

FINANCIAL STATEMENTS TOGETHER WITH  
REPORT OF INDEPENDENT CERTIFIED PUBLIC  
ACCOUNTANTS

**UNITED CEREBRAL PALSY ASSOCIATIONS, INC.**

For the years ended September 30, 2004 and 2003

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**Accountants and Business Advisors**

## **REPORT OF INDEPENDENT CERTIFIED 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, 2004, 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. The prior year summarized comparative information has been derived from UCPA’s fiscal 2003 financial statements and, in our report dated March 17, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UCPA’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 United Cerebral Palsy Associations, Inc. as of September 30, 2004, 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 of America.

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December 16, 2004

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United Cerebral Palsy Associations, Inc.

**STATEMENTS OF FINANCIAL POSITION**

As of September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Cash and cash equivalents:		
Cash available for operations	\$ 212,518	\$ 1,174,198
Temporary cash investments	406,649	490,032
Total cash and cash equivalents	<u>619,167</u>	<u>1,664,230</u>
Investments (Note D)	1,700,767	1,429,156
Board designated investments (Note D)	6,669,936	6,011,226
Permanently restricted investments (Note D)	4,480,859	4,480,859
Total investments	<u>12,851,562</u>	<u>11,921,241</u>
Contributions receivable	128,162	450,860
Due from affiliates, net (Note B)	240,860	195,551
Due from U.S. Government agencies	-	152,999
Receivables and other assets	351,673	239,007
Beneficial interest in trusts held by third parties (Note B)	160,413	157,948
Furniture and equipment, net (Note E)	64,450	29,588
Total assets	<u>\$ 14,416,287</u>	<u>\$ 14,811,424</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable and accrued expenses	\$ 1,304,875	\$ 1,094,455
Deferred revenue	9,731	-
Due to affiliates (Note J)	450,043	630,467
Note payable (Note G)	100,000	-
Total liabilities	<u>1,864,649</u>	<u>1,724,922</u>
Commitments (Note F)		
Net assets:		
Unrestricted:		
Available for operations (Note K)	(1,480,848)	81,525
Board designated	6,680,597	6,097,088
Total unrestricted	<u>5,199,749</u>	<u>6,178,613</u>
Temporarily restricted (Notes B and C)	2,710,617	2,269,082
Permanently restricted (Note B)	4,641,272	4,638,807
Total net assets	<u>12,551,638</u>	<u>13,086,502</u>
Total liabilities and net assets	<u>\$ 14,416,287</u>	<u>\$ 14,811,424</u>

*The accompanying notes are an integral part of these statements.*

United Cerebral Palsy Associations, Inc.

**STATEMENTS OF ACTIVITIES**

For the years ended September 30, 2004 and 2003

	2004				2003			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:								
Affiliates' membership fees	\$ 2,184,863	\$ -	\$ -	\$ 2,184,863	\$ 2,220,566	\$ -	\$ -	\$ 2,220,566
Contributions	1,813,066	128,162	-	1,941,228	1,084,166	422,504	-	1,506,670
U.S. Government grants	300,103	-	-	300,103	812,512	-	-	812,512
Grants from United Cerebral Palsy Research and Educational Foundation, Inc. (Note J)	379,728	-	-	379,728	290,669	-	-	290,669
Other revenue	68,628	-	-	68,628	127,183	-	-	127,183
Net assets released from restrictions	<u>163,506</u>	<u>(163,506)</u>	<u>-</u>	<u>-</u>	<u>247,891</u>	<u>(247,891)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>4,909,894</u>	<u>(35,344)</u>	<u>-</u>	<u>4,874,550</u>	<u>4,782,987</u>	<u>174,613</u>	<u>-</u>	<u>4,957,600</u>
Operating expenses:								
Program services:								
Medical research and education	861,448	-	-	861,448	774,091	-	-	774,091
Public policy analysis/advocacy	889,099	-	-	889,099	705,539	-	-	705,539
Public education	1,396,295	-	-	1,396,295	603,805	-	-	603,805
Support to affiliates	935,693	-	-	935,693	839,038	-	-	839,038
Federal grants (Note I)	463,132	-	-	463,132	802,100	-	-	802,100
Non-Federal grants	<u>245,295</u>	<u>-</u>	<u>-</u>	<u>245,295</u>	<u>369,445</u>	<u>-</u>	<u>-</u>	<u>369,445</u>
Total program services	<u>4,790,962</u>	<u>-</u>	<u>-</u>	<u>4,790,962</u>	<u>4,094,018</u>	<u>-</u>	<u>-</u>	<u>4,094,018</u>
Supporting services:								
Management and general (Note I)	625,540	-	-	625,540	961,991	-	-	961,991
Fund-raising	<u>1,009,053</u>	<u>-</u>	<u>-</u>	<u>1,009,053</u>	<u>475,870</u>	<u>-</u>	<u>-</u>	<u>475,870</u>
Total supporting services	<u>1,634,593</u>	<u>-</u>	<u>-</u>	<u>1,634,593</u>	<u>1,437,861</u>	<u>-</u>	<u>-</u>	<u>1,437,861</u>
Total operating expenses	<u>6,425,555</u>	<u>-</u>	<u>-</u>	<u>6,425,555</u>	<u>5,531,879</u>	<u>-</u>	<u>-</u>	<u>5,531,879</u>
(Decrease) increase in net assets from operations	<u>(1,515,661)</u>	<u>(35,344)</u>	<u>-</u>	<u>(1,551,005)</u>	<u>(748,892)</u>	<u>174,613</u>	<u>-</u>	<u>(574,279)</u>
Non-operating revenues, gains and support:								
Investment gains (Note D)	536,797	476,879	-	1,013,676	652,216	609,109	-	1,261,325
Change in beneficial interest in trusts held by third parties (Note B)	<u>-</u>	<u>-</u>	<u>2,465</u>	<u>2,465</u>	<u>-</u>	<u>-</u>	<u>9,411</u>	<u>9,411</u>
Total nonoperating revenues, gains and support	<u>536,797</u>	<u>476,879</u>	<u>2,465</u>	<u>1,016,141</u>	<u>652,216</u>	<u>609,109</u>	<u>9,411</u>	<u>1,270,736</u>
(Decrease) increase in net assets	(978,864)	441,535	2,465	(534,864)	(96,676)	783,722	9,411	696,457
Net assets, beginning of year	<u>6,178,613</u>	<u>2,269,082</u>	<u>4,638,807</u>	<u>13,086,502</u>	<u>6,275,289</u>	<u>1,485,360</u>	<u>4,629,396</u>	<u>12,390,045</u>
Net assets, end of year	<u>\$ 5,199,749</u>	<u>\$ 2,710,617</u>	<u>\$ 4,641,272</u>	<u>\$ 12,551,638</u>	<u>\$ 6,178,613</u>	<u>\$ 2,269,082</u>	<u>\$ 4,638,807</u>	<u>\$ 13,086,502</u>

The accompanying notes are an integral part of these statements.

United Cerebral Palsy Associations, Inc.

**STATEMENT OF FUNCTIONAL EXPENSES**

For the year ended September 30, 2004, with comparative totals for the year ended September 30, 2003

	Program Services							Supporting Services			Total	
	Medical Research and Education	Public Policy Analysis/ Advocacy	Public Education	Support to Affiliates	Grants and Contracts		Total	Management and General	Fund-raising	Total	2004	2003
					Federal	Non- Federal						
Salaries	\$ 322,927	\$ 294,796	\$ 424,348	\$ 321,097	\$ 133,010	\$ 33,126	\$ 1,529,304	\$ 252,841	\$ 285,679	\$ 538,520	\$ 2,067,824	\$ 1,758,584
Employee benefits and taxes	58,821	67,493	85,239	64,116	39,970	7,024	322,663	45,391	52,218	97,609	420,272	353,251
Total	381,748	362,289	509,587	385,213	172,980	40,150	1,851,967	298,232	337,897	636,129	2,488,096	2,111,835
Program, professional and contract services	79,288	301,669	554,476	111,291	23,573	13,631	1,083,928	81,103	243,306	324,409	1,408,337	1,142,710
Supplies	3,201	4,199	6,589	4,111	2,222	794	21,116	3,003	3,335	6,338	27,454	44,564
Telephone and teleconference	3,684	11,766	7,813	8,053	3,718	1,098	36,132	3,397	4,306	7,703	43,835	45,879
Postage and shipping	4,817	9,915	57,120	10,984	1,413	383	84,632	7,342	107,173	114,515	199,147	36,669
Occupancy	56,985	111,231	101,916	84,054	31,123	17,534	402,843	38,136	65,314	103,450	506,293	471,582
Outside printing and artwork	14,160	18,753	107,788	20,555	4,807	608	166,671	11,121	201,010	212,131	378,802	80,127
Travel and related costs	21,005	10,331	26,308	25,044	7,655	1,624	91,967	123,987	24,648	148,635	240,602	269,135
Conferences, conventions and meetings	26,847	39,101	2,974	162,978	5,590	680	238,170	24,794	2,843	27,637	265,807	186,716
Membership dues and support and subscriptions	4,917	11,557	7,974	12,331	2,111	1,653	40,543	9,924	9,226	19,150	59,693	40,601
Interest expense	7,648	2,549	5,098	9,687	4,589	2,549	32,120	12,746	6,118	18,864	50,984	-
Awards and grants	-	830	18	6,702	201,414	163,515	372,479	67	36	103	372,582	620,859
Miscellaneous	3,479	332	2,965	3,832	17	175	10,800	9,652	567	10,219	21,019	200,261
Employee recruitment	1,939	1,200	2,575	1,636	975	369	8,694	878	1,291	2,169	10,863	16,756
Grant to UCP Foundation	250,000	-	-	-	-	-	250,000	-	-	-	250,000	250,000
Total expense before depreciation and uncollectible dues	859,718	885,722	1,393,201	846,471	462,187	244,763	4,692,062	624,382	1,007,070	1,631,452	6,323,514	5,517,694
Depreciation	1,730	3,377	3,094	2,552	945	532	12,230	1,158	1,983	3,141	15,371	6,952
Uncollectible dues	-	-	-	86,670	-	-	86,670	-	-	-	86,670	7,233
Total expenses	\$ 861,448	\$ 889,099	\$ 1,396,295	\$ 935,693	\$ 463,132	\$ 245,295	\$ 4,790,962	\$ 625,540	\$ 1,009,053	\$ 1,634,593	\$ 6,425,555	\$ 5,531,879

The accompanying notes are an integral part of this statement.

United Cerebral Palsy Associations, Inc.

**STATEMENTS OF CASH FLOWS**

For the years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (534,864)	\$ 696,457
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	15,371	6,952
Unrealized and realized gains on investments	(605,710)	(776,712)
Change in beneficial interest in third party trusts	(2,465)	(9,411)
Changes in assets and liabilities:		
Decrease in contributions receivable	322,698	566,304
(Increase) decrease in due from affiliates, net	(45,309)	78,070
Decrease (increase) in amounts due from U.S. Government agencies	152,999	(11,555)
Increase in receivables and other assets	(112,666)	(154,162)
Increase in accounts payable and accrued expenses	210,420	511,606
Increase (decrease) in deferred revenue	9,731	(11,819)
Decrease in due to affiliates	<u>(180,424)</u>	<u>(70,042)</u>
Net cash (used in) provided by operating activities	<u>(770,219)</u>	<u>825,688</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	(50,233)	(34,513)
Purchases of investments	(8,683,450)	(1,361,525)
Proceeds from sales of investments	<u>8,358,839</u>	<u>442,681</u>
Net cash (used in) provided by investing activities	<u>(374,844)</u>	<u>(953,357)</u>
Cash flows from financing activities:		
Line of credit draw	<u>100,000</u>	<u>-</u>
Net cash provided by financing activities	<u>100,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(1,045,063)	(127,669)
Cash and cash equivalents, beginning of year	<u>1,664,230</u>	<u>1,791,899</u>
Cash and cash equivalents, end of year	<u>\$ 619,167</u>	<u>\$ 1,664,230</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 575</u>	<u>\$ -</u>

*The accompanying notes are an integral part of these statements.*

**NOTES TO FINANCIAL STATEMENTS**

September 30, 2004 and 2003

**NOTE A - ORGANIZATION**

*1. Description of Business and Basis of Presentation*

United Cerebral Palsy Associations, Inc. (“UCPA”) conducts four major program services for the benefit of persons with cerebral palsy and other disabilities, as follows:

- Medical research and education;
- Public policy analysis and advocacy;
- Public education designed to increase the public’s awareness of cerebral palsy, its causes and prevention, as well as the needs and rights of persons with disabilities; and
- Support to affiliates through the above programs as well as through public and private grants.

UCPA has approximately 100 state and local affiliates that provide advocacy and direct services to people with cerebral palsy and other disabilities and their families. UCPA was founded in 1948 to fulfill the important role of advancing the independence of people with disabilities. UCPA supports affiliates in many facets of operations such as public education, public policy, advocacy, program services, and fund-raising. UCPA enhances the public’s awareness of the services provided to people with cerebral palsy and other disabilities and their families by UCPA, its affiliates, and other agencies. UCPA’s support comes primarily from affiliate member fees, contributions, and government grants.

*2. Tax Status*

UCPA 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 deductions allowable to donors.

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

*1. Cash and Cash Equivalents*

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

*2. Investments*

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

*3. Allowance for Doubtful Accounts*

An allowance is provided for unpaid amounts due from affiliates that may be uncollectible. As of September 30, 2004 and 2003, this allowance was approximately \$168,000 and \$160,000, respectively.

*4. Furniture and Equipment, Net*

Furniture and equipment, net, are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of the assets, which is 5 years for furniture, 3 years for office equipment and the lesser of the life of the lease or the life of the assets for leasehold improvements.

*5. Temporarily and Permanently Restricted Net Assets*

UCPA's permanently restricted net assets include donations that 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 of \$4,480,859 is to be held in perpetuity by UCPA, with only the income being distributed for the purposes described above. Such permanently restricted net assets also include beneficial interests in trusts held by third parties (see Note B-7). In addition, temporarily restricted net assets include contributions promised but not yet received as of September 30, 2004 and 2003.

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE B (continued)**

*6. Net Asset Classification*

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of UCPA 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 UCPA.

Board Designated net assets – Net assets not subject to donor-imposed restrictions (unrestricted), but designated as to use by the Board of Trustees. The Board designated net assets consisted of the following funds: the Board Restricted Endowment Fund, which is a quasi-endowment fund the income from which is used to support operations and the Board Designated Employee Fund, which is used to cover employee pension costs.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of UCPA 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 statements 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 UCPA, but permit UCPA to expend part or all of the income and gains derived therefrom.

*7. Beneficial Interest in Trusts Held by Third Parties*

UCPA is the beneficiary of the income of two charitable annuity trusts that it does not administer. The investments of each trust are administered by a trustee who is independent of UCPA, and distributions are made to UCPA in accordance with the trust agreement for each trust. These trusts are invested in cash and cash equivalents, fixed income funds, mutual funds, convertible securities and equities. UCPA records its interest in these trusts at fair market value within permanently restricted net assets. Income earned on these trusts, excluding appreciation (depreciation), for the years ended September 30, 2004 and 2003, was approximately \$2,500 and \$2,700, respectively, and is classified as unrestricted support in the accompanying statements of activities.

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE B (continued)**

8. *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. Temporarily restricted revenue, whose restriction is satisfied within the same fiscal year as the receipt of funds, is recorded as unrestricted.

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 as receivables. Federal and nonfederal grants received from the grantor but not expended at year-end are recorded as deferred revenue.

9. *Expense Allocation*

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

10. *Presentation of Certain Prior Year Information*

The accompanying statement of functional expenses includes prior year summarized information in total but not by functional classification. 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 UCPA's financial statements as of and for the year ended September 30, 2003, from which the summarized information was derived.

11. *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 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.

United Cerebral Palsy Associations, Inc.

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE C - TEMPORARILY RESTRICTED NET ASSETS**

The following table summarizes temporarily restricted net assets as of September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Restricted for specific programs	\$ 2,582,455	\$ 1,846,578
Time restricted	<u>128,162</u>	<u>422,504</u>
Total temporarily restricted net assets	<u>\$ 2,710,617</u>	<u>\$ 2,269,082</u>

**NOTE D - INVESTMENTS**

Investments, at fair value, consisted of the following as of September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Mutual Funds – equity securities	\$ 6,262,034	\$ 4,850,805
Mutual Funds – fixed-income securities	<u>6,589,528</u>	<u>7,070,436</u>
Total	<u>\$ 12,851,562</u>	<u>\$ 11,921,241</u>

The following schedule summarizes investment income (loss) and its classification in the accompanying statements of activities for the years ended September 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Interest	\$ 8,875	\$ 12,439
Dividends	399,091	472,174
Realized losses, net	(97,995)	(46,816)
Unrealized gains, net	<u>703,705</u>	<u>823,528</u>
Total	<u>\$ 1,013,676</u>	<u>\$ 1,261,325</u>

United Cerebral Palsy Associations, Inc.

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE E - FURNITURE AND EQUIPMENT, NET**

Furniture and equipment, net, as of September 30, 2004 and 2003, consisted of the following:

	<u>2004</u>	<u>2003</u>
Office equipment	\$ 674,948	\$ 642,459
Leasehold improvements	<u>17,744</u>	<u>-</u>
	<b>692,692</b>	642,459
Less- Accumulated depreciation	<u>(628,242)</u>	<u>(612,871)</u>
Total	<u>\$ 64,450</u>	<u>\$ 29,588</u>

**NOTE F - COMMITMENTS**

UCPA entered into several contracts, which expire through fiscal 2012.

Future minimum payments under these contracts as of September 30, 2004 are as follows:

Fiscal year ending September 30,	
2005	\$ 483,001
2006	461,935
2007	462,764
2008	474,321
2009	486,114
Thereafter	<u>498,260</u>
Total	<u>\$ 2,866,395</u>

**NOTE G - LINE OF CREDIT**

UCPA entered into a revolving line of credit (the "LOC"), not to exceed \$1,100,000, on February 10, 2000 with Branch Banking and Trust Company ("BB&T"). On March 27, 2002, the LOC was reduced to \$750,000 and the LOC's term was extended annually and currently expires July 5, 2005. The LOC is secured by a compensating balance. Interest on the LOC is payable monthly at a variable rate based on BB&T's prime rate (4.75% as of September 30, 2004). As of September 30, 2004 UCPA had \$100,000 outstanding on the LOC, and there were no borrowings outstanding as of September 30, 2003.

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE G (continued)**

On October 18, 2004, the LOC was increased to \$1,200,000 and its term was extended to December 15, 2005. The compensating balance requirement was replaced with a collateral agreement pledging \$1,000,000 of unrestricted funds within the Board Restricted Endowment Fund account held at Wachovia as collateral against the LOC. Interest terms did not change from the previous agreement.

**NOTE H - RETIREMENT PLANS**

UCPA sponsors a 401(k) plan for its employees, whereby UCPA 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 employee's annual salary. Full time employees who have at least six months of service with UCPA are eligible for the 2% employer match and 3% Safe Harbor Contribution. Pension expense for the years ended September 30, 2004 and 2003, was approximately \$52,000 and \$48,000, respectively, and is included in employee benefits and taxes in the accompanying statement of functional expenses.

**NOTE I - INDIRECT COST ALLOCATION**

The accompanying statements of activities and functional expenses do not reflect an allocation of indirect costs to the Federal grants. UCPA charges indirect costs to the Federal grants in accordance with the grant agreements. The allocation of indirect costs for the years ended September 30, 2004 and 2003, are as follows:

	2004		2003	
	Federal Grants	Management and General	Federal Grants	Management and General
Total expenses	\$ 463,132	\$ 625,540	\$ 802,100	\$ 961,991
Indirect cost allocation	<u>31,907</u>	<u>(31,907)</u>	<u>140,036</u>	<u>(140,036)</u>
	<u>\$ 495,039</u>	<u>\$ 593,633</u>	<u>\$ 942,136</u>	<u>\$ 821,955</u>

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE J - RELATED PARTIES**

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

UCPA awarded grants to the Foundation in the amount of \$250,000 to further the Foundation's research grant program for both of the years ended September 30, 2004 and 2003. In addition, UCPA incurred expenses of approximately \$50,000 on behalf of the Foundation for both of the years ended September 30, 2004 and 2003.

In order to support the Foundation's programs, which totaled approximately \$2,062,000 and \$1,162,000 in grants for the years ended September 30, 2004 and 2003, respectively, UCPA contributed services to the Foundation in the form of program management and administration. These services amounted to approximately \$321,000 and \$262,000, respectively, during the years ended September 30, 2004 and 2003 and are reflected as part of management and general expenses in the accompanying statements of activities.

The Foundation made grants in the amounts of approximately \$380,000 and \$291,000 for the years ended September 30, 2004 and 2003, respectively, to UCPA for the furtherance of its efforts to educate the public about cerebral palsy.

A portion of the national corporate sponsors' contributions received directly by UCPA is allocated to the local affiliates pursuant to sharing agreements with national corporate sponsors. These contributions amounted to approximately \$2,363,000 and \$2,094,000 for the years ended September 30, 2004 and 2003, respectively. Support from the public reflected in the accompanying financial statements excludes collections retained by the local affiliates and contributions allocated by UCPA to the local affiliates. Expenses incurred by the local affiliates are borne by them and are not included in the accompanying financial statements. Medical research and education, public policy analysis/advocacy, and public education are program services provided to and for the benefit of the general public and local affiliates. Affiliate services are program services provided to and for the benefit of local affiliates.

**NOTE K – UNRESTRICTED NET ASSET DEFICIT**

Unrestricted net assets for the year ended September 30, 2004 had a deficit of approximately \$1,500,000. The deficit was caused in part by costs incurred by UCPA in implementing a direct mail campaign in fiscal 2004.

United Cerebral Palsy Associations, Inc.

**NOTES TO FINANCIAL STATEMENTS (continued)**

September 30, 2004 and 2003

**NOTE K (continued)**

The purpose of the direct mail campaign is to raise awareness and educate the public about individuals with cerebral palsy and the challenges they face.

During fiscal 2004, UCPA incurred net direct mail expenses of approximately \$600,000. The direct mail investment was funded through cash from operations and with a line of credit.

**NOTE L – ALLOCATION OF JOINT COSTS**

UCPA conducted activities which incurred joint costs for distribution of direct mail fund-raising appeals and educational information. During the year ended September 30, 2004, joint costs of approximately \$542,000 were allocated to programs and costs of approximately \$1,009,000 were allocated to fund-raising.