



ARTHUR ANDERSEN

Report of Independent Public Accountants

To the Board of Directors of United Cerebral Palsy Associations, Inc.:

We have audited the accompanying statement of financial position of United Cerebral Palsy Associations, Inc. ("UCPA") as of September 30, 1999, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of UCPA's management. 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 and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UCPA as of September 30, 1999, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with **Government Auditing Standards**, we have also issued our report, dated December 28, 1999, on our consideration of UCPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Arthur Andersen LLP

Vienna, Virginia
December 28, 1999

United Cerebral Palsy Associations, Inc.

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United Cerebral Palsy Associations, Inc.

Statement of Financial Position As of September 30, 1999

Assets	
Cash and cash equivalents	\$ 877,965
Investments	8,045,418
Contributions receivable, all current	374,266
Due from affiliates, net of allowance	154,362
Due from U.S. government agencies	772,328
Prepaid expenses and deposits	672,680
Receivables and other assets	120,355
Furniture and equipment, less accumulated depreciation of \$335,091	270,238
Total assets	<u>\$11,287,612</u>
Liabilities and Net Assets	
Accounts payable and accrued expenses	\$ 1,692,121
Note payable	400,000
Due to affiliates	567,611
Deferred revenue	164,779
Total liabilities	<u>2,824,511</u>
Net assets:	
Unrestricted	1,822,051
Temporarily restricted	2,160,191
Permanently restricted	4,480,859
Total net assets	<u>8,463,101</u>
Total liabilities and net assets	<u>\$11,287,612</u>

The accompanying notes are an integral part of this statement.

United Cerebral Palsy Associations, Inc.

**Statement of Activities
For the Year Ended September 30, 1999**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Affiliates' membership fees	\$2,656,057	\$ —	\$ —	\$2,656,057
Contributions	978,786	311,040	—	1,289,826
U.S. government grants	3,898,173	—	—	3,898,173
Grant from United Cerebral Palsy Research and Education Foundation, Inc.	250,000	—	—	250,000
Other grants	159,031	—	—	159,031
Investment income	341,618	765,723	—	1,107,341
Other revenue	117,334	—	—	117,334
Net assets released from satisfaction of program restrictions	606,663	(606,663)	—	—
Total revenues	9,077,662	470,100	—	9,477,762
Expenses:				
Program services—				
Research and professional health education and training	715,502	—	—	715,502
Community services	881,902	—	—	881,902
U.S. government grants	3,898,173	—	—	3,898,173
Public health education and information	1,068,526	—	—	1,068,526
State and federal relations	216,250	—	—	216,250
Support to affiliates	1,219,885	—	—	1,219,885
Total program services	8,000,238	—	—	8,000,238
Supporting services—				
Management and general	1,150,290	—	—	1,150,290
Fund-raising	788,340	—	—	788,340
Total supporting services	1,938,630	—	—	1,938,630
Total expenses	9,938,868	—	—	9,938,868
Change in net assets	(931,206)	470,100	—	(461,106)
Net assets at beginning of year	2,753,257	1,690,091	4,480,859	8,924,207
Net assets at end of year	\$1,822,051	\$2,160,191	\$4,480,859	\$8,463,101

The accompanying notes are an integral part of this statement.

United Cerebral Palsy Associations, Inc.

**Statement of Functional Expenses
For the Year Ended September 30, 1999**

Expenses by Department	Program Services						Supporting Services		1999		
	Research and Professional Health Education and Training	Community Services	U.S. Government Contracts	Public Health Education and Information	State and Federal Relations	Support to Affiliates	Total	Management and General		Fund-Raising	Total
Salaries	\$200,161	\$370,883	\$ 789,845	\$ 442,399	\$ 2,788	\$ 421,524	\$2,227,600	\$ 582,979	\$272,537	\$ 855,516	\$3,083,116
Employee benefits and taxes	15,068	261,979	—	59,369	(187)	47,262	383,491	54,333	33,680	88,013	471,504
Program and professional and contract services	215,229	632,862	789,845	501,768	2,601	468,786	2,611,091	637,312	306,217	943,529	3,554,620
Supplies	103,332	29,491	81,600	273,666	28,409	116,393	632,891	311,107	325,200	636,307	1,269,198
Telephone and teleconference	124,853	32,366	53,138	24,076	877	30,438	265,748	40,203	12,731	52,934	318,682
Postage and shipping	4,540	29,475	46,478	21,139	10,920	29,474	142,026	23,513	10,259	33,772	175,798
Occupancy	4,986	(3,359)	59,123	17,485	6,682	30,168	115,085	37,096	8,573	45,669	160,754
Outside printing and artwork	14,301	72,648	50,513	61,872	—	45,258	244,592	79,152	33,727	112,879	357,471
Travel and related costs	4,402	(1,037)	95,906	43,233	1,548	38,203	182,255	8,247	14,219	22,466	204,721
Conferences, conventions, and meetings	24,531	33,994	85,855	43,320	100,765	188,896	477,361	57,062	57,296	114,358	591,719
Subscriptions and reference publications	10,869	15,161	104,318	31,895	44,621	249,138	456,002	12,988	5,466	18,454	474,456
Membership dues and support payments	929	1,724	4,962	20,358	5,561	1,417	34,951	2,413	217	2,630	37,581
Interest expense	1,287	750	7,851	1,350	—	910	12,148	3,741	31	3,772	15,920
Awards and grants	—	—	—	—	—	—	—	118,941	—	118,941	118,941
Miscellaneous	158,553	—	2,020,935	1,397	—	94	2,180,979	31,912	—	31,912	2,212,891
Executive employee recruitment	9,916	11,849	10,416	8,853	2,633	11,358	55,025	9,274	4,316	13,587	68,612
Grant to UCP Foundation	—	—	—	1,340	11,633	2,061	15,034	9,145	1,500	10,645	25,679
Indirect costs, including fringe	34,010	—	487,233	—	—	—	521,243	(521,243)	—	250,000	250,000
Total expenses before depreciation	711,738	855,924	3,898,173	1,051,752	216,250	1,212,594	7,946,431	1,110,863	779,749	1,890,612	9,837,043
Depreciation	3,764	25,978	—	16,774	—	7,291	53,807	39,427	8,591	48,018	101,825
Total expenses	\$715,502	\$881,902	\$3,898,173	\$1,068,526	\$216,250	\$1,219,885	\$8,000,238	\$1,150,290	\$788,340	\$1,938,630	\$9,938,868

The accompanying notes are an integral part of this statement.

United Cerebral Palsy Associations, Inc.

Statement of Cash Flows For the Year Ended September 30, 1999

Cash flows from operating activities:	
Change in net assets	\$ (461,106)
Adjustments to reconcile change in net assets to net cash used in operating activities--	
Depreciation	101,825
Unrealized and realized gains	545,248
Increase in contributions receivable	(141,600)
Increase in due from affiliates	(74,268)
Decrease in amounts due from U.S. government agencies	73,517
Increase in prepaid expenses and deposits	(148,456)
Increase in receivables and other assets	(33,772)
Decrease in accounts payable and accrued expenses	(690,821)
Increase in due to affiliates	522,103
Decrease in deferred revenue	(10,083)
Net cash used in operating activities	<u>(317,413)</u>
Cash flows from investing activities:	
Purchase of equipment	(194,257)
Purchase of investments	(1,082,731)
Net cash used in investing activities	<u>(1,276,988)</u>
Cash flows from financing activities:	
Proceeds from line of credit	<u>400,000</u>
Net cash provided by financing activities	<u>400,000</u>
Net decrease in cash and cash equivalents	(1,194,401)
Cash and cash equivalents at beginning of year	<u>2,072,366</u>
Cash and cash equivalents at end of year	<u>\$ 877,965</u>
Supplemental data:	
Cash paid for interest during the year	<u>\$ 689</u>

The accompanying notes are an integral part of this statement.

United Cerebral Palsy Associations, Inc.

Notes to Financial Statements As of September 30, 1999

1. Organization:

Description of Business and Basis of Presentation

United Cerebral Palsy Associations, Inc. (the "National Association"), has 144 state and local affiliates that provide advocacy and direct services to people with cerebral palsy and other disabilities and their families. The National Association was founded in 1948 to fulfill the important role of advancing the independence of people with disabilities. The National Association supports affiliates in all facets of operations such as management, program services, and fund-raising. The National Association also conducts a nationwide program designed to increase the public's awareness of cerebral palsy – its causes, prevention, and the needs and rights of persons with cerebral palsy and other disabilities. The program enhances the public's awareness of the services provided to people with cerebral palsy and other disabilities and their families by the National Association, its affiliates, and other agencies. The National Association's support comes primarily from affiliate member fees, contributions, and government grants.

The National Association is a nonprofit voluntary health 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 deductions by donors.

1999 Results

In fiscal year 1999, unrestricted net assets declined by approximately \$931,000. Management's plans to improve the National Association's financial position include reducing costs and enhancing revenues to achieve a balanced budget.

Relationship With Affiliates

The United Cerebral Palsy Research and Educational Foundation, Inc. (the "Foundation"), and local affiliates are related to, but not controlled by, the National Association. Therefore, they are not consolidated in the accompanying financial statements.

A portion of the national corporate sponsors' contributions received directly by the National Association is allocated to the local affiliates pursuant to sharing agreements with national corporate sponsors.

Support from the public reflected in the accompanying financial statements excludes collections retained by the local affiliates and contributions allocated by the National Association to the local affiliates.

Expenses incurred by the local affiliates are borne by them and are not included in the accompanying financial statements.

The National Association awarded grants to the Foundation aggregating \$250,000 in 1999 to further the Foundation's efforts for research and education of the public about cerebral palsy.

2. Summary of Significant Accounting Policies:

The accompanying financial statements are prepared on the accrual basis of accounting.

Revenue Recognition

Contributions and other revenue are recognized monthly when received or earned. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence of donor-imposed restrictions. Membership fees paid by affiliates are recognized when due.

Federal and nonfederal grants are recognized as revenue to the extent that expenses are incurred for purposes specified by the grants. Federal and nonfederal grant funds expended but not reimbursed by the grantor at year-end are accrued as grants revenue and receivable. Federal and nonfederal grants received from the grantor but not expended at year-end are recorded as deferred revenue. Amounts unspent and payable to the federal government at the conclusion of grants totaled \$596,965, including \$116,891 of interest, at September 30, 1999, and are reflected in accounts payable and accrued expenses in the accompanying financial statements. While management believes that such liabilities are adequate, but not excessive, it is possible that they could be adjusted upon audit or negotiation with the federal government.

Allowance for Doubtful Accounts

An allowance is provided for unpaid amounts due from affiliates that may be uncollectible. At September 30, 1999, the allowance was \$452,991.

Furniture and Equipment

Furniture and equipment are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of the assets (furniture ten years; office equipment five years).

Expense Allocation

Expenses by function have been allocated among programs and supporting service classifications by the National Association's management on the basis of specific identification of costs or other reasonable allocation methods.

Donated Services

No significant amounts have been included in the accompanying financial statements for donated services as accounting principles generally accepted in the United States require only contributed services of a professional nature to be recorded; however, a substantial number of volunteers have donated significant amounts of their time in a nonprofessional capacity in serving the National Association. The value of such services has not been recorded in the financial statements.

Cash and Cash Equivalents

The National Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair market value. Investment income that is restricted by a donor is reported as temporarily restricted. All other investment income is reported as unrestricted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Temporarily and Permanently Restricted Net Assets:

The National Association's permanently restricted net assets were restricted by the donor such that income is temporarily restricted until disbursed for the purpose of providing assistance devices to increase, maintain, or improve the functional capabilities of individuals who are both physically handicapped and financially needy, either directly to that person or by contributions to other charitable organizations. The principal is to be held in perpetuity by the National Association, with only the income being distributed for the purposes described above. In addition, temporarily restricted net assets include contributions promised but not yet received as of September 30, 1999.

The following table summarizes the temporarily restricted net assets at September 30, 1999:

Restricted for specific programs (see above)	\$1,849,151
Time restricted	311,040
Total temporarily restricted net assets	<u>\$2,160,191</u>

4. Investments:

Investments consist of the following investments, at fair value, at September 30, 1999:

U.S. Treasury notes and government-backed securities	\$2,943,872
Corporate bonds	1,602,716
Other fixed-income securities	262,305
Common stocks	355,123
Mutual funds	2,881,402
	<u>\$8,045,418</u>

The following schedule summarizes investment income, net of investment expenses, and its classification in the statement of activities for the year ended September 30, 1999:

Interest	\$ 340,671
Dividends	221,422
Realized gain, net	83,513
Unrealized gain, net	461,735
	<u>\$1,107,341</u>

5. Grant From United Cerebral Palsy Research and Educational Foundation, Inc.:

The Foundation paid fees aggregating \$250,000 in the year ended September 30, 1999, to the National Association for the furtherance of its efforts to educate the public about cerebral palsy.

6. Leases:

The National Association entered into a new lease agreement for its facilities, which commenced on February 1, 1995, and expires on January 31, 2002. This lease contains a renewal option of one, five-year term. In addition to lease payments, the National Association is obligated to pay its proportionate share of real estate taxes and building costs. Rent expense was \$275,660 for the year ended September 30, 1999.

Future minimum lease payments under such noncancelable operating lease as of September 30, 1999, are as follows:

<u>Year Ending September 30</u>	
2000	\$319,843
2001	328,688
2002	109,780
2003	6,012
	<u>\$764,323</u>

7. Line of Credit:

The National Association has an unsecured \$750,000 bank line of credit, expiring July 30, 2000, with interest payable at the lender's prime rate. As of September 30, 1999, the National Association had borrowings of \$400,000 outstanding on the line of credit. The National Association drew down an additional \$200,000 on the line of credit in November 1999 that was used, in part, to fund certain website development costs. Interest is payable monthly, and the principal is due on or before July 30, 2000.

8. Pension Plan:

The National Association has a noncontributory defined benefit retirement plan (the "Plan") covering all employees who have been employed for more than one year. The Plan was contributory prior to October 1, 1991. The National Association intends to terminate the Plan effective January 31, 2000, and replace it with a new defined contribution plan. The termination of the Plan will be accounted for in accordance with Statement of Financial

Accounting Standards No.88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"; however, the impact of this termination has not yet been determined and is not reflected in the accompanying financial statements.

The following table sets forth the Plan's funded status and the amount recognized in the National Association's statement of financial position at September 30, 1999:

Benefit obligation	\$3,082,607
Fair value of plan assets	<u>6,446,075</u>
Funded status	<u>\$3,363,468</u>
Prepaid benefit cost recognized in the statement of financial position	\$ 662,442
Weighted-average assumptions as of September 30:	
Discount rate	7.0%
Expected return on plan assets	8.0%
Rate of compensation increase—	
Age range	20 – 60
Salary at age 65 as a percent of salary at current age (ranges from age 25 to 60)	2,200% – 130%
Net periodic benefit cost (income)	\$ (153,865)
Employer contribution	—
Benefits paid	\$ 230,831

9. Regulatory Examination:

During fiscal years 1999 and 1998, the Department of Commerce (the "Department") Office of the Inspector General examined the National Association's grant received from the Department used to create an electronic bulletin board for persons with disabilities. This examination resulted in the National Association owing the Department \$69,146 in unreimbursable costs. A liability has been accrued for this amount as of September 30, 1999, and has been paid subsequent to year-end.

10. Commitments:

The National Association has committed to contribute \$200,000 a year through fiscal year 2003 to the Foundation, subject to annual Board approval.