

# **United Cerebral Palsy, Inc.**

Financial Report  
September 30, 2013

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## **Independent Auditor's Report**

To the Board of Trustees  
United Cerebral Palsy, Inc.  
Washington, D.C.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of United Cerebral Palsy, Inc. (UCP), which comprise the statement of financial position as of September 30, 2013, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **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 of 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 United Cerebral Palsy, Inc. as of September 30, 2013, 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.

## **Report on Summarized Comparative Information**

We have previously audited UCP's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McGladrey LLP*

Gaithersburg, Maryland  
March 12, 2014

**United Cerebral Palsy, Inc.**

**Statement Of Financial Position  
September 30, 2013  
(With Comparative Totals For 2012)**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash And Cash Equivalents		
Cash available for operations	\$ 233,646	\$ 320,659
Temporary cash investments	266,645	486,174
<b>Total cash and cash equivalents</b>	<b>500,291</b>	<b>806,833</b>
Investments	9,672,213	8,659,521
Receivables And Other Assets, net	409,987	499,822
Beneficial Interests In Trusts Held By Third Parties	215,612	181,729
Property And Equipment, net	879,448	1,006,011
	<b>\$ 11,677,551</b>	<b>\$ 11,153,916</b>
<b>Liabilities And Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 770,895	\$ 762,043
Line of credit	830,093	531,581
Due to affiliates	22,247	82,858
Deferred revenue	31,478	28,451
Deferred rent	1,060,988	1,030,199
<b>Total liabilities</b>	<b>2,715,701</b>	<b>2,435,132</b>
Commitments (Notes 5, 6, and 8)		
Net Assets		
Unrestricted		
Undesignated (deficit)	(1,385,147)	(774,412)
Board-designated	3,418,850	3,237,382
<b>Total unrestricted</b>	<b>2,033,703</b>	<b>2,462,970</b>
Temporarily restricted	2,261,505	1,616,440
Permanently restricted	4,666,642	4,639,374
	<b>8,961,850</b>	<b>8,718,784</b>
	<b>\$ 11,677,551</b>	<b>\$ 11,153,916</b>

See Notes To Financial Statements.

United Cerebral Palsy, Inc.

Statement Of Activities  
Year Ended September 30, 2013  
(With Comparative Totals For 2012)

	2013			Total	2012
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating revenue and support:					
Affiliates' membership fees	\$ 2,373,984	\$ -	\$ -	\$ 2,373,984	\$ 2,332,805
Contributions	1,305,875	265,154	-	1,571,029	1,793,665
Event revenue	182,721	-	-	182,721	218,800
Other revenue	79,501	-	-	79,501	100,179
Consulting revenue	49,332	-	-	49,332	245,100
Net assets released from restrictions	428,176	(428,176)	-	-	-
<b>Total operating revenue and support</b>	<b>4,419,589</b>	<b>(163,022)</b>	<b>-</b>	<b>4,256,567</b>	<b>4,690,549</b>
Operating expenses:					
Program services:					
Support to affiliates	1,420,883	-	-	1,420,883	1,142,051
Public policy analysis/advocacy	813,353	-	-	813,353	822,449
Public education	569,298	-	-	569,298	588,559
Non-federal grants	148,417	-	-	148,417	173,720
<b>Total program services</b>	<b>2,951,951</b>	<b>-</b>	<b>-</b>	<b>2,951,951</b>	<b>2,726,779</b>
Supporting services:					
Management and general	1,367,593	-	-	1,367,593	2,072,092
Fundraising	1,052,209	-	-	1,052,209	1,021,832
<b>Total supporting services</b>	<b>2,419,802</b>	<b>-</b>	<b>-</b>	<b>2,419,802</b>	<b>3,093,924</b>
<b>Total operating expenses</b>	<b>5,371,753</b>	<b>-</b>	<b>-</b>	<b>5,371,753</b>	<b>5,820,703</b>
<b>Change in net assets from operations</b>	<b>(952,164)</b>	<b>(163,022)</b>	<b>-</b>	<b>(1,115,186)</b>	<b>(1,130,154)</b>
Non-operating revenue and gains:					
Investment return	522,897	805,445	-	1,328,342	1,383,522
Change in beneficial interests in trusts held by third parties	-	2,642	27,268	29,910	24,255
<b>Total non-operating revenue and gains</b>	<b>522,897</b>	<b>808,087</b>	<b>27,268</b>	<b>1,358,252</b>	<b>1,407,777</b>
<b>Change in net assets</b>	<b>(429,267)</b>	<b>645,065</b>	<b>27,268</b>	<b>243,066</b>	<b>277,623</b>
Net assets:					
Beginning	2,462,970	1,616,440	4,639,374	8,718,784	8,441,161
Ending	<b>\$ 2,033,703</b>	<b>\$ 2,261,505</b>	<b>\$ 4,666,642</b>	<b>\$ 8,961,850</b>	<b>\$ 8,718,784</b>

See Notes To Financial Statements.

United Cerebral Palsy, Inc.

Statement Of Functional Expenses  
Year Ended September 30, 2013  
(With Comparative Totals For 2012)

	2013										2012 Total
	Program Services					Support Services					
	Support To Affiliates	Public Policy Analysis/ Advocacy	Public Education	Non-Federal Grants	Total Program Services	Management And General	Fundraising	Total Support Services	Total		
Salaries	\$ 574,355	\$ 341,009	\$ 307,235	\$ -	\$ 1,222,599	\$ 695,944	\$ 297,489	\$ 993,433	\$ 2,216,032	\$ 2,464,202	
Employee benefits and taxes	92,781	53,738	48,615	-	195,134	111,786	48,393	160,179	355,313	387,795	
<b>Total salaries and benefits</b>	<b>667,136</b>	<b>394,747</b>	<b>355,850</b>	<b>-</b>	<b>1,417,733</b>	<b>807,730</b>	<b>345,882</b>	<b>1,153,612</b>	<b>2,571,345</b>	<b>2,851,997</b>	
Program and professional and contract services	24,150	296,312	90,750	-	411,212	189,871	91,920	281,791	693,003	671,195	
Occupancy	148,190	85,495	56,996	-	290,681	170,989	108,293	279,282	569,963	574,407	
Awards and grants	367,643	-	10,000	148,417	526,060	-	-	-	526,060	649,657	
Direct mail	-	-	-	-	-	-	328,283	328,283	328,283	278,716	
Travel and related costs	56,916	8,628	13,106	-	78,650	42,353	8,985	51,338	129,988	94,822	
Conferences, conventions and meetings	116,508	-	-	-	116,508	8,058	136	8,194	124,702	139,902	
Interest expense and investment fees	-	-	-	-	-	94,065	-	94,065	94,065	111,893	
Events	-	-	-	-	-	-	84,976	84,976	84,976	190,765	
Membership dues and support and subscriptions	432	8,090	23,582	-	32,104	230	30,286	30,516	62,620	57,910	
Outside printing and artwork	2,675	1,047	2,928	-	6,650	3,331	12,351	15,682	22,332	24,766	
Supplies	27	-	139	-	166	4,977	8,655	13,632	13,798	10,167	
Miscellaneous	4,363	-	492	-	4,855	3,578	695	4,273	9,128	4,141	
Postage and shipping	58	29	2,299	-	2,386	4,045	1,605	5,650	8,036	8,764	
In-kind professional and contract services	-	-	-	-	-	-	6,017	6,017	6,017	-	
Telephone and teleconference	710	500	820	-	2,030	1,356	685	2,041	4,071	3,786	
<b>Total expense before depreciation and uncollectible dues</b>	<b>1,388,808</b>	<b>794,848</b>	<b>556,962</b>	<b>148,417</b>	<b>2,889,035</b>	<b>1,330,583</b>	<b>1,028,769</b>	<b>2,359,352</b>	<b>5,248,387</b>	<b>5,672,888</b>	
Depreciation	32,075	18,505	12,336	-	62,916	37,010	23,440	60,450	123,366	121,664	
Uncollectible dues	-	-	-	-	-	-	-	-	-	26,151	
<b>Total expenses</b>	<b>\$ 1,420,883</b>	<b>\$ 813,353</b>	<b>\$ 569,298</b>	<b>\$ 148,417</b>	<b>\$ 2,951,951</b>	<b>\$ 1,367,593</b>	<b>\$ 1,052,209</b>	<b>\$ 2,419,802</b>	<b>\$ 5,371,753</b>	<b>\$ 5,820,703</b>	

See Notes To Financial Statements.

**United Cerebral Palsy, Inc.**

**Statement Of Cash Flows**  
**Year Ended September 30, 2013**  
**(With Comparative Totals For 2012)**

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ 243,066	\$ 277,623
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	123,366	121,664
Realized and unrealized gain on investments	(1,117,375)	(1,185,843)
Change in beneficial interests in trusts held by third parties	(33,883)	(24,255)
Change in deferred rent	30,789	329,913
Changes in assets and liabilities:		
Decrease in:		
Receivables and other assets	22,214	354,029
Increase (decrease) in:		
Accounts payable and accrued expenses	8,852	328,940
Due to affiliates	(60,611)	(293,588)
Deferred revenue	3,027	(11,751)
<b>Net cash used in operating activities</b>	<b>(780,555)</b>	<b>(103,268)</b>
Cash Flows From Investing Activities		
Purchases of investments	(5,159,541)	(4,186,059)
Proceeds from sales of investments	5,267,971	4,799,152
Purchases of property and equipment	(550)	(79,510)
Issuance of notes receivable	-	(100,000)
Collections on notes receivable	67,621	110,043
<b>Net cash provided by investing activities</b>	<b>175,501</b>	<b>543,626</b>
Cash Flows From Financing Activities		
Principle payments on line of credit, net	(1,488)	(18,419)
Proceeds from line of credit	300,000	150,000
<b>Net cash provided by financing activities</b>	<b>298,512</b>	<b>131,581</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(306,542)</b>	<b>571,939</b>
Cash And Cash Equivalents:		
Beginning	806,833	234,894
Ending	\$ 500,291	\$ 806,833
Supplemental Disclosure Of Cash Flow Information		
Cash payments for interest	\$ 15,342	\$ 16,521

See Notes To Financial Statements.



## United Cerebral Palsy, Inc.

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: United Cerebral Palsy, Inc. (UCP) conducts three major program services for the benefit of persons with disabilities, as follows:

- Support to affiliates through the programs detailed below, as well as through public and private grants
- Public policy analysis and advocacy
- Public education designed to increase the public's awareness of cerebral palsy and other disabilities, the causes, treatments and preventions, as well as the needs and rights of persons with disabilities

UCP has approximately 85 state and local affiliates that provide advocacy and direct services to people with disabilities and their families. UCP was founded in 1948 to fulfill the important role of advancing the independence of people with disabilities. UCP supports affiliates in many facets of operations such as public policy, public education, advocacy, program services, and fundraising. UCP enhances the public's awareness of the services provided to people with disabilities and their families by UCP, its affiliates, and other agencies. UCP's support comes primarily from affiliate member fees and contributions.

A summary of UCP's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue and support is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities topic of the Codification, *Financial Statements of Not-for-Profit Organizations*, UCP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Cash and cash equivalents: UCP considers money market funds and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Temporary cash investments: UCP considers cash held within the endowment to be separate and distinct from cash available for operations.

Financial risk: UCP maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. UCP has not experienced any losses in such accounts. UCP believes it is not exposed to any significant financial risk on cash and cash equivalents.

UCP invests in a professionally managed portfolio that contains equities and mutual funds. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that the changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments: Investments are recorded at fair market value. To adjust the carrying value of these investments, the change in fair market value is included as a component of investment return in the accompanying statement of activities.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The provision for doubtful accounts was \$6,450 at September 30, 2013.

## United Cerebral Palsy, Inc.

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Beneficial interest in trusts held by third parties: UCP is the beneficiary of the income of two charitable annuity trusts that it does not administer. The investments of each trust are administered by a trustee who is independent of UCP, and distributions are made to UCP in accordance with the trust agreement for each trust. These trusts are invested in cash and cash equivalents, fixed income funds, mutual funds, and equities. UCP records its interest in these trusts at fair market value within permanently restricted net assets. The gain on these trusts for the year ended September 30, 2013, was \$27,268, and is classified as permanently restricted support in the accompanying statement of activities. Income earned on these trusts, which is paid quarterly, is classified as unrestricted support in the accompanying statement of activities. For the year ended September 30, 2013, this amount was \$3,493.

UCP has three charitable remainder trust interests, valued at \$29,829, net of discount. These amounts were classified as temporarily restricted support in the accompanying statement of activities. These trusts currently pay income to the beneficiaries. At the time of the beneficiaries' deaths, the trusts will terminate and be distributed to ten charities, including UCP, in equal shares. UCP records its interest in these trusts at fair market value within temporarily restricted net assets. The gain on these trusts for the year ended September 30, 2013, was \$2,642, and is classified as temporarily restricted support in the accompanying statement of activities.

As of September 30, 2013, UCP had beneficial interests in five trust agreements totaling \$215,612.

Property and equipment: UCP capitalizes all property and equipment with a cost of \$500 or more. Property and equipment is stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, ranging from three to eleven years. Depreciation expense for the year ended September 30, 2013, was \$123,366.

Deferred rent: UCP has a lease agreement for rental space in Washington, D.C. Under the terms of the lease agreement, UCP occupied its office space for three months free of charge during the first year of the agreement, followed by 12 months of reduced rent. The benefits that UCP received from the free and reduced rate months and rent increases in future years are being allocated on a straight-line basis over the term of the lease as an offset against each period's occupancy expenditures. In addition, a landlord improvement allowance was provided for leasehold improvements. This benefit is being recognized on a straight-line basis over the life of the lease agreement. The unamortized portion of these incentives is reported as deferred rent on the accompanying statement of financial position.

Net asset classification: Net assets, revenue and support, expenses, and gains are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of UCP and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of UCP.

*Board designated net assets* – Net assets not subject to donor-imposed restrictions (unrestricted), but designated as to use by the Board of Trustees.

*Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that will be met either by actions of UCP and/or the passage of time. As such restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor-imposed restrictions, which stipulate that the corpus be maintained in perpetuity by UCP, but permit UCP to expend part or all of the income and gains derived there from.

## United Cerebral Palsy, Inc.

### Notes To Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Revenue and support: Affiliates' membership fees are recognized monthly when earned. Revenue received for these fees, which relate to subsequent months, has been reflected as deferred revenue.

Contributions are recognized when received, if unconditional. Conditional contributions are recognized when all conditions are realized. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Event revenue is recognized when earned. Revenue received for events, which relates to subsequent periods, is reflected as deferred revenue.

Income taxes: UCP is a non-profit voluntary health and welfare agency exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the IRC). It has been classified as a publicly supported charitable organization under Section 509(a)(1) of the IRC and qualifies for the maximum charitable contribution deduction allowable to donors. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. UCP did not have any net unrelated business income for the year ended September 30, 2013.

UCP 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 financial statements. Under this guidance, UCP 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. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated UCP's tax positions and concluded that UCP had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, UCP is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before September 30, 2010.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and support and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The 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 UCP's financial statements for the year ended September 30, 2012, from which the summarized information was derived.

Functional allocation of expenses: The costs of providing various program and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Subsequent events: UCP evaluated subsequent events through March 12, 2014, which is the date the financial statements were available to be issued.

## United Cerebral Palsy, Inc.

### Notes To Financial Statements

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#### Note 2. Investments

UCP's investments at September 30, 2013, consist of the following:

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Equities	\$ 4,972,465
Fixed income mutual funds	2,605,561
Equity mutual funds	2,094,187
	<u>\$ 9,672,213</u>

Investment return for the year ended September 30, 2013, consists of the following:

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Realized and unrealized gain	\$ 1,117,375
Interest and dividend income	210,967
	<u>\$ 1,328,342</u>

#### Note 3. Notes Receivable

In August 2011, UCP entered into a note receivable with an affiliate totaling \$100,000. Under the terms of this note, the interest rate is 1% per year, and the balance of the note is due at the earlier of July 2014, or the date in which the affiliate receives permanent and long-term financing for its residential property. The balance on this note at September 30, 2013, was \$28,571 and is included in receivables and other assets on the accompanying statement of financial position.

In March 2012, UCP entered into a note receivable with an affiliate totaling \$100,000. Under the terms of this note, the interest rate is 1% per year, and the balance of the note is due at the earlier of March 2015, or the date in which the affiliate receives permanent and long-term financing for its residential property. The balance on this note at September 30, 2013, was \$50,000, and is included in receivables and other assets on the accompanying statement of financial position.

#### Note 4. Property And Equipment And Accumulated Depreciation

Property and equipment and accumulated depreciation at September 30, 2013, are as follows:

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Leasehold improvements	\$ 700,286
Furniture and fixtures	332,827
Office equipment	149,056
	<u>1,182,169</u>
Less accumulated depreciation	302,721
	<u>\$ 879,448</u>

## United Cerebral Palsy, Inc.

### Notes To Financial Statements

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#### Note 5. Commitments

Leases: UCP has entered into various operating leases for office equipment. In addition, UCP maintains a lease for office space located in Washington, D.C., under a non-cancelable operating lease, which expires during the year ending September 30, 2022. Rent expense relating to office operating leases for the year ended September 30, 2013, was \$552,046.

Future minimum lease payments required under the lease agreements are as follows:

Years Ending September 30,	
2014	\$ 601,079
2015	615,599
2016	611,952
2017	644,952
2018	661,056
2019 to 2022	2,813,580
	<u>\$ 5,948,218</u>

During the year ended September 30, 2013, UCP earned approximately \$70,000 of revenue from subleases. Future minimum sublease payments required under the lease agreements are approximately \$74,000 for the year ending September 30, 2014.

UCP has contracted for certain consulting services through December 1, 2014. The contract can be cancelled with 30 days notice and the maximum amount of fees to be paid by UCP is \$308,000.

#### Note 6. Line Of Credit

UCP has a \$1,500,000 line of credit. The line of credit is secured by a collateral agreement pledging of \$1,500,000 of unrestricted funds with the Board Designated Endowment Fund Account. The line expires on April 15, 2014. Interest on the line of credit is payable monthly at a rate equal to the one month LIBOR rate plus 2%. As of September 30, 2013, UCP had \$830,093 outstanding on the line of credit.

#### Note 7. Retirement Contributions

UCP sponsors a 401(k) plan for its employees, whereby, UCP deposits to each eligible employee's 401(k) account an amount equal to the employee's 401(k) contributions up to a maximum of 2% of the employee's annual salary, and an additional "Safe Harbor Contribution" of 3% of the employee's annual salary. Full-time employees who have at least six months of service with UCP are eligible for the 2% employer match. Full-time employees who are enrolled in the 401(k) plan are eligible for 3% "Safe Harbor Contribution" immediately. Pension expense for the year ended September 30, 2013, was approximately \$88,000, and is included in employee benefits and taxes in the accompanying statement of functional expenses.

#### Note 8. Employment Agreement

UCP has an employment contract with the Executive Director of UCP through April 30, 2017, which includes a severance package for early termination.

## United Cerebral Palsy, Inc.

### Notes To Financial Statements

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#### **Note 9. Related Parties**

The local affiliates are related to, but not controlled, by UCP. Therefore, they are not consolidated in the accompanying financial statements.

UCP recorded membership fee revenue from affiliates in the amount of \$2,373,984 during the year ended September 30, 2013.

A portion of the national corporate sponsors' contributions received directly by UCP is allocated to the local affiliates pursuant to sharing agreements with national corporate sponsors. These contributions amounted to \$542,371 for the year ended September 30, 2013. During the year ended September 30, 2013, \$367,664 was allocated to the local affiliates. Support from the public reflected in the accompanying financial statements excludes collections retained by the local affiliates. Expenses incurred by the local affiliates are borne by them and are not included in the accompanying financial statements. Affiliate services are program services provided to and for the benefit of local affiliates. Public policy analysis/advocacy and public education are program services provided to and for the benefit of the general public and local affiliates.

#### **Note 10. Unrestricted Net Assets Available For Operations Deficit**

Unrestricted net assets available for operations as of September 30, 2013, had a deficit of \$1,385,147. The deficit was principally caused by a significant decrease in contributions, bequests and corporate sponsorships during the past two years.

#### **Note 11. Fair Value Measurements**

UCP follows the Codification topic, *Fair Value Measurements*. The Codification applies to all assets and liabilities that are being measured and reported on a fair value basis. The Codification requires disclosure that establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. The Codification enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Codification requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Observable market based inputs or unobservable inputs corroborated by market data

Level 3 – Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, UCP performs a detailed analysis of the assets and liabilities that are subject to the Codification topic, *Fair Value Measurements*. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**United Cerebral Palsy, Inc.**

**Notes To Financial Statements**

**Note 11. Fair Value Measurements (Continued)**

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of September 30, 2013:

Description	Level 1	Level 2	Level 3	Total
Investments:				
Equities:				
Financials	\$ 1,159,465	\$ -	\$ -	\$ 1,159,465
Information technology	746,945	-	-	746,945
Consumer staples	644,457	-	-	644,457
Healthcare	633,118	-	-	633,118
Energy	440,880	-	-	440,880
Industrials	435,878	-	-	435,878
Consumer discretionary	424,208	-	-	424,208
Materials	350,387	-	-	350,387
Utilities	89,560	-	-	89,560
Telecommunications	46,634	-	-	46,634
Others	933	-	-	933
	<u>4,972,465</u>	<u>-</u>	<u>-</u>	<u>4,972,465</u>
Fixed income mutual funds:				
Multi strategy	2,605,561	-	-	2,605,561
Equity mutual funds:				
U.S. multi strategy	1,308,530	-	-	1,308,530
International multi strategy	785,657	-	-	785,657
	<u>4,699,748</u>	<u>-</u>	<u>-</u>	<u>4,699,748</u>
Total investments at fair value	9,672,213	-	-	9,672,213
Beneficial interest in trusts held by third parties	-	-	215,612	215,612
Total assets at fair value	<u>\$ 9,672,213</u>	<u>\$ -</u>	<u>\$ 215,612</u>	<u>\$ 9,887,825</u>

Equities and mutual funds are classified as Level 1 instruments as they are actively traded on public exchanges.

**United Cerebral Palsy, Inc.**

**Notes To Financial Statements**

**Note 11. Fair Value Measurements (Continued)**

Beneficial interests in trusts held by third parties are classified as Level 3 instruments based on the fact that there is no market for UCP's interests in the trusts. Further, UCP's asset is the right to receive cash flows from the trusts, not the assets of the trusts themselves. Although the trust assets may be investments for which quoted prices in an active market are available, UCP does not control those investments.

For assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, the Codification topic, *Fair Value Measurements*, requires a reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, except for derivative assets and liabilities, which may be presented net. The table below represents the reconciliation of UCP's assets measured at fair value on a recurring basis using significant unobservable inputs:

Description	Beneficial Interests In Trusts Held By Third Parties
Beginning balance of assets	\$ 181,729
Total change in value recorded in revenue	29,910
Additions	3,973
Ending balance of assets	\$ 215,612

For fair value measurements categorized within Level 3 of the fair value hierarchy, UCP is required to provide quantitative information about the significant unobservable inputs used in the fair value measurement. The following table provides the required information for the UCP:

Type	Fair Value at September 30, 2013	Valuation Technique	Unobservable Inputs	Range
Beneficial Interest In Trusts	\$ 185,783	Percentage of Assets Held By Custodian	Market Activity	4 - 17%
Beneficial Interest In Trusts	29,829	Present Value of Remaining Asset Balance	Discount Rate	5%
			Life Expectancy	20 – 35 additional years
	\$ 215,612			



## United Cerebral Palsy, Inc.

### Notes To Financial Statements

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#### Note 12. Board Designated And Permanently Restricted Net Assets

UCP follows the Codification on *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. UCP includes all permanently restricted funds and temporarily restricted quasi-endowment funds in its endowments. The management of UCP has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, UCP classifies as permanently restricted net assets (a) the original value of cash gifts donated to permanent endowment; (b) the discounted value of future gifts promised to permanent endowment, net of allowance for uncollectible pledges; and (c) the fair value of non-cash gifts received, whereby, the proceeds of any future sale are donor-restricted to permanent endowment. The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by UCP in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, UCP considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purpose of UCP and donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

Investment and spending policies: UCP invests all endowment funds in a Fund managed by an investment manager according to the objectives and guidelines of UCP's Investment Policy. The Investment Committee is specifically charged with conducting regular reviews of the performance and mix of the investments that make up the Fund portfolio.

Annually, UCP budgets for 5% of the board designated endowment funds to be spent in the following year. This amount is approved by the UCP Board via the budgeting process. Throughout the year, on a quarterly basis, funds are transferred from the board designated funds to operations for utilization.

Annually, UCP budgets for 4.5% of the donor-restricted endowment funds to be spent in the following year.

UCP's endowment funds consist of the following at September 30, 2013:

	Board- Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,046,073	\$ 4,666,642	\$ 6,712,715
Board designated endowment funds	3,418,850	-	-	3,418,850
	<u>\$ 3,418,850</u>	<u>\$ 2,046,073</u>	<u>\$ 4,666,642</u>	<u>\$ 10,131,565</u>

**United Cerebral Palsy, Inc.**

**Notes To Financial Statements**

**Note 12. Board Designated And Permanently Restricted Net Assets (Continued)**

Endowment fund activity for the year ended September 30, 2013, consists of the following:

	Board- Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,237,382	\$ 1,424,117	\$ 4,639,374	\$ 9,300,873
Investment return	522,897	805,445	-	1,328,342
Change in beneficial interests in trusts	-	-	27,268	27,268
Investment fees	(24,592)	(35,072)	-	(59,664)
Amounts appropriated for expenditure	(316,837)	(148,417)	-	(465,254)
Endowment net assets, end of year	<u>\$ 3,418,850</u>	<u>\$ 2,046,073</u>	<u>\$ 4,666,642</u>	<u>\$ 10,131,565</u>

The endowment funds are composed of the investments, detailed in Note 2, as well as the temporary cash investments on the accompanying statement of financial position.

Permanently restricted net assets at September 30, 2013, consist of the Bellows endowment detailed above, as well as the charitable annuity trust interests detailed in Note 1. Earnings on the Bellows endowment funds are temporarily restricted for program purposes as specified by the donor.

**Note 13. Temporarily Restricted Net Assets**

Temporarily restricted net assets include donor restricted funds, which are only available for program activities or general support designated for future years. Temporarily restricted net assets were released from restrictions during the year ended September 30, 2013, due to the purpose of the restriction being accomplished.

Temporarily restricted net assets at September 30, 2013, are available for the following:

	Balance September 30, 2012	Additions	Investment Change In Value	Investment Fees	Releases	Balance September 30, 2013
Purpose restrictions:						
Bellows endowment funds	\$ 1,424,117	\$ -	\$ 805,445	\$ (35,072)	\$ (148,417)	\$ 2,046,073
Public education and outreach	117,220	202,681	-	-	(188,687)	131,214
Life Without Limits	51,889	58,500	-	-	(56,000)	54,389
	1,593,226	261,181	805,445	(35,072)	(393,104)	2,231,676
Time restriction – Trust assets	23,214	3,973	2,642	-	-	29,829
	<u>\$ 1,616,440</u>	<u>\$ 265,154</u>	<u>\$ 808,087</u>	<u>\$ (35,072)</u>	<u>\$ (393,104)</u>	<u>\$ 2,261,505</u>