

# **United Cerebral Palsy, Inc.**

Financial Report  
September 30, 2017

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RSM US LLP

## Independent Auditor's Report

To the Board of Trustees  
United Cerebral Palsy, Inc.

### 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, 2017, 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 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 United Cerebral Palsy, Inc. as of September 30, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*RSM US LLP*

Washington, D.C.  
February 27, 2018

**United Cerebral Palsy, Inc.**

**Statement of Financial Position  
September 30, 2017  
(With Comparative Totals for 2016)**

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 584,659	\$ 273,132
Investments	9,028,013	9,376,978
Receivables, net	151,354	176,184
Prepaid expense	100,415	104,837
Beneficial interest in trusts held by third parties	259,028	234,237
Property and equipment, net	431,258	538,357
	<u>\$ 10,554,727</u>	<u>\$ 10,703,725</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 308,921	\$ 717,171
Line of credit	799,521	1,997,513
Due to affiliates	5,957	2,763
Deferred revenue	24,500	43,590
Deferred rent	683,991	791,131
<b>Total liabilities</b>	<u>1,822,890</u>	<u>3,552,168</u>
Commitments (Note 3)		
Net assets:		
Unrestricted:		
Undesignated (deficit)	(558,693)	(2,560,797)
Board designated	1,640,712	2,870,315
<b>Total unrestricted</b>	<u>1,082,019</u>	<u>309,518</u>
Temporarily restricted	2,953,368	2,163,778
Permanently restricted	4,696,450	4,678,261
	<u>8,731,837</u>	<u>7,151,557</u>
	<u>\$ 10,554,727</u>	<u>\$ 10,703,725</u>

See notes to financial statements.

**United Cerebral Palsy, Inc.**

**Statement of Activities  
Year Ended September 30, 2017  
(With Comparative Totals for 2016)**

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and support:					
Affiliates' membership fees	\$ 1,945,425	\$ -	\$ -	\$ 1,945,425	\$ 2,046,039
Contributions	785,642	7,500	-	793,142	796,539
Rental and other revenue	222,658	-	-	222,658	117,688
Reimbursable grant revenue – Public Outreach	148,956	-	-	148,956	41,692
Event revenue	70,383	-	-	70,383	435,765
Net assets released from restrictions	221,047	(221,047)	-	-	-
<b>Total revenue and support</b>	<b>3,394,111</b>	<b>(213,547)</b>	<b>-</b>	<b>3,180,564</b>	<b>3,437,723</b>
Expenses:					
Program services:					
Support to affiliates	332,581	-	-	332,581	912,071
Public policy analysis/advocacy	227,308	-	-	227,308	223,571
Bellows grants	128,387	-	-	128,387	158,419
Life without limits	53,237	-	-	53,237	140,108
Public education	500	-	-	500	478,061
<b>Total program services</b>	<b>742,013</b>	<b>-</b>	<b>-</b>	<b>742,013</b>	<b>1,912,230</b>
Supporting services:					
Management and general	1,791,404	-	-	1,791,404	1,532,227
Fundraising	271,311	-	-	271,311	990,645
<b>Total supporting services</b>	<b>2,062,715</b>	<b>-</b>	<b>-</b>	<b>2,062,715</b>	<b>2,522,872</b>
<b>Total expenses</b>	<b>2,804,728</b>	<b>-</b>	<b>-</b>	<b>2,804,728</b>	<b>4,435,102</b>
<b>Change in net assets before other changes</b>	<b>589,383</b>	<b>(213,547)</b>	<b>-</b>	<b>375,836</b>	<b>(997,379)</b>
Other changes:					
Investment return	183,118	996,535	-	1,179,653	718,277
Change in beneficial interests in trusts held by third parties	-	6,602	18,189	24,791	12,806
<b>Total other changes</b>	<b>183,118</b>	<b>1,003,137</b>	<b>18,189</b>	<b>1,204,444</b>	<b>731,083</b>
<b>Change in net assets</b>	<b>772,501</b>	<b>789,590</b>	<b>18,189</b>	<b>1,580,280</b>	<b>(266,296)</b>
Net assets:					
Beginning	309,518	2,163,778	4,678,261	7,151,557	7,417,853
Ending	\$ 1,082,019	\$ 2,953,368	\$ 4,696,450	\$ 8,731,837	\$ 7,151,557

See notes to financial statements.

United Cerebral Palsy, Inc.

Statement of Functional Expenses  
Year Ended September 30, 2017  
(With Comparative Totals for 2016)

	2017										
	Program Services					Support Services					2016 Total
	Support to Affiliates	Public Policy Analysis/ Advocacy	Non-Federal Grants	Life Without Limits	Public Education	Total Program Services	Management and General	Fundraising	Total Support Services	Total	
Salaries	\$ 180,945	\$ 88,117	\$ -	\$ 44,737	\$ -	\$ 313,799	\$ 706,011	\$ 79,692	\$ 785,703	\$ 1,099,502	\$ 1,943,059
Employee benefits and taxes	25,232	14,029	-	8,500	-	47,761	100,810	11,111	111,921	159,682	322,644
<b>Total salaries and benefits</b>	<b>206,177</b>	<b>102,146</b>	<b>-</b>	<b>53,237</b>	<b>-</b>	<b>361,560</b>	<b>806,821</b>	<b>90,803</b>	<b>897,624</b>	<b>1,259,184</b>	<b>2,265,703</b>
Occupancy	29,857	29,857	-	-	-	59,714	447,863	89,572	537,435	597,149	574,086
Program and professional and contract services	-	87,888	-	-	475	88,363	187,906	3,000	190,906	279,269	335,461
Awards and grants	57,330	-	128,387	-	-	185,717	-	-	-	185,717	333,568
Direct mail	-	-	-	-	-	-	-	26,044	26,044	26,044	167,907
Interest expense and investment fees	-	-	-	-	-	-	76,629	-	76,629	76,629	119,332
Conferences, conventions and meetings	13,661	-	-	-	-	13,661	234	-	234	13,895	75,295
Travel and related costs	297	-	-	-	-	297	12,598	-	12,598	12,895	69,260
Events	-	-	-	-	-	-	-	45,028	45,028	45,028	244,677
Membership dues and support and subscriptions	-	2,062	-	-	-	2,062	56,190	799	56,989	59,051	29,363
Postage and shipping	-	-	-	-	-	-	1,495	-	1,495	1,495	5,171
Outside printing and artwork	-	-	-	-	25	25	15	-	15	40	2,897
Supplies	374	-	-	-	-	374	2,005	-	2,005	2,379	5,107
Telephone and teleconference	-	-	-	-	-	-	3,336	-	3,336	3,336	2,435
Employee recruitment	-	-	-	-	-	-	-	-	-	-	951
Miscellaneous	-	-	-	-	-	-	4,250	-	4,250	4,250	54,160
<b>Total expense before depreciation, in-kind services and, uncollectible dues and pledges</b>	<b>307,696</b>	<b>221,953</b>	<b>128,387</b>	<b>53,237</b>	<b>500</b>	<b>711,773</b>	<b>1,599,342</b>	<b>255,246</b>	<b>1,854,588</b>	<b>2,566,361</b>	<b>4,285,373</b>
Depreciation	5,355	5,355	-	-	-	10,710	80,324	16,065	96,389	107,099	113,319
In-kind professional and contract services	-	-	-	-	-	-	100,090	-	100,090	100,090	2,840
Uncollectible dues and pledges	19,530	-	-	-	-	19,530	11,648	-	11,648	31,178	33,570
<b>Total expenses</b>	<b>\$ 332,581</b>	<b>\$ 227,308</b>	<b>\$ 128,387</b>	<b>\$ 53,237</b>	<b>\$ 500</b>	<b>\$ 742,013</b>	<b>\$ 1,791,404</b>	<b>\$ 271,311</b>	<b>\$ 2,062,715</b>	<b>\$ 2,804,728</b>	<b>\$ 4,435,102</b>

See notes to financial statements.

**United Cerebral Palsy, Inc.**

**Statement of Cash Flows  
Year Ended September 30, 2017  
(With Comparative Totals for 2016)**

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,580,280	\$ (266,296)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	107,099	113,319
Realized and unrealized gain on investments	(943,442)	(559,540)
Change in beneficial interests in trusts held by third parties	(24,791)	(12,806)
Change in deferred rent	(107,140)	(113,692)
Uncollectible dues and pledges	31,178	33,570
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables, net	(6,348)	(60,551)
Prepaid expense	4,422	24,724
Increase (decrease) in:		
Accounts payable and accrued expenses	(408,250)	(75,355)
Due to affiliates	3,194	(2,523)
Deferred revenue	(19,090)	10,302
<b>Net cash provided by (used in) operating activities</b>	<b>217,112</b>	<b>(908,848)</b>
Cash flows from investing activities:		
Purchases of investments	(1,275,695)	(4,906,565)
Proceeds from sales of investments	2,568,102	5,417,257
Purchases of property and equipment	-	(1,090)
<b>Net cash provided by investing activities</b>	<b>1,292,407</b>	<b>509,602</b>
Cash flows from financing activities:		
Principal payments on line of credit	(1,197,992)	-
Proceeds from line of credit	-	251,356
<b>Net cash (used in) provided by financing activities</b>	<b>(1,197,992)</b>	<b>251,356</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>311,527</b>	<b>(147,890)</b>
Cash and cash equivalents:		
Beginning	273,132	421,022
Ending	\$ 584,659	\$ 273,132
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 14,892	\$ 45,639

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
- Public policy analysis and advocacy
- Bellows grants

UCP has approximately 65 state and local affiliates that provide advocacy and direct services to people with disabilities and their families. UCP was founded to fulfill the important role of advancing the independence of people with disabilities. UCP supports affiliates in many facets of operations such as public education, public policy, 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.

UCP operates the following programs:

**Support to affiliates:** UCP supports a national and international network of various UCP nonprofit organizations providing programs and services for persons with disabilities and their families. UCP continues to preserve the integrity and broaden the awareness of the brand name that supports the affiliates in the network. The National office hosts an annual conference, for all affiliates, that provides educational tools, resources and updates on changes within the network.

**Public policy analysis/advocacy:** Since its founding, UCP has been a voice for issues important to people with disabilities. UCP raised awareness about horrific living conditions in state institutions, leading to the liberation of thousands of people with disabilities from institutional living nationwide. UCP is still pushing for opportunities, protections and public policies that ensure fair and full citizenship for people with a range of disabilities and their families. In addition, UCP addresses legislative and policy issues affecting its member affiliates through resources and partnership such as the American Network of Community Options and Resources (ANCOR).

**Bellows grants:** Assistive technology often plays a vital role in the lives of people with disabilities. Assistive technology is any technology related item, piece of equipment, or product that is used to increase, maintain, or improve the functional capabilities of individuals with disabilities. UCP, through the Bellows grant offers local affiliates financial assistance from our non-federal grant program, which helps provide assistive technology equipment to individuals with disabilities. These funds are distributed to UCP affiliate members only.

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 is recognized when earned, unconditional support is recognized when received, and expenses are recognized when incurred. 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.

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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

**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 Not-for-Profit Entities topics of the Codification, Balance Sheet and Income Statement, 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.

**Net asset classification:** Net assets, revenue and support, expenses, and gains/losses 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. Bellows endowment funds purpose is to provide assisted devices to persons who are both physically handicapped and financially needed.

**Cash and cash equivalents:** UCP considers money market accounts and all highly liquid investments with a maturity of three months or less when purchased which are available for operations to be cash equivalents. Cash and cash equivalents included in the investment portfolio are reported with investments.

**Financial risk:** UCP is subject to certain financial risks that are not reported on its statement of financial position. 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. Due to the financial strength of the financial institution that holds its deposit 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 various securities that are exposed to risks, such as interest, 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 in mutual funds and equities 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.

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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

**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 \$11,648 at September 30, 2017.

**Beneficial interest in trusts held by third parties:** UCP is the beneficiary of the income of two perpetual 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 based on the stipulated percentage of assets by the donor within permanently restricted net assets. The gain on these perpetual trusts for the year ended September 30, 2017, was \$18,189 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, 2017, this amount was \$3,584.

UCP has three charitable remainder trust interests, valued at \$43,437, net of discount. 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, 2017, was \$6,602, and is classified as temporarily restricted support in the accompanying statement of activities.

As of September 30, 2017, UCP had beneficial interests in five trust agreements totaling \$259,028.

**Property and equipment:** UCP capitalizes all property and equipment with a cost of \$1,000 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, 2017, was \$107,099.

**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 expenses. In addition, a landlord improvement allowance was provided for leasehold improvements.

These benefits are being recognized on a straight-line basis over the life of the lease agreement and amounted to \$683,991 as of September 30, 2017. The unamortized portion of these incentives is reported as deferred rent on the accompanying statement of financial position.

**Revenue and support:** Affiliates' membership fees are recognized monthly when earned. Payments received for these fees which relate to subsequent months are recorded as deferred revenue. Effective October 1, 2017, affiliates' membership fees were reduced by approximately 50%.

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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

Contributions are recognized when received, if unconditional. Conditional contributions are recognized when all conditions are fulfilled. Unconditional 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 unconditional 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 on the date(s) of the event(s). Payments received for events, which relates to subsequent periods, are recorded as deferred revenue. Rental revenue is recognized ratably over the life of the agreement.

**Income taxes:** UCP is a nonprofit 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 and is not a private foundation. 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, 2017.

Management has evaluated UCP's tax positions and has concluded that UCP has taken no certain tax positions that require adjustments to the financial statements.

**New accounting pronouncement:** In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. Management of UCP has performed these evaluations and determined UCP has the ability to continue as a going concern.

**Pending accounting pronouncements:** In February 2016, the 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 12 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 fiscal years beginning after December 15, 2019.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted.

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018.

**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 or function. 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, 2016, from which the summarized information was derived.

**Subsequent events:** UCP evaluated subsequent events through February 27, 2018, which is the date the financial statements were available to be issued. UCP did not identify any subsequent events that require adjustment or disclosure in the financial statements.

#### Note 2. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation at September 30, 2017, are as follows:

Leasehold improvements	\$ 700,286
Furniture and fixtures	333,608
Office equipment	85,009
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	1,118,903
Less accumulated depreciation	687,645
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	<u>\$ 431,258</u>

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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#### Note 3. 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 operating leases for the year ended September 30, 2017, was \$597,149.

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

Years ending September 30:

2018	\$	661,056
2019		677,556
2020		694,452
2021		711,876
2022		729,696
	\$	<u>3,474,636</u>

UCP has enter various subleases through 2022. During the year ended September 30, 2017, UCP earned \$192,481 of revenue from subleases.

Future minimum lease receipts required under the sublease agreements are as follows:

Years ending September 30:

2018	\$	235,527
2019		187,426
2020		142,584
2021		137,946
2022		96,381
	\$	<u>799,864</u>

#### Note 4. Line of Credit

The daily maximum available amount is based on the value of the funds held in UCP's investment accounts at the bank. At September 30, 2017, the maximum available amount was \$1,232,919. The line of credit is secured by UCP's collateral in its investment accounts held with the bank and will remain open as long as the collateral is held by the bank. Interest varies between 2.25% and 5% based on the amount drawn. As of September 30, 2017, UCP had \$799,521 outstanding on the line of credit and \$433,398 in available credit.

#### Note 5. 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, 2017, was approximately \$32,000 and is included in employee benefits and taxes in the accompanying statement of functional expenses.

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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#### **Note 6. Affiliated Organizations**

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

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 \$47,475 for the year ended September 30, 2017. During the year ended September 30, 2017, \$33,940 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 education and public policy analysis/advocacy are program services provided to and for the benefit of the general public and local affiliates.

#### **Note 7. Unrestricted Undesignated Net Assets Deficit**

Unrestricted undesignated net assets as of September 30, 2017, had a deficit of \$553,962. The deficit was principally caused by a significant decrease in affiliates' membership fees and contributions, as well as expenses being greater than revenues for the three years prior to fiscal year 2017.

#### **Note 8. Fair Value Measurements and Investments**

The Fair Value Measurement topic of the Codification 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 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:** 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 Measurement.

**United Cerebral Palsy, Inc.**

**Notes to Financial Statements**

**Note 8. Fair Value Measurements and Investments (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, 2017:

Description	Level 1	Level 2	Level 3	Total
Investments:				
Equity mutual funds:				
U.S. large growth	\$ 1,289,623	\$ -	\$ -	\$ 1,289,623
Emerging markets	1,109,818	-	-	1,109,818
International	890,653	-	-	890,653
	<u>3,290,094</u>	<u>-</u>	<u>-</u>	<u>3,290,094</u>
Fixed income mutual funds:				
Ultrashort bond	868,745	-	-	868,745
Intermediate term bond	853,054	-	-	853,054
World bond	528,697	-	-	528,697
High yield bond	471,232	-	-	471,232
Multisector bond	321,655	-	-	321,655
	<u>3,043,383</u>	<u>-</u>	<u>-</u>	<u>3,043,383</u>
	<u>6,333,477</u>	<u>-</u>	<u>-</u>	<u>6,333,477</u>
Equities:				
Financial	519,819	-	-	519,819
Healthcare	410,353	-	-	410,353
Industrials	360,070	-	-	360,070
Consumer goods	348,739	-	-	348,739
Services	346,964	-	-	346,964
Basic materials	325,999	-	-	325,999
Technology	220,226	-	-	220,226
Utilities	38,695	-	-	38,695
	<u>2,570,865</u>	<u>-</u>	<u>-</u>	<u>2,570,865</u>
Beneficial interest in trusts held by third parties	-	-	259,028	259,028
	<u>\$ 8,904,342</u>	<u>\$ -</u>	<u>\$ 259,028</u>	<u>9,163,370</u>
Total assets at fair value				
Less beneficial interest in trust				(259,028)
Plus cash and cash equivalents held at cost				123,671
Total investments				<u>\$ 9,028,013</u>

**United Cerebral Palsy, Inc.**

**Notes to Financial Statements**

**Note 8. Fair Value Measurements and Investments (Continued)**

Mutual funds and equities are classified as Level 1 instruments as they are actively traded on public exchanges.

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 Measurement, 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	\$ 234,237
Total change in value recorded in support	<u>24,791</u>
Ending balance of assets	<u><u>\$ 259,028</u></u>

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 UCP:

Type	Fair Value at September 30, 2017	Valuation Technique	Unobservable Inputs	Range
Beneficial Interest in Trusts	\$ 215,591	Percentage of Assets Held by Custodian	Market Activity	4-17%
Beneficial Interest in Trusts	<u>43,437</u>	Present Value of Remaining Asset Balance	Discount Rate	5%
	<u><u>\$ 259,028</u></u>		Life Expectancy	16-41 additional years

Investment return for the year ended September 30, 2017, consists of the following:

Realized and unrealized gain	\$ 943,442
Interest and dividend income	<u>236,211</u>
	<u><u>\$ 1,179,653</u></u>

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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#### Note 9. Board Designated and Permanently Restricted Net Assets

UCP follows the Codification Topic Not-for-Profit Entities Presentation of Financial Statements on Reporting 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 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 of Trustees via the budgeting process. Throughout the year, on a quarterly basis, funds are transferred from the board designated funds to operations for utilization. During the year ended September 30, 2017, an additional \$1,200,000 of board designated endowment funds were appropriated to repay the line of credit.

Annually, the UCP Board of Trustees determines an amount of the donor-restricted endowment funds to be spent in a prudent manner. During the year ended September 30, 2017, the amount totaled \$128,387.

## United Cerebral Palsy, Inc.

### Notes to Financial Statements

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#### Note 9. Board Designated and Permanently Restricted Net Assets (Continued)

UCP's endowment funds consist of the following at September 30, 2017:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,890,362	\$ 4,696,450	\$ 7,586,812
Board designated endowment funds	1,640,712	-	-	1,640,712
	<u>\$ 1,640,712</u>	<u>\$ 2,890,362</u>	<u>\$ 4,696,450</u>	<u>\$ 9,227,524</u>

Endowment fund activity for the year ended September 30, 2017, consists of the following:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,870,315	\$ 2,022,214	\$ 4,678,261	\$ 9,570,790
Investment return	135,924	996,535	-	1,132,459
Change in beneficial interests in trusts	-	-	18,189	18,189
Amounts appropriated for expenditure	(1,365,527)	(128,387)	-	(1,493,914)
Endowment net assets, end of year	<u>\$ 1,640,712</u>	<u>\$ 2,890,362</u>	<u>\$ 4,696,450</u>	<u>\$ 9,227,524</u>

The endowment funds are composed of the investments and beneficial interests in trusts detailed in Note 8.

Permanently restricted net assets at September 30, 2017, consist of the Bellows endowment detailed in Note 1, as well as the charitable annuity trust interests detailed in Note 1.

#### Note 10. 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, 2017, due to the purpose of the restriction being accomplished.

Changes in temporarily restricted net assets during the year ended September 30, 2017, are as follows by purpose:

United Cerebral Palsy, Inc.

Notes to Financial Statements

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Note 10. Temporarily Restricted Net Assets (Continued)

	Balance September 30, 2016	Additions	Investment Return	Releases	Balance September 30, 2017
Purpose restrictions:					
Bellows endowment funds	\$ 2,022,214	\$ -	\$ 996,535	\$ (128,387)	\$ 2,890,362
Public education and outreach	59,992	7,500	-	(47,923)	19,569
Life Without Limits	44,737	-	-	(44,737)	-
	<u>2,126,943</u>	<u>7,500</u>	<u>996,535</u>	<u>(221,047)</u>	<u>2,909,931</u>
Time restriction:					
Trust assets	36,835	-	6,602	-	43,437
	<u>\$ 2,163,778</u>	<u>\$ 7,500</u>	<u>\$ 1,003,137</u>	<u>\$ (221,047)</u>	<u>\$ 2,953,368</u>