

United Cerebral Palsy, Inc.

Financial Report
September 30, 2016

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RSM US LLP

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Washington, D.C.
March 12, 2017

United Cerebral Palsy, Inc.

**Statement of Financial Position
September 30, 2016
(With Comparative Totals for 2015)**

	2016	2015
Assets		
Cash and cash equivalents	\$ 273,132	\$ 421,022
Investments	9,376,978	9,328,130
Receivables, net	176,184	149,203
Prepaid expense	104,837	129,561
Beneficial interest in trusts held by third parties	234,237	221,431
Property and equipment, net	538,357	650,586
	<u>\$ 10,703,725</u>	<u>\$ 10,899,933</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 717,171	\$ 792,526
Line of credit	1,997,513	1,746,157
Due to affiliates	2,763	5,286
Deferred revenue	43,590	33,288
Deferred rent	791,131	904,823
Total liabilities	<u>3,552,168</u>	<u>3,482,080</u>
Commitments (Notes 3 and 5)		
Net assets:		
Unrestricted:		
Undesignated (deficit)	(2,560,797)	(2,330,338)
Board designated	2,870,315	3,094,230
Total unrestricted	<u>309,518</u>	<u>763,892</u>
Temporarily restricted	2,163,778	1,984,916
Permanently restricted	4,678,261	4,669,045
	<u>7,151,557</u>	<u>7,417,853</u>
	<u>\$ 10,703,725</u>	<u>\$ 10,899,933</u>

See notes to financial statements.

United Cerebral Palsy, Inc.

**Statement of Activities
Year Ended September 30, 2016
(With Comparative Totals for 2015)**

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and support:					
Affiliates' membership fees	\$ 2,046,039	\$ -	\$ -	\$ 2,046,039	\$ 2,156,763
Contributions	739,805	56,734	-	796,539	997,323
Event revenue	435,765	-	-	435,765	278,231
Rental and other revenue	117,688	-	-	117,688	110,658
Reimbursable grant revenue – Public Outreach	41,692	-	-	41,692	-
Net assets released from restrictions	327,124	(327,124)	-	-	-
Total revenue and support	3,708,113	(270,390)	-	3,437,723	3,542,975
Expenses:					
Program services:					
Support to affiliates	912,071	-	-	912,071	1,036,144
Public education	478,061	-	-	478,061	483,160
Public policy analysis/advocacy	223,571	-	-	223,571	327,188
Life without limits	140,108	-	-	140,108	279,604
Non-federal grants	158,419	-	-	158,419	169,265
Total program services	1,912,230	-	-	1,912,230	2,295,361
Supporting services:					
Management and general	1,532,227	-	-	1,532,227	1,444,687
Fundraising	990,645	-	-	990,645	771,227
Total supporting services	2,522,872	-	-	2,522,872	2,215,914
Total expenses	4,435,102	-	-	4,435,102	4,511,275
Change in net assets before other changes	(726,989)	(270,390)	-	(997,379)	(968,300)
Other changes:					
Investment return (loss)	272,615	445,662	-	718,277	(672,841)
Change in beneficial interests in trusts held by third parties	-	3,590	9,216	12,806	(14,644)
Total other changes	272,615	449,252	9,216	731,083	(687,485)
Change in net assets	(454,374)	178,862	9,216	(266,296)	(1,655,785)
Net assets:					
Beginning	763,892	1,984,916	4,669,045	7,417,853	9,073,638
Ending	\$ 309,518	\$ 2,163,778	\$ 4,678,261	\$ 7,151,557	\$ 7,417,853

See notes to financial statements.

United Cerebral Palsy, Inc.

Statement of Functional Expenses
Year Ended September 30, 2016
(With Comparative Totals for 2015)

	2016											2015 Total
	Program Services					Support Services					Total	
	Support to Affiliates	Public Education	Public Policy Analysis/ Advocacy	Life Without Limits	Non-Federal Grants	Total Program Services	Management and General	Fundraising	Total Support Services			
Salaries	\$ 402,060	\$ 314,130	\$ 124,417	\$ 136,702	\$ -	\$ 977,309	\$ 624,898	\$ 340,852	\$ 965,750	\$ 1,943,059	\$ 2,003,168	
Employee benefits and taxes	29,643	19,627	16,199	-	-	65,469	200,154	57,021	257,175	322,644	308,213	
Total salaries and benefits	431,703	333,757	140,616	136,702	-	1,042,778	825,052	397,873	1,222,925	2,265,703	2,311,381	
Occupancy	143,522	57,409	28,704	-	-	229,635	229,634	114,817	344,451	574,086	564,602	
Program and professional and contract services	19,960	51,851	44,600	834	-	117,245	200,319	17,897	218,216	335,461	462,636	
Awards and grants	164,929	10,220	-	-	158,419	333,568	-	-	-	333,568	389,431	
Direct mail	-	-	-	-	-	-	-	167,907	167,907	167,907	138,702	
Interest expense and investment fees	-	-	-	-	-	-	119,332	-	119,332	119,332	122,713	
Conferences, conventions and meetings	71,220	-	-	-	-	71,220	4,075	-	4,075	75,295	86,518	
Travel and related costs	21,032	2,370	2,742	2,572	-	28,716	28,270	12,274	40,544	69,260	84,320	
Events	-	-	-	-	-	-	-	244,677	244,677	244,677	43,084	
Membership dues and support and subscriptions	-	8,160	758	-	-	8,918	15,073	5,372	20,445	29,363	39,103	
Postage and shipping	-	976	13	-	-	989	2,868	1,314	4,182	5,171	24,373	
Outside printing and artwork	305	1,070	79	-	-	1,454	1,443	-	1,443	2,897	11,030	
Supplies	-	544	393	-	-	937	3,951	219	4,170	5,107	5,346	
Telephone and teleconference	-	-	-	-	-	-	2,435	-	2,435	2,435	1,315	
Employee recruitment	-	372	-	-	-	372	381	198	579	951	-	
Miscellaneous	-	-	-	-	-	-	54,067	93	54,160	54,160	112,025	
Total expense before depreciation, in-kind services and, uncollectible dues and pledges	852,671	466,729	217,905	140,108	158,419	1,835,832	1,486,900	962,641	2,449,541	4,285,373	4,396,579	
Depreciation	28,330	11,332	5,666	-	-	45,328	45,327	22,664	67,991	113,319	112,547	
In-kind professional and contract services	-	-	-	-	-	-	-	2,840	2,840	2,840	-	
Uncollectible dues and pledges	31,070	-	-	-	-	31,070	-	2,500	2,500	33,570	2,149	
Total expenses	\$ 912,071	\$ 478,061	\$ 223,571	\$ 140,108	\$ 158,419	\$ 1,912,230	\$ 1,532,227	\$ 990,645	\$ 2,522,872	\$ 4,435,102	\$ 4,511,275	

See notes to financial statements.

United Cerebral Palsy, Inc.

Statement of Cash Flows
Year Ended September 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (266,296)	\$ (1,655,785)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	113,319	112,547
Realized and unrealized (gain) loss on investments	(559,540)	914,333
Change in beneficial interests in trusts held by third parties	(12,806)	14,644
Change in deferred rent	(113,692)	(87,385)
Uncollectible dues and pledges	33,570	2,149
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables, net	(60,551)	595,600
Prepaid expense	24,724	16,966
Increase (decrease) in:		
Accounts payable and accrued expenses	(75,355)	(15,673)
Due to affiliates	(2,523)	(11,570)
Deferred revenue	10,302	(67,493)
Net cash used in operating activities	(908,848)	(181,667)
Cash flows from investing activities:		
Purchases of investments	(4,906,565)	(1,769,455)
Proceeds from sales of investments	5,417,257	1,988,039
Purchases of property and equipment	(1,090)	(5,608)
Collections on notes receivable	-	19,444
Net cash provided by investing activities	509,602	232,420
Cash flows from financing activities:		
Principal payments on line of credit	-	(100,208)
Proceeds from line of credit	251,356	101,272
Net cash provided by financing activities	251,356	1,064
Net (decrease) increase in cash and cash equivalents	(147,890)	51,817
Cash and cash equivalents:		
Beginning	421,022	369,205
Ending	\$ 273,132	\$ 421,022
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 45,639	\$ 37,873

See notes to financial statements.

United Cerebral Palsy, Inc.

Notes to Financial Statements

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 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
- Public policy analysis and advocacy

UCP has approximately 70 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 provides a worldwide and international network of various UCP nonprofit organizations providing programs and services for persons with disabilities and their families. UCP continues to strive to present a brand name that will generate revenue that will support 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 education: UCP's knowledge of disability issues has been growing each year. Connecting individuals and families with the resources and services they need, helps fulfill UCP's mission of advancing the independence, productivity and full citizenship of people with a spectrum of disabilities. UCP's Public Education & Outreach (PEO) efforts include two primary components:

- Public education resources: UCP's in depth, online resources; state resource guides; and a toll-free telephone hotline for inquiries
- Public education campaigns: At the heart of UCP's PEO effort are key public education campaigns which include My Life Without Limits and My Child Without Limits, which support individuals with a range of disabilities and their parents

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.

Life Without Limits: Life Without Limits (LWL) is a national initiative launched by UCP to empower people with disabilities to envision and build a better future for themselves, their communities and the world at large. LWL shines a spotlight on key issues impacting people with disabilities and uses this information to advocate for dynamic changes in society that advance the civil rights movement for people with disabilities. It is about improving the lives of people with disabilities by harnessing the latest innovations in technology to increase their access to the wider world and marketplace. It is also a place to create a forum for increased learning that strengthens service providers, advocates, medical researchers and self-advocates creating broad changes in the way that society interacts with people with disabilities.

United Cerebral Palsy, Inc.

Notes to Financial Statements

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

Non-federal grants: Assistive technology often plays a vital role in the lives of people with disabilities. Assistive technology is any item, piece of equipment, or product that is used to increase, maintain, or improve the functional capabilities of individuals with disabilities. We offer financial assistance through our non-federal grant program, which helps provide assistive technology equipment to individuals with disabilities. Use of this program is available only through UCP affiliates.

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.

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.

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 is reported with investments.

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 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 (loss) 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 \$40,000 at September 30, 2016.

United Cerebral Palsy, Inc.

Notes to Financial Statements

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 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 within permanently restricted net assets. The gain on these perpetual trusts for the year ended September 30, 2016, was \$9,216 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, 2016, this amount was \$4,616.

UCP has three charitable remainder trust interests, valued at \$36,835, 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, 2016, was \$3,590, and is classified as temporarily restricted support in the accompanying statement of activities.

As of September 30, 2016, UCP had beneficial interests in five trust agreements totaling \$234,237.

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, 2016, was \$113,319.

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 losses/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.

United Cerebral Palsy, Inc.

Notes to Financial Statements

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

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.

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.

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.

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. 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, 2016.

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.

Pending accounting pronouncements: In August 2014, the FASB issued 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. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted.

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.

United Cerebral Palsy, Inc.

Notes to Financial Statements

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

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 application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied.

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. UCP has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

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, 2015, 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, 2017, which is the date the financial statements were available to be issued.

Note 2. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation at September 30, 2016, are as follows:

Leasehold improvements	\$ 700,286
Furniture and fixtures	333,608
Office equipment	98,881
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	1,132,775
Less accumulated depreciation	594,418
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	<u>\$ 538,357</u>

United Cerebral Palsy, Inc.

Notes to Financial Statements

Note 3. 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 operating leases for the year ended September 30, 2016, was \$557,291.

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

Years ending September 30:	
2017	\$ 644,952
2018	661,056
2019	677,556
2020	694,452
2021	711,876
2022	729,696
	<u>\$ 4,119,588</u>

During the year ended September 30, 2016, UCP earned \$78,460 of revenue from subleases.

Note 4. Line of Credit

UCP has a line of credit that has a maximum available amount of \$3,000,000. 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, 2016, the maximum available amount was \$2,157,803. 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 UCP is in good standing with the bank. Interest varies between 2.25% and 5% based on the amount drawn. As of September 30, 2016, UCP had \$1,997,513 outstanding on the line of credit and \$160,290 in available credit. Subsequent to September 30, 2016, UCP liquidated approximately \$1,400,000 of funds held at the bank and paid back approximately \$1,200,000 of the outstanding balance on the line of 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, 2016, was approximately \$72,000 and is included in employee benefits and taxes in the accompanying statement of functional expenses.

United Cerebral Palsy, Inc.

Notes to Financial Statements

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 \$43,696 for the year ended September 30, 2016. During the year ended September 30, 2016, \$44,552 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 Available for Operations Deficit

Unrestricted undesignated net assets available for operations as of September 30, 2016, had a deficit of \$2,509,886. The deficit was principally caused by a significant decrease in affiliates' membership fees and contributions, as well as expenses being greater than revenues the past three years.

Note 8. Fair Value Measurements

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. 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 8. 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, 2016:

Description	Level 1	Level 2	Level 3	Total
Investments:				
Fixed income mutual funds:				
Ultrashort bond	\$ 881,709	\$ -	\$ -	\$ 881,709
Intermediate term bond	870,402	-	-	870,402
World bond	467,684	-	-	467,684
High yield bond	431,670	-	-	431,670
Multisector bond	304,878	-	-	304,878
	<u>2,956,343</u>	<u>-</u>	<u>-</u>	<u>2,956,343</u>
Equity mutual funds:				
U.S. large growth	1,068,572	-	-	1,068,572
International-emerging markets	947,606	-	-	947,606
International large blend	669,773	-	-	669,773
	<u>2,685,951</u>	<u>-</u>	<u>-</u>	<u>2,685,951</u>
	<u>5,642,294</u>	<u>-</u>	<u>-</u>	<u>5,642,294</u>
Equities:				
Financials	438,709	-	-	438,709
Materials	374,598	-	-	374,598
Services	340,958	-	-	340,958
Technology	317,197	-	-	317,197
Industrials	277,487	-	-	277,487
Healthcare	235,977	-	-	235,977
Consumer discretionary	227,923	-	-	227,923
Utilities	71,528	-	-	71,528
	<u>2,284,377</u>	<u>-</u>	<u>-</u>	<u>2,284,377</u>
Beneficial interest in trusts held by third parties	-	-	234,237	234,237
Total assets at fair value	<u>\$ 7,926,671</u>	<u>\$ -</u>	<u>\$ 234,237</u>	<u>8,160,908</u>
Less beneficial interest in trusts				(234,237)
Plus cash and cash equivalents held at cost				<u>1,450,307</u>
Total investments				<u>\$ 9,376,978</u>

United Cerebral Palsy, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (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	\$ 221,431
Total change in value recorded in support	12,806
Ending balance of assets	<u>\$ 234,237</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, 2016	Valuation Technique	Unobservable Inputs	Range
Beneficial Interest in Trusts	\$ 197,402	Percentage of Assets Held by Custodian	Market Activity	4-17%
Beneficial Interest in Trusts	<u>36,835</u>	Present Value of Remaining Asset Balance	Discount Rate	5%
			Life Expectancy	17-33 additional years
	<u>\$ 234,237</u>			

Investment return for the year ended September 30, 2016, consists of the following:

Realized and unrealized gain	\$ 559,540
Interest and dividend income	158,737
	<u>\$ 718,277</u>

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.

United Cerebral Palsy, Inc.

Notes to Financial Statements

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

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.

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, 2016:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,022,214	\$ 4,678,261	\$ 6,700,475
Board designated endowment funds	2,870,315	-	-	2,870,315
	<u>\$ 2,870,315</u>	<u>\$ 2,022,214</u>	<u>\$ 4,678,261</u>	<u>\$ 9,570,790</u>

United Cerebral Palsy, Inc.

Notes to Financial Statements

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

Endowment fund activity for the year ended September 30, 2016, consists of the following:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,094,230	\$ 1,753,040	\$ 4,669,045	\$ 9,516,315
Investment return	212,659	445,662	-	658,321
Change in beneficial interests in trusts	-	-	9,216	9,216
Amounts appropriated for expenditure	(436,574)	(176,488)	-	(613,062)
Endowment net assets, end of year	<u>\$ 2,870,315</u>	<u>\$ 2,022,214</u>	<u>\$ 4,678,261</u>	<u>\$ 9,570,790</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, 2016, 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 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, 2016, due to the purpose of the restriction being accomplished.

Changes in temporarily restricted net assets during the year ended September 30, 2016, are as follows by purpose:

	Balance September 30, 2015	Additions	Investment Return	Releases	Balance September 30, 2016
Purpose restrictions:					
Bellows endowment funds	\$ 1,753,040	\$ -	\$ 445,662	\$ (176,488)	\$ 2,022,214
Public education and outreach	152,738	54,484	-	(147,230)	59,992
Life Without Limits	45,893	2,250	-	(3,406)	44,737
	<u>1,951,671</u>	<u>56,734</u>	<u>445,662</u>	<u>(327,124)</u>	<u>2,126,943</u>
Time restriction:					
Trust assets	33,245	-	3,590	-	36,835
	<u>\$ 1,984,916</u>	<u>\$ 56,734</u>	<u>\$ 449,252</u>	<u>\$ (327,124)</u>	<u>\$ 2,163,778</u>