCAN's total lease expense related to all properties was approximately \$794,000 for the year ended June 30, 2020.

UCAN has several leases for vehicles which are classified as capital leases in the financial statements. Assets under capital leases of \$278,589 have a net book value of \$217,804 at June 30, 2020. Future minimum lease obligations under capital leases as of June 30, 2020, are as follows:

2021	\$	61,943
2022		61,943
2023		61,943
2024		43,023
2025		15,476
		<u>244,328</u>
Less amounts representing interest		<u>(19,642)</u>
	\$	<u>224,686</u>

#### Note 7. Beneficial Interest in Trusts

Beneficial interest in trusts is comprised of nine separate trusts. UCAN is the perpetual beneficiary of, or receives a portion of, the annual net income from the trusts' principal. The fair value of the beneficial interest in trust assets was \$11,168,307 at June 30, 2020, and represents the UCAN proportionate interest in the value of the trusts. The fair value of the trusts was provided by the trustees. Funds received by UCAN from trusts totaled \$552,499 for the year ended June 30, 2020.

#### Note 8. Retirement Plan Benefits

UCAN has a contributory defined contribution pension plan for all employees who have completed one year of service, as defined by the plan document. At the end of each fiscal year, UCAN determines the amount to be contributed to the plan. No employer contributions were made in 2020.

A deferred compensation plan exists for UCAN's former CEO that provides a \$2,000 monthly payment for 120 consecutive months, which began after his 65th birthday. The present value of this obligation at June 30, 2020, was \$28,887 and has been recorded as a current liability of \$24,000 and a non-current liability of \$4,887.

#### Note 9. Employee Pension Plan

FamilyCare of Illinois (FCI) (a 501(c)(3) not-for-profit that merged with UCAN) previously established a defined benefit plan which was assumed by UCAN when FCI merged with UCAN on November 1, 2004. Effective August 21, 2004, FCI froze the plan for future benefit accruals. No further benefits will accrue under the plan after this date. This action did not affect benefits accrued prior to August 21, 2004, or participants' vesting in benefits accrued prior to that date.

UCAN follows the provisions of the accounting guidance for employer's accounting for defined benefit pension and other postretirement plans. The provisions of this guidance require employers to recognize the overfunded or underfunded positions (the difference between the costs funded to date and the benefit obligation) of postretirement plans as an asset or liability in the consolidated statement of financial position and to recognize changes in that funded status in changes in net assets without donor restrictions in the year in which the changes occur.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Employee Pension Plan (Continued)

Following is a summary of plan information as provided by the consulting actuary:

Change in projected benefit obligation:	
Projected benefit obligation, beginning of year	\$ 3,873,323
Interest cost	128,267
Actuarial loss	206,402
Benefits paid	(130,818)
Projected benefit obligation, end of year	<u>4,077,174</u>
Change in plan assets:	
Plan assets at fair value, beginning of year	3,055,217
Actual return on plan assets	110,005
Benefits paid	(130,818)
Plan assets at fair value, end of year	<u>3,034,404</u>
Funded status - benefit obligation in excess of plan assets (liability on the statement of financial position)	<u>\$ 1,042,770</u>
Accumulated benefit obligation	<u>\$ 4,077,174</u>
Components of periodic benefit cost and other amounts recognized in net assets without donor restriction:	
Interest cost	\$ 128,267
Expected return on plan assets	(206,522)
Amortization of net loss	39,479
	<u>(38,776)</u>
Other amounts recognized in net assets without donor restrictions:	
Net actuarial loss reclassified from net assets without donor restrictions to net periodic pension cost	39,479
Current year net loss	(302,919)
Total recognized in net assets without donor restrictions	<u>(263,440)</u>
Total recognized in net periodic benefit cost and net assets without donor restrictions	<u>\$ 224,664</u>
Benefits paid	<u>\$ 130,818</u>
Employer contribution	<u>\$ -</u>
Unrecognized actuarial loss not yet recognized in net periodic pension cost, but included as a separate component of net assets without donor restrictions at June 30, 2020	<u>\$ 1,173,504</u>

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Employee Pension Plan (Continued)

It is estimated that \$42,988 of net actuarial gain will be recognized as a component of net periodic pension cost for the year ending June 30, 2021.

The table below sets forth the weighted-average assumptions used to determine the benefit obligation at June 30, 2020, and the net periodic pension cost for the year ended June 30, 2020. These rates were selected based upon current market conditions, UCAN's experience and future expectations.

	Pension Obligation	Net Periodic Pension Cost
Discount rate	2.70%	3.51%
Expected rate of return on plan assets	7.00%	7.00%
Rate of increase in future compensation	N/A	N/A

UCAN determines the long-term expected rate of return on plan assets by examining historical capital market returns, correlations between asset classes, and the plan's normal asset allocation. Current and near-term market factors, such as inflation and interest rates, are then evaluated to arrive at the expected return on plan assets.

The pension plan's investments are presented at fair value in accordance with accounting principles generally accepted in the United States of America. Investments in money market funds, equity mutual funds and fixed income mutual funds are traded on a national securities exchange, or reported on the NASDAQ national market, and are stated at the last reported sales price on the day of valuation.

At June 30, 2020, plan assets were comprised of approximately 72 percent equity mutual funds and 28 percent fixed income mutual funds. The plan targets the asset mix to be 70 percent equity funds and 30 percent bond funds. As determined by UCAN's actuary, the estimated contribution to the plan for fiscal year 2021 is \$16,133.

The following table presents UCAN's pension plan's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2020.

	Level 1	Level 2	Level 3	Total
Money market	\$ 11,207	\$ -	\$ -	\$ 11,207
Equity mutual funds:				
Large blend	1,830,982	-	-	1,830,982
International	136,748	-	-	136,748
Small growth	223,519	-	-	223,519
Fixed income mutual funds:				
Intermediate-term	831,948	-	-	831,948
	<u>\$ 3,034,404</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,034,404</u>

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 9. Employee Pension Plan (Continued)

The benefits expected to be paid for the next 10 years are as follows:

2021	\$	215,643
2022		215,680
2023		229,517
2024		238,079
2025		233,199
2026-2030		1,139,999

#### Note 10. Line of Credit

UCAN maintains a loan agreement with US Bank which provides a \$3,750,000 revolving line of credit facility, payable on demand, which expires October 2020. Subsequent to year end, UCAN renewed the line to October 2021. Under the terms of this agreement, these borrowings bear interest at either 1 month LIBOR plus 1.25 percent (1.4375 percent at June 30, 2020) or at a Base Rate plus 1 percent (Base Rate is defined as the greater of Prime or the Federal Funds rate plus 2 percent), at the borrower's option. Borrowings under the line of credit facility are collateralized by certain "eligible accounts" receivable, as defined. UCAN had \$3,557,885 outstanding under this line of credit on June 30, 2020. The line of credit agreement contains a provision that UCAN maintain a debt service ratio of 1.15 to 1.

#### Note 11. Bonds Payable

A summary of bonds payable at June 30, 2020, is as follows:

2002 Variable Rate Demand Reserve Bonds (average interest rate of 1.28% during 2020) principal fully due in 2033	\$	4,000,000
2006 Adjustable Rate Demand Reserve Bonds (average interest rate of 1.28% during 2020) principal fully due in 2036		4,335,000
		<u>8,335,000</u>
Less deferred financing costs, net of amortization		(134,670)
	\$	<u><u>8,200,330</u></u>

In September 2002, UCAN entered into a loan agreement with the Illinois Development Finance Authority to issue \$5,600,000 in Adjustable Demand Revenue Bonds (2002 Bonds) due October 1, 2033. The 2002 obligation is credit enhanced by a direct pay letter of credit of \$4,038,356 which expires in November 2020. Subsequent to year end, the letter of credit was renewed and will expire in November 2023. The bonds bear interest at a variable rate, which is determined weekly. In February 2014, \$1,600,000 of this issuance was redeemed pursuant to entering into a contract to sell a portion of the real estate it financed.

In May 2006, UCAN entered into a loan agreement with the Illinois Finance Authority to issue \$6,000,000 in Adjustable Rate Demand Reserve Bonds (2006 Bonds) due May 1, 2036. Proceeds from the bonds were used to refinance three notes payable, acquire and renovate office space, acquire and renovate program-related residential properties, and to purchase capital equipment. Principal payments and application of the proceeds of the sale of a building have reduced the bonds outstanding to \$4,335,000. The remaining 2006 obligation is credit enhanced by a direct pay letter of credit of \$4,376,568 which expires in November 2020. Subsequent to year end, the letter of credit was renewed and will expire in November 2023. The bonds bear interest at an adjustable rate which is determined weekly and is payable on the first business day of each month. The 2006 bonds are collateralized by mortgages on all properties purchased or refinanced using bond proceeds.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 11. Bonds Payable (Continued)

US Bank provides direct pay credit enhancement letters of credit for the bonds. Significant performance covenants under the US Bank agreements include a debt service coverage ratio, calculated quarterly, of 1.15 to 1.0, as defined, and an unrestricted and restricted cash and investments requirement of at least \$8,605,000 measured at each June 30th and December 31st. Furthermore, UCAN cannot incur capital expenditures in excess of \$900,000 during any fiscal year without the prior written consent of US Bank. These covenants pertain to both the 2002 and the 2006 series of bonds and the line of credit discussed in Note 10.

#### Note 12. Notes Payable

UCAN has a term note payable to US Bank originally dated February 2014 and modified from time to time, most recently in 2019. The Note matures in April 2024, at which time the entire remaining balance will become due. The Note bears interest at Monthly LIBOR plus 2 percent and is secured by UCAN's residential buildings. Scheduled future principal payments on the note are as follows:

2021	\$	14,990
2022		15,663
2023		16,366
2024		165,001
	\$	<u>212,020</u>

#### Note 13. NMTC Notes Payable

In 2014, UTHC obtained financing in an arrangement structured under the NMTC program. This program, enacted by Congress as part of the Community Renewal Tax Relief Act of 2000, permits individual and corporate taxpayers to receive a credit against federal income taxes for making a quality equity investment (QEI) in qualified community development entities (CDEs). The CDEs used substantially all of each QEI to make qualified low-income community investment (QLICI) loans on favorable terms to UTHC as a qualified active low-income community business (QALICB).

These loans made to UTHC by the CDEs in 2014, and outstanding at June 30, 2020, were as follows:

USBCDE SUB-CDE 107, LLC Note A	\$	2,012,100
USBCDE SUB-CDE 107, LLC Note B		987,900
VAF Sub-CDE XXVIII, LLC Note A		3,529,948
VAF Sub-CDE XXVIII, LLC Note B		1,420,052
NCIF New Markets Capital Fund XVCDE, LLC Note A		4,906,926
NCIF New Markets Capital Fund XVCDE, LLC Note B		1,883,074
SCORE Sub-CDE 1, LLC Note A		5,011,926
SCORE Sub-CDE 1, LLC Note B		1,848,074
	\$	<u>21,600,000</u>

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 13. NMTC Notes Payable (Continued)

These loans made to UTHC II by the CDEs in 2015 and outstanding at June 30, 2020, were as follows:

USBCDC, LLC Note A	\$ 900,000
USBCDC, LLC Note B	2,000,000
CDF Note A	4,501,360
CDF Note A	4,318,640
	<u>\$ 11,720,000</u>
UTHC NMTC notes payable	\$ 21,600,000
UTHC II NMTC notes payable	11,720,000
Less deferred financing costs, net of amortization	(211,979)
Total NMTC notes payable	<u>\$ 33,108,021</u>

UTHC and UTHC II used some proceeds from the loans to purchase certain assets from UCAN and to construct the North Lawndale Campus.

UTHC loans have a maturity date of April 30, 2044. UTHC II loans have a maturity date of August 4 and October 7, 2045. Applicable interest rates range between 0.67 percent and 1.49 percent simple interest.

The first seven years of the notes are defined as the Compliance Period. Only interest is paid during the Compliance Period. Thereafter, the loans are amortized with principal and interest payments required through the maturity dates in 2044 and 2045. The loans can be repaid any time after the Compliance Period.

There are put and call agreements between UTHC and UTHC II and the respective investor in the QEI funds (which has ownership interest in the CDEs making the loans above). If the investor does not exercise their put option, UTHC and UTHC II have the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investor will put their option and UTHC will own the QEI funds at the end of the Compliance Period. However, if the investor does not put their interest, management plans to exercise its option to call. By acquiring the ownership interests, UTHC and UTHC II will be in a position whereby it can forgive the NMTC notes payable, resulting in a substantial reduction in outstanding debt at that point in time and recognition of the benefits from the NMTC program (in turn, it is expected that UTHC and UTHC II would forgive the NMTC notes receivable).

The loans are collateralized by essentially all UTHC and UTHC II property and equipment. UTHC and UCAN have also made an unconditional guaranty to an equity investor in the event of a recapture or disallowance of the NMTC. The guaranteed amount is the sum of the tax credits plus an amount sufficient to pay any additional federal tax liability, interest and penalties resulting from the recapture event and return to the investor. The loan agreement restricts additional UTHC indebtedness, without prior approval, and requires UTHC and UTHC II to establish a reserve account for payment of certain annual fees. The reserve escrow balance was \$46,611 for UTHC and \$87,261 for UTHC II at June 30, 2020.

#### Note 14. Construction Term Loans

On April 15, 2014, UTHC secured a 7-year commercial term loan mortgage in the amount of \$2,000,000 from Urban Partnership Bank. The note carries a fixed interest rate of 4.75 percent per annum. As of June 30, 2020, UTHC had an outstanding balance of \$1,007,143 on this loan. The note is eligible for prepayment if certain conditions have been met. The note is collateralized by a first lien encumbrance upon the Therapeutic Youth Home. Terms of the loan do not include any financial covenants ratio requirements.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 14. Construction Term Loans (Continued)

Scheduled future principal payments on the note are as follows:

2021	\$ 187,544
2022	158,135
2023	143,430
2024	143,430
Thereafter	<u>374,604</u>
	1,007,143
Less deferred financing costs, net of amortization	<u>(9,227)</u>
	<u><u>\$ 997,916</u></u>

UCAN also maintains a loan agreement with Urban Partnership Bank. The original \$2,000,000 revolving line of credit facility was converted to a term note on March 31, 2017 which expires March 2027. Under the terms of this agreement, these borrowings bear interest at 4.75 percent until April 1, 2022 and after equal to the 5 Year LIBOR Swap Rate plus 325 basis points until expiration. UCAN had \$1,688,931 outstanding on this loan on June 30, 2020. The note is collateralized by a first lien encumbrance upon the Therapeutic Youth Home. This loan includes a covenant requiring a simple debt service coverage ratio of 1.25 or better measured on an annual basis.

Scheduled future principal payments on the note are as follows:

2021	\$ 109,906
2022	115,242
2023	120,836
2024	126,703
Thereafter	<u>1,216,244</u>
	<u><u>\$ 1,688,931</u></u>

#### Note 15. TIF Bridge Loan

On April 15, 2014, UCAN received a term loan note payable in the amount of \$2,500,000 from Fifth Third Bank which was scheduled to mature on February 5, 2021. Under the terms of this agreement, these borrowings bore interest at LIBOR plus 3.15 percent. The note was collateralized by \$1,475,000 of UCAN's investments. Terms of the loan do not include any financial covenant ratio requirements. UCAN entered into a TIF Redevelopment Agreement with the City of Chicago Department of Planning & Development on July 10, 2015. As of June 30, 2020, UCAN has received four TIF distributions totaling \$2,000,000 from the City of Chicago as outlined in the Redevelopment Agreement. On October 23, 2019, UCAN paid off the loan with collateralized funds held at Fifth Third Bank.

#### Note 16. Federal Home Loan Bank Note and Affordable Housing Grant

On June 18, 2015, UCAN was awarded an Affordable Housing Program Grant from the Federal Home Loan Bank of San Francisco for the Therapeutic Youth Home construction project. On March 17, 2016, UCAN entered into a Promissory Note and UTHC entered into a Subordinate Mortgage for the \$1,288,931 in gross proceeds received under the grant. Related debt agreements are interest free and forgivable after a 15-year compliance retention period.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 17. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020, are available for the following purposes:

Subject to spending for a specific purpose:

John E. Rooney Scholarship Fund	\$ 249,405
Power of Potential Campaign	2,298,553
Violence Prevention Funds	176,541
Future Leaders Now	1,000,000
Youth Development	64,829
High-Risk Infants	57,500
Youth Scholarships	109,403
Clinical Services	17,100
Other	205,342
	<u>4,178,673</u>

Other endowment assets subject to endowment spending policy:

Arthur C. Lueber Library Fund - income to be used for Children's Library	14,388
Busch Grant & Aid & Klein Fund - income to be used for upper education for UCAN residents	18,500
Grace Claussen - Samuels Building	3,302
Other FamilyCare of Illinois net assets	313,084
	<u>349,274</u>

Endowment: required to be maintained in perpetuity:

Perpetual trusts*	11,168,307
	<u>11,517,581</u>
	<u>\$ 15,696,254</u>

\*The income from perpetual trusts are not subject to donor-imposed stipulations.

As of June 30, 2020, UCAN's endowments consist of donor-restricted funds, as described above, most of which are held by third-party trustees in perpetual trusts which UCAN does not control. The remaining endowment assets (Other Endowment Assets) are held and invested by UCAN as discussed below.

#### Interpretation of Relevant Law

The Board has interpreted the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, UCAN classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation was added to the fund. The earnings on the donor-restricted endowment fund are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by UCAN in a manner consistent with the standard of prudence prescribed by UPMIFA.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### Note 17. Net Assets with Donor Restrictions (Continued)

The changes in endowment net assets were as follows for the year ended June 30, 2020:

Balance, July 1, 2019	\$ 11,787,517
Investment return	<u>(269,936)</u>
Balance, June 30, 2020	<u>\$ 11,517,581</u>

#### Beneficial Interest in Trusts

\$11,168,307 of the total June 30, 2020 endowment balance of \$11,517,581 is held in trusts which are not controlled by UCAN. The income from the trusts is unrestricted. UCAN's spending policy related to the trusts is to utilize any income distributed for operating purposes.

#### Other Endowment Assets

The Other Endowment Assets of \$349,274 at June 30, 2020, are controlled and invested by UCAN and are included within investments on the consolidated statement of financial position. UCAN manages these investments according to the same policies adopted by the Board of Directors for UCAN's investments. These policies attempt to provide a predictable stream of funding to programs supported by its investments while seeking to maintain the purchasing power of the investment assets. To satisfy its long-term rate-of-return objectives on investments, UCAN relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). UCAN targets a diversified asset allocation (approximately 70 percent equity and 30 percent fixed income) that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. As of December 2016, UCAN's Board of Directors approved a more conservative, interim allocation strategy (approximately 10 percent equity and 90 percent fixed income) to ensure bank covenant requirements are met.

Over the long-term, the spending policy for UCAN's investments, including Other Endowment Assets, is to withdraw, on an annual basis, 3 percent of a 36-month moving average of the investment values, with a six-month set-back (i.e., the previous three December 31 values are averaged to determine the withdrawal for the fiscal year beginning July 1). Withdrawal percentage exceptions may be granted with Board approval. The objectives of the investment policy for investments, including Other Endowment Assets, are to meet any liquidity needs, grow the value of the corpus of the investments annually by at least the annual rate of inflation (CPI) for that year, and cause the real value of the investments to increase.

#### Note 18. Contingencies

UCAN is a party in certain legal proceedings and claims which have arisen in the ordinary course of its business. UCAN's management is of the opinion that the liabilities, if any, will not have a material effect on these consolidated financial statements or on UCAN's ability to continue its operations.

## UCAN and Affiliates

### Notes to Consolidated Financial Statements

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#### **Note 19. Impacts of Coronavirus Pandemic**

In March 2020, the World Health Organization declared the coronavirus (Covid-19) outbreak to be a pandemic. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the national and local economies.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to UCAN. Operationally, UCAN has not seen a significant drop in programming, but rather a change in the way programming occurs. A major example of this is how UCAN Academy does not offer classes on site but rather follows CPS (Chicago Public Schools) protocols and utilizes remote learning to avoid disease transmission. UCAN services are especially important in these times as the public deals with financial uncertainty.

UCAN has developed tailored Covid-19 action plans, specific to its wide range of programming needs, for staff and children in utilization of protective gear (PPE), social distancing, testing, and cleaning procedures to help prevent disease transmission.

UCAN faced significant staffing issues arising from Covid-19 in its Residential and Transitional Living Programs. In response to this situation, UCAN instituted Mission Commitment Bonuses for staff in direct care programming and hazard pay for staff in the event that children under their direct care test positive for Covid-19. UCAN has had positive cases and has employed quarantine measures recommended by the CDC (Center for Disease Control) and local public health agencies, consistent with UCAN's action plans.

In early April 2020, UCAN applied for private resources through Covid-19 grant funding to help off-set anticipated increased programming costs related to the pandemic. In addition, the majority of UCAN public funding sources, including DCFS and CPS, provided Covid-19 rate enhancements or maintained pre-pandemic funding levels to assist with increased programming costs for youth in care.

## **Supplementary Information**

**UCAN and Affiliates**

**Schedule of Institutional Properties  
June 30, 2020**

	Assets				Balance, June 30, 2020
	Balance, June 30, 2019	Additions	Retirements	Transfers	
Land	\$ 3,036,630	\$ -	\$ -	\$ -	\$ 3,036,630
Land improvements	200,074	79,120	-	-	279,194
Buildings and improvements	43,925,485	268,024	-	-	44,193,509
Furniture and equipment	6,966,503	433,712	-	-	7,400,215
Leasehold improvements	137,735	-	-	-	137,735
Motor vehicles	520,469	150,699	-	-	671,168
Works of art	35,000	-	-	-	35,000
	<u>\$ 54,821,896</u>	<u>\$ 931,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,753,451</u>
	Accumulated Depreciation			Balance, June 30, 2020	Net Book Value, June 30, 2020
	Balance, June 30, 2019	Provisions	Retirements		
Land	\$ -	\$ -	\$ -	\$ -	\$ 3,036,630
Land improvements	55,647	11,675	-	67,322	211,872
Buildings and improvements	7,405,862	1,080,686	-	8,486,548	35,706,961
Furniture and equipment	5,388,818	477,920	-	5,866,738	1,533,477
Leasehold improvements	92,516	7,464	-	99,980	37,755
Motor vehicles	362,327	65,171	-	427,498	243,670
Works of art	-	-	-	-	35,000
	<u>\$ 13,305,170</u>	<u>\$ 1,642,916</u>	<u>\$ -</u>	<u>\$ 14,948,086</u>	<u>\$ 40,805,365</u>

See note to supplementary information.

## UCAN and Affiliates

### Statement of Total Program Revenue and Expenses Year Ended June 30, 2020 (With Comparative Totals for 2019)

	Therapeutic Youth Home	Professional Foster Parenting	Independent Living/ Transitional Living	UCAN Academy	Youth Development Prevention/ Other	Housing Support Services	Clinical Counseling Services	Teen Parenting Services Network
<b>Revenue:</b>								
Government	\$ 10,314,467	\$ 7,066,916	\$ 5,143,617	\$ 7,293,600	\$ 2,136,655	\$ 2,123,123	\$ 597,786	\$ 3,290,634
Private agency/third party	-	-	-	-	-	-	37,251	-
Gifts in-kind	-	-	-	-	-	-	-	-
Other/miscellaneous	-	-	-	-	(60)	-	810	-
Fundraising	-	-	-	-	480	-	-	-
Satisfaction of program restrictions	221,127	-	-	1,617	3,446,243	50,121	455,845	-
	<u>10,535,594</u>	<u>7,066,916</u>	<u>5,143,617</u>	<u>7,295,217</u>	<u>5,583,318</u>	<u>2,173,244</u>	<u>1,091,692</u>	<u>3,290,634</u>
<b>Expenses:</b>								
Salaries and wages	6,256,655	1,912,244	2,537,156	3,966,808	3,350,350	1,086,130	837,227	2,019,035
Employee health and retirement	532,435	162,809	215,183	371,672	302,477	109,791	78,913	156,827
Payroll taxes and other employee benefits	882,296	194,251	265,516	411,077	349,071	112,158	87,380	194,534
	<u>7,671,386</u>	<u>2,269,304</u>	<u>3,017,855</u>	<u>4,749,557</u>	<u>4,001,898</u>	<u>1,308,079</u>	<u>1,003,520</u>	<u>2,370,396</u>
Program consultants/contractual	294,697	392,912	134,837	312,468	51,019	507,722	5,716	194,821
Training and staff development	43,237	14,774	20,011	36,795	62,992	14,486	10,996	23,698
Program supplies	397,145	39,146	48,156	160,761	102,022	15,855	15,874	5,132
Recreation activity	32,365	19,112	8,666	9,038	43,768	995	-	363
Tuition and school fees	140	74	1,721	-	-	-	-	-
Specific assistance	89,311	1,611,383	568,936	1,784	99,948	21,453	84,884	119,068
Rental of equipment, buildings and vehicles	-	760,617	-	402,000	405	22,968	14,899	45,696
Local transportation	31,953	200,508	118,648	6,319	107,933	40,025	22,515	66,894
Interest	252,243	17,182	44,948	112,088	6,550	2,590	1,735	7,054
Occupancy	647,804	362,604	320,436	209,558	113,789	40,659	14,187	66,595
Office and computer supplies	18,486	11,080	4,394	9,736	24,226	8,374	2,406	9,928
Telephone	21,175	26,148	37,264	12,722	53,642	15,961	14,115	32,104
Postage	4,470	2,435	1,200	5,667	4,009	1,248	311	777
Printing and publication	998	601	342	527	1,481	620	385	1,705
Membership dues	-	-	-	-	-	535	1,707	-
Subscription and reference material	61	28	160	39	36	12	9	3,770
Insurance	58,387	25,962	25,098	37,017	34,199	11,711	8,338	25,951
Gifts in-kind	-	-	-	-	-	-	-	-
Miscellaneous	63,562	12,206	42,393	20,116	206,112	5,319	3,040	508
	<u>9,627,420</u>	<u>5,766,076</u>	<u>4,395,065</u>	<u>6,086,192</u>	<u>4,914,029</u>	<u>2,018,612</u>	<u>1,204,637</u>	<u>2,974,460</u>
Depreciation	703,670	87,996	141,593	186,427	122,250	23,051	17,423	66,581
	<u>10,331,090</u>	<u>5,854,072</u>	<u>4,536,658</u>	<u>6,272,619</u>	<u>5,036,279</u>	<u>2,041,663</u>	<u>1,222,060</u>	<u>3,041,041</u>
Management and general	1,402,921	907,112	569,716	897,964	706,735	255,310	198,197	455,151
	<u>11,734,011</u>	<u>6,761,184</u>	<u>5,106,374</u>	<u>7,170,583</u>	<u>5,743,014</u>	<u>2,296,973</u>	<u>1,420,257</u>	<u>3,496,192</u>
	<u>\$ (1,198,417)</u>	<u>\$ 305,732</u>	<u>\$ 37,243</u>	<u>\$ 124,634</u>	<u>\$ (159,696)</u>	<u>\$ (123,729)</u>	<u>\$ (328,565)</u>	<u>\$ (205,558)</u>

See note to supplementary information.

## UCAN and Affiliates

### Statement of Total Program Revenue and Expenses (Continued) Year Ended June 30, 2020 (With Comparative Totals for 2019)

	Family Based Services	Volunteer Program	Total 2020 Program Services	Total 2019 Program Services
<b>Revenue:</b>				
Government	\$ -	\$ 652,018	\$ 38,618,816	\$ 37,536,894
Private agency/third party	-	-	37,251	31,921
Gifts in-kind	-	51,962	51,962	61,064
Other/miscellaneous	-	-	750	8,347
Fundraising	-	-	480	566
Satisfaction of program restrictions	100,167	-	4,275,120	3,555,447
	<u>100,167</u>	<u>703,980</u>	<u>42,984,379</u>	<u>41,194,239</u>
<b>Expenses:</b>				
Salaries and wages	57,453	102,515	22,125,573	22,082,765
Employee health and retirement	7,577	5,438	1,943,122	1,558,584
Payroll taxes and other employee benefits	6,506	9,840	2,512,629	2,125,480
	<u>71,536</u>	<u>117,793</u>	<u>26,581,324</u>	<u>25,766,829</u>
Program consultants/contractual	181	1,495	1,895,868	2,110,136
Training and staff development	328	1,273	228,590	215,729
Program supplies	70	707	784,868	706,858
Recreation activity	-	-	114,307	155,124
Tuition and school fees	-	-	1,935	6,631
Specific assistance	3	369,350	2,966,120	3,057,311
Rental of equipment, buildings and vehicles	1,500	-	1,248,085	1,245,960
Local transportation	5,720	60,913	661,428	911,886
Interest	120	430	444,940	533,854
Occupancy	1,425	3,004	1,780,061	1,827,950
Office and computer supplies	111	3,221	91,962	110,883
Telephone	1,333	122	214,586	208,965
Postage	6	17	20,140	38,735
Printing and publication	7	13	6,679	16,985
Membership dues	-	50	2,292	2,212
Subscription and reference material	1	2	4,118	1,381
Insurance	685	1,855	229,203	136,292
Gifts in-kind	-	51,962	51,962	61,064
Miscellaneous	97	(164)	353,189	223,535
	<u>83,123</u>	<u>612,043</u>	<u>37,681,657</u>	<u>37,338,320</u>
Depreciation	1,017	2,813	1,352,821	1,392,574
	<u>84,140</u>	<u>614,856</u>	<u>39,034,478</u>	<u>38,730,894</u>
Management and general	13,266	91,832	5,498,204	4,657,980
	<u>97,406</u>	<u>706,688</u>	<u>44,532,682</u>	<u>43,388,874</u>
	<u>\$ 2,761</u>	<u>\$ (2,708)</u>	<u>\$ (1,548,303)</u>	<u>\$ (2,194,635)</u>

See note to supplementary information.

## **UCAN and Affiliates**

### **Note to Supplementary Information**

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#### **Note 1. Basis of Presentation**

Program expenses on the statement of total program revenue and expenses include both direct program and occupancy expenses (from the consolidated statement of functional expenses) and an allocation of management and general expenses. Management and general expenses are allocated to all agency cost centers based on each cost center's percentage of overall expenses. For fiscal 2020, \$383,947 of management and general expenses was allocated to various support services.