

Financial Report

United Cerebral Palsy Association
of San Diego County

September 30, 2016



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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
United Cerebral Palsy Association of San Diego County
San Diego, California

We have audited the accompanying financial statements of United Cerebral Palsy Association of San Diego County, which comprise the statement of financial position as of September 30, 2016, and 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 Association of San Diego County 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 United Cerebral Palsy Association of San Diego County's 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated February 19, 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.

West Rhode & Roberts

WEST RHODE & ROBERTS

San Diego, California
February 21, 2017

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY

STATEMENT OF FINANCIAL POSITION

September 30, 2016

(With Summarized Financial Information for September 30, 2015)

	<u>2016</u>	<u>2015</u> <u>(Note 16)</u>
ASSETS		
Cash and cash equivalents	\$ 158,603	\$ 198,788
Accounts receivable	240,355	254,967
Contributions receivable	153,416	290,000
Investments	406,954	374,708
Prepaid expenses and other assets	139,488	153,333
Net property and equipment	<u>55,605</u>	<u>69,975</u>
Total assets	<u>\$ 1,154,421</u>	<u>\$ 1,341,771</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 402,772	\$ 415,546
Grant payable	220,000	362,281
Deferred revenue	<u>67,053</u>	<u>51,010</u>
Total liabilities	<u>689,825</u>	<u>828,837</u>
Commitments (Note 10)		
Net assets:		
Unrestricted:		
Board designated for building	84,025	84,025
Board designated for People First	20,000	20,000
Undesignated	<u>313,012</u>	<u>383,841</u>
Total unrestricted	417,037	487,866
Temporarily restricted	<u>47,559</u>	<u>25,068</u>
Total net assets	<u>464,596</u>	<u>512,934</u>
Total liabilities and net assets	<u>\$ 1,154,421</u>	<u>\$ 1,341,771</u>

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY

STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

(With Summarized Financial Information for the Year Ended September 30, 2015)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>	2015 <u>(Note 16)</u>
REVENUES AND SUPPORT				
Thrift stores	\$ 2,295,272	\$ -	\$ 2,295,272	\$ 2,423,227
Less direct costs related to the thrift stores	<u>(2,239,019)</u>	<u>-</u>	<u>(2,239,019)</u>	<u>(2,441,057)</u>
Net thrift store income (loss)	56,253	-	56,253	(17,830)
Fees from government agencies	2,095,933	-	2,095,933	2,047,679
Work activity and placement	325,949	-	325,949	322,392
Contributions, bequests and grants	91,459	229,895	321,354	353,146
Registration	49,202	-	49,202	61,419
Investment income (loss)	36,463	-	36,463	(15,103)
United Way	2,681	-	2,681	3,312
Other income	586	-	586	1,133
Gain on sale of asset	-	-	-	2,000
Special events:				
Revenues from special events	552,619	-	552,619	609,722
Less direct costs related to special events	<u>(219,975)</u>	<u>-</u>	<u>(219,975)</u>	<u>(225,361)</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>207,404</u>	<u>(207,404)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>3,198,574</u>	<u>22,491</u>	<u>3,221,065</u>	<u>3,142,509</u>
EXPENSES				
Program services:				
Programs for the disabled community	2,309,309	-	2,309,309	2,408,443
Work activity vocational services	<u>505,390</u>	<u>-</u>	<u>505,390</u>	<u>461,046</u>
Total program services	<u>2,814,699</u>	<u>-</u>	<u>2,814,699</u>	<u>2,869,489</u>
Supporting services:				
Management and general	320,059	-	320,059	297,372
Fundraising	<u>134,645</u>	<u>-</u>	<u>134,645</u>	<u>131,251</u>
Total supporting services	<u>454,704</u>	<u>-</u>	<u>454,704</u>	<u>428,623</u>
Total expenses	<u>3,269,403</u>	<u>-</u>	<u>3,269,403</u>	<u>3,298,112</u>
Change in net assets	(70,829)	22,491	(48,338)	(155,603)
NET ASSETS AT BEGINNING OF YEAR	<u>487,866</u>	<u>25,068</u>	<u>512,934</u>	<u>668,537</u>
NET ASSETS AT END OF YEAR	<u>\$ 417,037</u>	<u>\$ 47,559</u>	<u>\$ 464,596</u>	<u>\$ 512,934</u>

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2016
(With Summarized Financial Information for the Year Ended September 30, 2015)

	Program Services			Supporting Services			Total	2015 (Note 16)
	Programs for the Disabled Community	Work Activity Vocational Services	Total Program Services	Management and General	Fundraising	Total Supporting Services		
EXPENSES								
Salaries	\$ 1,458,497	\$ 202,946	\$ 1,661,443	\$ 161,686	\$ 108,912	\$ 270,598	\$ 1,932,041	\$ 1,968,522
Employee benefits	177,633	25,839	203,472	17,794	3,723	21,517	224,989	250,769
Payroll taxes	114,604	18,248	132,852	14,430	9,093	23,523	156,375	146,590
	<u>1,750,734</u>	<u>247,033</u>	<u>1,997,767</u>	<u>193,910</u>	<u>121,728</u>	<u>315,638</u>	<u>2,313,405</u>	<u>2,365,881</u>
Occupancy	285,525	80,040	365,565	18,690	8,676	27,366	392,931	388,364
Supplies	38,316	103,715	142,031	4,593	506	5,099	147,130	132,443
Professional fees	37,546	7,698	45,244	32,007	124	32,131	77,375	55,953
Conferences & meetings	52,660	215	52,875	5,005	-	5,005	57,880	68,271
Travel	35,657	5,255	40,912	5,438	414	5,852	46,764	49,418
Equipment maintenance	25,173	13,731	38,904	4,962	645	5,607	44,511	44,276
National and state affiliation	-	-	-	36,093	-	36,093	36,093	34,848
Telephone	19,308	6,842	26,150	6,150	1,311	7,461	33,611	41,440
Insurance	19,926	6,417	26,343	2,548	588	3,136	29,479	29,029
Miscellaneous	10,898	742	11,640	6,563	-	6,563	18,203	11,765
Printing	901	14,487	15,388	2,000	-	2,000	17,388	12,335
Depreciation	11,896	4,683	16,579	338	-	338	16,917	18,499
Postage & shipping	6,549	6,598	13,147	1,762	413	2,175	15,322	16,179
Marketing	3,118	7,934	11,052	-	240	240	11,292	19,206
Community outreach	11,102	-	11,102	-	-	-	11,102	10,205
Total expenses	<u>\$ 2,309,309</u>	<u>\$ 505,390</u>	<u>\$ 2,814,699</u>	<u>\$ 320,059</u>	<u>\$ 134,645</u>	<u>\$ 454,704</u>	<u>\$ 3,269,403</u>	<u>\$ 3,298,112</u>

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2016

(With Summarized Financial Information for the Year Ended September 30, 2015)

	<u>2016</u>	<u>2015</u> (Note 16)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (48,338)	\$ (155,603)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	22,913	23,451
Decrease in allowance for uncollectable accounts	-	(2,500)
Net realized and unrealized (gain) loss on investments	(29,368)	36,681
Change in temporarily restricted contributions	(22,491)	9,672
Change in operating assets and liabilities:		
Accounts receivable	14,612	(4,350)
Contributions receivable	136,584	400,000
Prepaid expenses and other assets	13,845	20,159
Accounts payable and accrued expenses	(12,774)	(10,516)
Grant payable	(142,281)	(125,000)
Deferred revenue	<u>16,043</u>	<u>(27,188)</u>
Net cash (used in) provided by operating activities	<u>(51,255)</u>	<u>164,806</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from investments	(2,878)	(17,536)
Purchases of property and equipment	<u>(8,543)</u>	<u>(50,796)</u>
Net cash used in investing activities	<u>(11,421)</u>	<u>(68,332)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws on margin account	65,000	57,000
Payments on margin account	(65,000)	(57,000)
Change in temporarily restricted contributions	<u>22,491</u>	<u>(9,672)</u>
Net cash provided by (used in) financing activities	<u>22,491</u>	<u>(9,672)</u>
Change in cash and cash equivalents	(40,185)	86,802
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>198,788</u>	<u>111,986</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 158,603</u>	<u>\$ 198,788</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 2,741</u>	<u>\$ 1,846</u>

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization and Activities

United Cerebral Palsy Association of San Diego County (the Association) was formed under the laws of the State of California to advance the independence, productivity, and full citizenship of people affected by cerebral palsy and other disabilities.

Significant Accounting Policies

Method of Accounting – The financial statements of the Association have been prepared on the accrual basis of accounting.

Basis of Presentation – Net assets and revenues, gains, and other support are classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor restrictions on when and how the Association is to use the net assets. Accordingly, the net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Association or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions requiring that the principal be maintained permanently by the Association. As of September 30, 2016, the Association had no permanently restricted net assets.

Revenue Recognition – Contributions are recognized as revenue when they are unconditionally pledged or when all conditions have been met.

The Association reports contributions as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted revenues are reclassified to unrestricted revenues and reported in the statement of activities as revenues released from restrictions. Contributions with donor restrictions requiring the principal gift to be held in perpetuity are reported as permanently restricted. The income earned from such assets is generally restricted to the purpose designated by the donor. Gifts not designated for a specific purpose are reported as increases in unrestricted net assets.

Contributions of service are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Association reports such contributions at their estimated fair value when received. During the year ended September 30, 2016, no material contributions of services were recorded.

Cash and Cash Equivalents – The Association considers all highly liquid debt instruments with an original maturity of less than three months to be cash equivalents.

Accounts Receivable – Accounts receivable consists mainly of amounts due from contracts. All accounts receivable are reviewed for collectability and reserves for uncollectible amounts are recorded based on previous experience and economic factors. Accounts are written off against the allowance for doubtful accounts when deemed uncollectible. Management has determined that an allowance of \$2,000 is needed for the year ended September 30, 2016.

Investments – Marketable securities, consisting primarily of mutual funds, are carried at market value as measured principally by market quotations. Accordingly, the carrying amount of the investments is adjusted for unrealized gains and losses.

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY
NOTES TO FINANCIAL STATEMENTS

Property and Equipment – Purchased property is recorded at cost and donated property is recorded at the estimated fair value on the date received. The Association capitalizes all amounts greater than \$1,000. Property and equipment is depreciated on a straight-line basis as follows:

Building improvements	2 to 10 years
Furniture and equipment	5 to 10 years
Vehicles	5 years
Computers	3 years

Depreciation expense totaled \$22,913 for the year ended September 30, 2016.

Deferred Revenue – Deferred revenue represents monies received in advance for events or services not yet performed.

Thrift Store Revenue – The Association engages directly in the solicitation, pickup, and sales of goods donated for its behalf.

Functional Allocation of Expenses – Salaries and related expenses are allocated to the various programs and supporting services based on actual or estimated time employees spend on each function. The remaining expenses are specifically allocated whenever practical, or are allocated based on space utilization.

Income Tax Status – The Association is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and is also exempt from state income taxes. The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification No. 740-10, *Accounting for Uncertainties in Income Tax*, which sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The Association has reviewed its positions for all open tax years and has determined that it has no uncertain tax positions requiring accrual or disclosure.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

Subsequent Events – Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at that date, including the estimates inherent in the process of preparing financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after that date and before the financial statements are available to be issued.

The Association has evaluated subsequent events through February 21, 2017, which is the date the financial statements are available for issuance, and concluded that there were no events or transactions that needed to be disclosed.

Note 2. Concentration of Credit Risk

Throughout the year, the Association may maintain cash balances at a bank in excess of the Federal Deposit Insurance Corporation limit of \$250,000. The Association has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Note 3. Fair Value Measurements

Due to the short-term nature of cash equivalents, receivables, prepaid expenses, accounts payable and deferred revenue, fair value approximates carrying value. In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), fair value is defined as the price that the Association would receive upon selling an asset or transferring a liability in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Association's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Association's statement of financial position includes investments in publically traded stock and mutual funds that have been considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

Note 4. Accounts Receivable

Receivables at September 30, 2016, consist of the following:

Client funding	\$ 187,673
Other	<u>54,682</u>
	242,355
Less allowance for doubtful accounts	<u>2,000</u>
	<u>\$ 240,355</u>

Note 5. Contribution Receivable

The Association was notified in January 2014 that it was a beneficiary of four estates. The bequests have an estimated value of \$974,000. The Association will receive these funds as the assets of the estates are liquidated. As of September 30, 2016, approximately \$821,000 had been received and a contribution receivable of \$153,000 was outstanding.

The Association's bylaws require that it donate 50% of unrestricted bequests to the UCP Foundation of San Diego County, a Type III supporting organization. At September 30, 2014, \$487,281 was recorded as grant payable to the UCP Foundation of San Diego County. As of September 30, 2016, \$220,000 was still outstanding as grant payable.

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 6. Investments

Investments at September 30, 2016, stated at fair value, consist of the following:

Mutual funds	\$ 392,800
Investments at San Diego Foundation	12,405
Corporate securities	<u>1,749</u>
	<u>\$ 406,954</u>

For the year ended September 30, 2016, investment income consists of:

Interest and dividends	\$ 7,395
Net realized/unrealized gains	<u>29,068</u>
Investment income	<u>\$ 36,463</u>

Note 7. Property and Equipment

Property and equipment with an original cost in excess of \$1,000 is comprised of:

Building improvements	\$ 236,103
Computers and software	153,586
Furniture and equipment	162,366
Automotive equipment	<u>74,496</u>
	626,551
Less accumulated depreciation	<u>570,946</u>
	<u>\$ 55,605</u>

Note 8. Margin Account Line of Credit

The Association has a margin account line of credit for \$165,000. The account is secured by the investments. At September 30, 2016, no amount was outstanding. The interest rate at September 30, 2016 was 8.00%.

Note 9. Related Party Transactions

During the year ended September 30, 2016, the Association had a management agreement with the United Cerebral Palsy Foundation of San Diego County (the Foundation), a Type III supporting organization, to provide accounting activities, and was paid \$3,000. In addition, the Foundation made a grant to the Association in the amount of \$45,000.

The Association made payments on the grant payable to the Foundation in the amount of \$142,281, see Note 5.

The Association has a line of credit from the Foundation of \$100,000 that is currently at a rate of 1.75% in excess of the Wall Street Journal Prime Rate which was 3.5% at September 30, 2016. The interest paid to the Foundation for the fiscal year ended September 30, 2016, was \$2,664. The line of credit had no amounts outstanding at September 30, 2016.

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 10. Commitments

Operating Leases – The Association leases office, program space, thrift store locations, and equipment under operating leases. For the year ended September 30, 2016, rent expense totaled \$841,358.

As of September 30, 2016, minimum rental payments totaling \$2,713,158 are due under these leases as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2017	\$ 721,610
2018	706,747
2019	582,550
2020	475,268
2021	226,983
	<u>\$ 2,713,158</u>

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets in the amount of \$47,559 are available for program expenses.

Note 12. Pension Plan

The Association has a 403(b) plan (the Plan) covering all eligible employees that have completed one year of service and worked at least 1,000 hours. The Association has an account set up in each qualified employee's name where an annual percentage of the employee's salary is contributed. The percentage varies annually and is approved by the Board of Directors. After three years, the employee is 100% vested. There were no employer contributions during the year ended September 30, 2016.

Note 13. Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished:

Toy library	\$ 85,414
Weaving	39,920
Assistive and augmentative communication	27,468
Program expenses	24,461
Self advocacy	22,905
Equipment	7,236
	<u>\$ 207,404</u>

Note 14. Unrestricted Board Designated Net Assets

For the year ended September 30, 2016, the Board of Directors has designated \$84,025 for tenant improvements or purchase of building. The Board has also designated \$20,000 for the People First Self Advocacy Conference. United Cerebral Palsy is overseeing and administering the funds for People First.

UNITED CEREBRAL PALSY ASSOCIATION OF SAN DIEGO COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 15. Programs for the Disabled Community

The following is a summarized list of where the program dollars are spent and how many individuals are served. The following represents a breakout of functional expenses by program.

	<u>Program Expenses</u>	<u>People Served</u>
Information & Referral and Community Services	\$ 71,246	3,173
Assistive Technology Center	140,029	1,184
Self Advocacy Conference	59,700	302
Toy & Software Library	103,754	288
Equipment Recycling	-	135
Adult Day Programs (Community Based)	848,334	91
Respite for Parents	16,430	58
Habilitation (program costs for Work Activity programs)	636,153	52
Adult Day Program (Site Based)	326,068	26
Grants issued for equipment	11,485	23
Weaving Grant	39,920	17
Project College	20,239	12
Supported Employment	58,639	3
Publicity for general UCP programs to over 27,000	57,188	-
Work Activity Programs (serve people in Habilitation)	425,514	-
	<u>\$ 2,814,699</u>	<u>5,364</u>

Note 16. September 30, 2015 Financial Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended September 30, 2015, from which the summarized information was derived.