

# **United Ability, Inc.**

Consolidated Financial Report  
September 30, 2017

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RSM US LLP

## Independent Auditor's Report

To the Board of Directors  
United Ability, Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of United Ability, Inc., which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements (collectively, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 Ability, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter*****Consolidating Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, on our consideration of United Ability, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering United Ability, Inc.'s internal control over financial reporting and compliance.

*RSM US LLP*

Birmingham, Alabama  
February 8, 2018

**United Ability, Inc.**

**Consolidated Statement of Financial Position  
September 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>				
Current assets:				
Cash	\$ 821,220	\$ 168,421	\$ -	\$ 989,641
Cash – board designated	783,400	-	-	783,400
Cash – board designated endowment fund	59,310	-	-	59,310
Accounts receivable:				
Client fees (net of allowance of \$160,774)	221,620	-	-	221,620
Document destruction (net of allowance of \$50,000)	108,479	-	-	108,479
Grants (net of allowance of \$60,000)	525,474	-	-	525,474
Other	20,375	-	-	20,375
Current portion of pledges receivable (net of allowance of \$5,000)	146,167	-	-	146,167
Prepaid expenses and other assets	105,538	-	-	105,538
<b>Total current assets</b>	<b>2,791,583</b>	<b>168,421</b>	<b>-</b>	<b>2,960,004</b>
Property and equipment, net	12,851,777	-	-	12,851,777
Pledges receivable, less current portion	119,082	-	-	119,082
Other assets	11,061	-	-	11,061
Investments:				
Board designated	1,177,394	-	-	1,177,394
Board designated endowment fund	1,072,062	-	-	1,072,062
Beneficial interest in perpetual trusts	-	-	24,948,544	24,948,544
<b>Total assets</b>	<b>\$ 18,022,959</b>	<b>\$ 168,421</b>	<b>\$ 24,948,544</b>	<b>\$ 43,139,924</b>

(Continued)

United Ability, Inc.

Consolidated Statement of Financial Position (Continued)  
September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Accounts payable	\$ 160,954	\$ -	\$ -	\$ 160,954
Accrued payroll and benefits	450,507	-	-	450,507
Deferred revenue	58,733	-	-	58,733
Current portion of capital lease obligation	11,665	-	-	11,665
Current portion of long-term debt	187,000	-	-	187,000
<b>Total current liabilities</b>	<b>868,859</b>	<b>-</b>	<b>-</b>	<b>868,859</b>
Long-term portion of accrued benefits	345,383	-	-	345,383
Capital lease obligation, less current portion	55,273	-	-	55,273
Long-term debt, less current portion	813,000	-	-	813,000
<b>Total liabilities</b>	<b>2,082,515</b>	<b>-</b>	<b>-</b>	<b>2,082,515</b>
Net assets:				
Unrestricted:				
Undesignated	12,702,327	-	-	12,702,327
Designated by the Board for endowment purposes	1,127,323	-	-	1,127,323
Designated by the Board for other purposes, including Lucille Stewart Beeson Fund	2,110,794	-	-	2,110,794
	<b>15,940,444</b>	<b>-</b>	<b>-</b>	<b>15,940,444</b>
Temporarily restricted	-	168,421	-	168,421
Permanently restricted	-	-	24,948,544	24,948,544
<b>Total net assets</b>	<b>15,940,444</b>	<b>168,421</b>	<b>24,948,544</b>	<b>41,057,409</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,022,959</b>	<b>\$ 168,421</b>	<b>\$ 24,948,544</b>	<b>\$ 43,139,924</b>

See notes to consolidated financial statements.

**United Ability, Inc.**

**Consolidated Statement of Financial Position  
September 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>				
Current assets:				
Cash	\$ 26,781	\$ 144,196	\$ -	\$ 170,977
Cash – board designated	1,138,134	-	-	1,138,134
Cash – board designated endowment fund	129,638	-	-	129,638
Accounts receivable:				
Client fees (net of allowance of \$145,000)	234,709	-	-	234,709
Document destruction (net of allowance of \$50,000)	77,360	-	-	77,360
Grants (net of allowance of \$60,000)	1,117,740	-	-	1,117,740
Other	13,267	-	-	13,267
Current portion of pledges receivable (net of allowance of \$5,000)	108,960	-	-	108,960
Prepaid expenses and other assets	67,911	-	-	67,911
Assets of Community Concepts held for transfer	415,273	-	-	415,273
<b>Total current assets</b>	<b>3,329,773</b>	<b>144,196</b>	<b>-</b>	<b>3,473,969</b>
Property and equipment, net	13,131,078	-	-	13,131,078
Pledges receivable, less current portion	231,261	-	-	231,261
Other assets	19,911	-	-	19,911
Investments:				
Board designated	1,108,605	-	-	1,108,605
Board designated endowment fund	926,388	-	-	926,388
Beneficial interest in perpetual trusts	-	-	24,213,129	24,213,129
<b>Total assets</b>	<b>\$ 18,747,016</b>	<b>\$ 144,196</b>	<b>\$ 24,213,129</b>	<b>\$ 43,104,341</b>

(Continued)

**United Ability, Inc.**

**Consolidated Statement of Financial Position (Continued)**  
**September 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Accounts payable	\$ 135,244	\$ -	\$ -	\$ 135,244
Accrued payroll and benefits	463,681	-	-	463,681
Deferred revenue	59,000	-	-	59,000
Current portion of capital lease obligation	10,810	-	-	10,810
Current portion of long-term debt	150,000	-	-	150,000
Liabilities of Community Concepts held for transfer	522,721	-	-	522,721
<b>Total current liabilities</b>	<b>1,341,456</b>	<b>-</b>	<b>-</b>	<b>1,341,456</b>
Long-term portion of accrued benefits	334,168	-	-	334,168
Capital lease obligation, less current portion	66,938	-	-	66,938
Long-term debt, less current portion	1,775,000	-	-	1,775,000
<b>Total liabilities</b>	<b>3,517,562</b>	<b>-</b>	<b>-</b>	<b>3,517,562</b>
Net assets:				
Unrestricted:				
Undesignated	11,626,689	-	-	11,626,689
Designated by the Board for endowment purposes	1,056,026	-	-	1,056,026
Designated by the Board for other purposes, including Lucille Stewart Beeson Fund	2,546,739	-	-	2,546,739
	15,229,454	-	-	15,229,454
Temporarily restricted	-	144,196	-	144,196
Permanently restricted	-	-	24,213,129	24,213,129
<b>Total net assets</b>	<b>15,229,454</b>	<b>144,196</b>	<b>24,213,129</b>	<b>39,586,779</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,747,016</b>	<b>\$ 144,196</b>	<b>\$ 24,213,129</b>	<b>\$ 43,104,341</b>

See notes to consolidated financial statements.



**United Ability, Inc.**

**Consolidated Statement of Activities  
Year Ended September 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in unrestricted net assets:				
Support and revenue:				
Government contracts and grants	\$ 5,747,320	\$ -	\$ -	\$ 5,747,320
Client fees	2,242,178	-	-	2,242,178
United Way funds	772,966	-	-	772,966
Sales – document destruction	1,011,468	-	-	1,011,468
Distributions from beneficial interest in perpetual trusts	1,040,557	119,656	-	1,160,213
Contributions	486,893	-	-	486,893
Special events	476,104	-	-	476,104
Recycling income	213,386	-	-	213,386
Contract income	40,810	-	-	40,810
Net gain on investments	140,708	-	-	140,708
Interest income	58,733	-	-	58,733
Miscellaneous	99,215	-	-	99,215
Change in fair value of beneficial interest in perpetual trusts	-	-	735,415	735,415
	<u>12,330,338</u>	<u>119,656</u>	<u>735,415</u>	<u>13,185,409</u>
Net assets released from restrictions	95,431	(95,431)	-	-
	<u>12,425,769</u>	<u>24,225</u>	<u>735,415</u>	<u>13,185,409</u>
Expenses:				
Program services:				
Children's services	6,952,042	-	-	6,952,042
Adult services	4,135,109	-	-	4,135,109
Supporting services:				
Management and general	209,724	-	-	209,724
Fund raising	525,352	-	-	525,352
	<u>11,822,227</u>	<u>-</u>	<u>-</u>	<u>11,822,227</u>
<b>Increase in net assets from continuing operations</b>	<b>603,542</b>	<b>24,225</b>	<b>735,415</b>	<b>1,363,182</b>
Transfer of ownership of Community Concepts to non-related organization	107,448	-	-	107,448
<b>Increase in net assets</b>	<b>710,990</b>	<b>24,225</b>	<b>735,415</b>	<b>1,470,630</b>
Net assets:				
Beginning of year	15,229,454	144,196	24,213,129	39,586,779
End of year	<u>\$ 15,940,444</u>	<u>\$ 168,421</u>	<u>\$ 24,948,544</u>	<u>\$ 41,057,409</u>

See notes to consolidated financial statements.

**United Ability, Inc.**

**Consolidated Statement of Activities  
Year Ended September 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in unrestricted net assets:				
Support and revenue:				
Government contracts and grants	\$ 5,906,142	\$ -	\$ -	\$ 5,906,142
Client fees	2,249,475	-	-	2,249,475
United Way funds	772,554	-	-	772,554
Sales – document destruction	791,629	-	-	791,629
Distributions from beneficial interest in perpetual trusts	1,039,674	126,989	-	1,166,663
Contributions	892,687	-	-	892,687
Special events	138,707	-	-	138,707
Recycling income	159,082	-	-	159,082
Contract income	12,266	-	-	12,266
Net gain on investments	155,183	-	-	155,183
Interest income	34,943	-	-	34,943
Miscellaneous	60,486	-	-	60,486
Change in fair value of beneficial interest in perpetual trusts	-	-	1,305,211	1,305,211
	12,212,828	126,989	1,305,211	13,645,028
Net assets released from restrictions	143,381	(143,381)	-	-
	12,356,209	(16,392)	1,305,211	13,645,028
Expenses:				
Program services:				
Children's services	6,386,692	-	-	6,386,692
Adult services	4,174,964	-	-	4,174,964
Supporting services:				
Management and general	223,859	-	-	223,859
Fund raising	514,805	-	-	514,805
	11,300,320	-	-	11,300,320
<b>Increase (decrease) in net assets from continuing operations</b>	1,055,889	(16,392)	1,305,211	2,344,708
Loss on discontinued operations of Community Concepts	(13,621)	-	-	(13,621)
<b>Increase (decrease) in net assets</b>	1,042,268	(16,392)	1,305,211	2,331,087
Net assets:				
Beginning of year	14,187,186	160,588	22,907,918	37,255,692
End of year	\$ 15,229,454	\$ 144,196	\$ 24,213,129	\$ 39,586,779

See notes to consolidated financial statements.

United Ability, Inc.

Consolidated Statement of Functional Expenses  
Year Ended September 30, 2017

	Program Services		Supporting Services		Total
	Children's Services	Adult Services	Management and General	Fund raising	
Salaries	\$ 4,109,214	\$ 2,466,580	\$ 67,824	\$ 273,112	\$ 6,916,730
Bad debt expense	51,502	5,821	-	-	57,323
Contract services	510,757	227,651	5,738	11,689	755,835
Contract therapy	16,145	-	-	-	16,145
Depreciation	298,531	318,374	67,150	-	684,055
Dues and subscriptions	18,932	7,187	178	1,284	27,581
Food, net of reimbursement	58,423	-	-	-	58,423
Insurance – employees	215,065	208,239	7,356	9,637	440,297
Insurance – general	93,901	53,051	1,952	6,593	155,497
Interest	25,211	21,191	546	-	46,948
Janitorial supplies	16,393	12,270	1,063	-	29,726
Legal and accounting	35,239	21,911	1,033	2,723	60,906
Maintenance	104,457	76,753	20,246	9	201,465
Medical supplies	291,646	20,638	-	-	312,284
Miscellaneous	93,343	84,374	11,243	15,985	204,945
Office supplies	54,005	38,175	1,549	7,030	100,759
Payroll taxes	293,872	177,748	5,159	17,687	494,466
Postage	8,133	4,315	191	1,742	14,381
Program supplies	38,898	36,346	164	182	75,590
Public awareness	160,992	103,416	8,911	41,084	314,403
Retirement annuity	121,826	44,017	2,553	5,168	173,564
Special events costs	-	-	-	109,377	109,377
Staff development	37,515	21,954	1,498	4,463	65,430
Staff travel	115,938	19,839	588	2,708	139,073
Telephone	49,090	31,471	1,794	4,596	86,951
Transportation	-	51,041	-	-	51,041
U.C.P.A., Inc. dues	2,907	1,809	67	225	5,008
Utilities	130,107	80,938	2,921	10,058	224,024
<b>Total expenses</b>	<b>\$ 6,952,042</b>	<b>\$ 4,135,109</b>	<b>\$ 209,724</b>	<b>\$ 525,352</b>	<b>\$ 11,822,227</b>

See notes to consolidated financial statements.

**United Ability, Inc.**

**Consolidated Statement of Functional Expenses  
Year Ended September 30, 2016**

	Program Services		Supporting Services		Total
	Children's Services	Adult Services	Management and General	Fund raising	
Salaries	\$ 3,802,941	\$ 2,447,336	\$ 101,773	\$ 241,533	\$ 6,593,583
Bad debt expense	36,022	67,114	-	7,500	110,636
Contract services	504,735	225,372	16,696	4,975	751,778
Contract therapy	39,250	15,400	-	-	54,650
Depreciation	180,465	384,886	61,618	-	626,969
Dues and subscriptions	28,823	12,794	151	1,459	43,227
Food, net of reimbursement	57,602	-	-	-	57,602
Insurance – employees	305,957	276,080	13,780	53,210	649,027
Insurance – general	85,236	45,605	1,721	6,455	139,017
Interest	27,631	25,060	759	2,357	55,807
Janitorial supplies	17,971	15,694	592	-	34,257
Legal and accounting	43,547	28,833	965	3,620	76,965
Maintenance	59,246	48,769	6,118	891	115,024
Medical supplies	275,486	24,619	495	-	300,600
Miscellaneous	74,964	70,594	6,874	13,117	165,549
Office supplies	61,217	34,782	431	308	96,738
Payroll taxes	266,961	176,995	4,766	16,309	465,031
Postage	9,400	6,221	181	1,198	17,000
Program supplies	42,620	33,117	130	3,136	79,003
Public awareness	4,667	7,491	-	74,593	86,751
Retirement annuity	111,709	41,574	2,548	1,482	157,313
Special events costs	-	-	-	60,587	60,587
Staff development	52,726	22,222	534	4,600	80,082
Staff travel	132,580	25,506	256	2,176	160,518
Telephone	39,601	24,936	620	4,896	70,053
Transportation	-	36,765	-	-	36,765
U.C.P.A., Inc. dues	3,784	2,455	152	277	6,668
Utilities	121,551	74,744	2,699	10,126	209,120
<b>Total expenses</b>	<b>\$ 6,386,692</b>	<b>\$ 4,174,964</b>	<b>\$ 223,859</b>	<b>\$ 514,805</b>	<b>\$ 11,300,320</b>

See notes to consolidated financial statements.

**United Ability, Inc.**

**Consolidated Statements of Cash Flows  
Years Ended September 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 1,470,630	\$ 2,331,087
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	57,323	110,636
Depreciation	684,055	626,969
Loss on sale of property and equipment	7,031	3,675
Interest and dividends reinvested	(56,199)	(18,026)
Net gain on investments	(140,708)	(155,183)
Change in fair value of beneficial interest in perpetual trusts	(735,415)	(1,305,211)
Transfer of ownership of Community Concepts	(107,448)	-
Changes in assets and liabilities:		
Accounts receivable	509,805	(329,878)
Pledges receivable	74,972	(145,139)
Prepaid expenses and other assets	(37,627)	(7,707)
Tenant and escrow deposits	-	(2,980)
Other assets	8,850	7,422
Accounts payable	25,710	(72,646)
Accrued payroll and benefits	(1,959)	21,097
Deferred revenue	(267)	(106,804)
<b>Net cash provided by operating activities</b>	<b>1,758,753</b>	<b>957,312</b>
Cash flows from investing activities:		
Payments for property and equipment	(452,489)	(956,136)
Proceeds from sale of property and equipment	40,704	3,200
Purchases of investments	(392,060)	(1,611,389)
Proceeds from redemption of investments	374,504	1,793,492
<b>Net cash used in investing activities</b>	<b>(429,341)</b>	<b>(770,833)</b>
Cash flows from financing activities:		
Payments on capital lease obligation	(10,810)	(10,018)
Payments on long-term debt	(925,000)	(125,000)
<b>Net cash used in financing activities</b>	<b>(935,810)</b>	<b>(135,018)</b>
<b>Net increase in cash</b>	<b>393,602</b>	<b>51,461</b>
Cash:		
Beginning of year	1,438,749	1,387,288
End of year	\$ 1,832,351	\$ 1,438,749
Supplemental cash flow disclosures:		
Cash paid during year for interest	\$ 46,948	\$ 55,807

See notes to consolidated financial statements.

## United Ability, Inc.

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization

**Nature of organization:** United Ability, Inc. (the Organization), formerly known as United Cerebral Palsy of Greater Birmingham, Inc., was founded in 1948 to provide services and programs for children and adults with cerebral palsy or related motor disorders that address their physical and health needs, that encourage their educational development and which offer opportunities for true integration into their social communities. Effective March 16, 2017, the name of the Organization changed from United Cerebral Palsy of Greater Birmingham, Inc. to United Ability, Inc.

**Consolidation of related entities:** The Organization has adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-810, Not-for-Profit Entities: Consolidation. FASB ASC 958-810 states that a not-for-profit organization should consolidate another not-for-profit organization if the reporting not-for-profit organization has both control of the other not-for-profit organization, as evidenced by either majority ownership or a majority voting interest in the board of the other not-for-profit organization, and an economic interest in the other not-for-profit organization.

For the years ended September 30, 2017 and 2016, the Organization's related entity was United Ability Foundation, Inc., which operates primarily for the benefit of the Organization.

The Organization is also required to comply with FASB ASC 850-10, Related Party Disclosures. Under this standard, all material related party transactions have been eliminated in the consolidating process and substantive disclosure of these amounts is not required.

#### Note 2. Significant Accounting Policies

**Basis of accounting:** The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Organization follows the standards of accounting and financial reporting for voluntary health and welfare organizations developed by the National Health Council, National Voluntary Health, and Social Welfare Organizations.

**Basis of presentation:** For financial statement presentation, the Organization has adopted FASB ASC 958-205, Not-for-Profit Entities: Presentation of Financial Statements. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

**Revenue and recognition of donor restrictions:** The Organization receives support from government contracts and grants, client fees, United Way funds, public support, program sales and investment earnings. Government contracts and grants are recognized when relevant regulatory or contractual requirements are met, which vary depending on the type of compliance requirements specified in the grant or contract. Amounts received for client fees are recognized during the period of service.

Contributions, including United Way funds and public support, are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Amounts received for program sales are recognized when delivery has occurred or services have been rendered. Recycling income is recognized when the items, consisting of shredded paper, to be recycled are sold.

## United Ability, Inc.

### Notes to Consolidated Financial Statements

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#### Note 2. Significant Accounting Policies (Continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All other net assets, including Board designated, are legally unrestricted, and are reported as part of the unrestricted class.

**Use of estimates:** The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents:** For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at September 30, 2017 and 2016.

**Accounts receivable and pledges receivable:** Receivables are carried at original invoice or pledge amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Pledges receivable or unconditional promises to give are recognized as revenues in the period received. Management determines the allowance for doubtful accounts by identifying troubled accounts or pledges and by using 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.

As of September 30, 2017, pledges receivable totaled \$265,249, net of a \$5,000 reserve allowance, with \$146,167 due within one year and \$119,082 due in one to four years. As of September 30, 2016, pledges receivable totaled \$340,221, net of a \$5,000 reserve allowance, with \$108,960 due within one year and \$231,261 due in one to five years.

**Property and equipment:** Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost and are depreciated using straight-line and accelerated methods.

**United Ability, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 2. Significant Accounting Policies (Continued)**

The average lives used in computing depreciation are as follows:

	<u>Years</u>
Land improvements	20
Buildings and improvements	20-39
Equipment and furniture	5-7
Vehicles	5-7

**Impairment of assets:** In accordance with FASB ASC 360-10-35, Impairment or Disposal of Long-Lived Assets, the Organization records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset. The Organization continually evaluates its investment in long-lived assets used in operations for impairment. Based on this evaluation, there was no impairment at September 30, 2017 or 2016.

**Investments:** In accordance with FASB ASC 958-320, Not-for-Profit Entities: Investments – Debt and Equity Securities, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on published prices. Changes in fair values are included in net gain (loss) on investments in the consolidated statements of activities. Realized gains and losses are computed on the specific identification method. All investment income (including interest and dividends on investments) and realized and unrealized gains and losses are included in net gain (loss) on investments in the consolidated statements of activities.

**Functional expenses:** The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain costs, such as depreciation and amortization, dues and subscriptions, interest, legal and accounting and U.C.P.A., Inc. dues, have been allocated among the program services and supporting services benefited based on a percentage method.

**Accrued liabilities:** As of September 30, 2017, the Organization was self-insured for employees' health insurance. The liability for unpaid claims is an estimate of the ultimate cost for claims reported and claims incurred but not paid. The Organization also carries a stop-loss insurance policy that limits the amount of the Organization's liability on larger claims. As of September 30, 2017 and 2016, the liability was \$21,669 and \$31,000, respectively, and is included in accrued payroll and benefits in the consolidated statements of financial position.

**Income taxes:** The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation.

The Organization files a tax return in the United States (U.S.) federal jurisdiction. The Board of Directors evaluated the Organization's tax position and concluded that the Organization has not entered into any events or transactions that would disqualify its tax-exempt status or has not taken any uncertain tax positions that would cause the Organization to incur income taxes or penalties at the entity level. With few exceptions, the Organization is no longer subject to U.S. federal tax examinations by tax authorities for years before 2014.



## United Ability, Inc.

### Notes to Consolidated Financial Statements

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#### Note 2. Significant Accounting Policies (Continued)

**Reclassifications:** Certain reclassifications have been made in the previously reported consolidated financial statements to make prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net assets.

**Subsequent events:** Subsequent events have been evaluated through February 8, 2018, which is the date the consolidated financial statements were available for issuance.

**Recent accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, which specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, the entity should apply certain steps outlined in the amendment. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. For nonpublic entities, these amendments are effective for annual reporting periods beginning after December 15, 2018. Early adoption with certain restrictions is permitted for nonpublic entities. The Organization is currently evaluating the effect the guidance may have on the consolidated financial statements.

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, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

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*, which addresses financial reporting for not-for-profit organizations. The key elements of the ASU are as follows:

- Net asset classifications are being reduced from three to two categories: with donor restrictions and without donor restrictions. Expanded disclosures about the nature and amount of any donor restrictions and on any board designations of net assets without donor restrictions will be required.
- The placed-in-service approach will be required for determining when restrictions are met for all capital gifts, eliminating the over-time option for expirations of capital restrictions.
- Additional disclosures, both qualitative and quantitative, will be required to communicate information useful in assessing liquidity within one year of the balance sheet date.
- The indirect or direct method of presenting the statement of cash flows will be allowed. However, the reconciliation of operating items no longer will be required when using the direct method.
- When an organization derives net investment return from several different sources, such as donor endowments and unrestricted operating endowments, it may present the net investment return in multiple line items in the statement of activities.

## United Ability, Inc.

### Notes to Consolidated Financial Statements

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#### Note 2. Significant Accounting Policies (Continued)

- Several new reporting requirements related to expenses are included, as follows:
  - Disclosure of expenses by both nature and function (excluding investment expenses that have been netted with investment return)
  - Disclosure of expenses netted with investment return
  - Enhanced disclosures regarding cost allocations
- ASU No. 2016-14 eliminates the requirement to disclose the unrealized gains and losses for the period related to equity securities held at the report date.

While the guidance is effective for fiscal years beginning after December 15, 2017, early adoption is allowed. The Organization is currently evaluating the effect the guidance will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Organization on January 1, 2019. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Organization is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Foundation beginning on January 1, 2019. The Organization had already been applying the amendments included in ASU 2016-18 to its consolidated financial statements for the years ended September 30, 2017 and 2016, therefore, there were no changes to previously issued financial statements.

#### Note 3. Fair Value of Financial Instruments

ASC 820, Fair Value Measurement, provides the framework for measuring fair value. The Organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

**Level 1:** Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.

**Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets in markets that are not active

**United Ability, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 3. Fair Value of Financial Instruments (Continued)**

- Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves)
- Inputs derived principally from, or corroborated by, observable market data by correlation

**Level 3:** Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques noted in the guidance. The three techniques are as follows:

**Market approach:** Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

**Cost approach:** Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

**Income approach:** Techniques to convert future amounts to a single present amount based on market expectations utilizing present value techniques.

On a recurring basis, the Organization is required to measure its investments and beneficial interest in perpetual trusts at fair value.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methodologies used during the years ended September 30, 2017 and 2016.

**Money market fund:** Valued at the carrying value as this amount approximates fair value due to the immediate or short-term maturity of the investment.

**Common stocks, mutual funds and corporate and U.S. government bonds:** Valued at the closing price reported on the active market on which the individual securities are traded.

**Limited partnership interest:** Valued at the net asset value of shares held by the Organization at year-end. The net asset value is not a publically-quoted price in an active market.

**Beneficial interest in perpetual trusts:** The fair value of investments, in which the trusts held by third parties consist of, is the market value based on quoted market prices or the most accurate data in lieu of market data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**United Ability, Inc.****Notes to Consolidated Financial Statements****Note 3. Fair Value of Financial Instruments (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of September 30:

	2017			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Investments:				
Money market fund	\$ 95,233	\$ -	\$ -	\$ 95,233
Common stocks	991,541	-	-	991,541
Mutual funds:				
Balanced income	52,061	-	-	52,061
Convertible securities	135,276	-	-	135,276
Developing markets	35,806	-	-	35,806
Dividend	25,562	-	-	25,562
Focused international growth	88,153	-	-	88,153
Growth opportunity	49,923	-	-	49,923
Loan participation	24,225	-	-	24,225
Mid cap	26,786	-	-	26,786
Multi-asset income	28,553	-	-	28,553
Multi-asset ultrashort income	40,161	-	-	40,161
Preferred securities	105,339	-	-	105,339
Small cap	76,666	-	-	76,666
Value	10,341	-	-	10,341
Bonds:				
Corporate bonds	403,536	-	-	403,536
U.S. government bonds	10,294	-	-	10,294
Limited partnership interest	-	-	50,000	50,000
Beneficial interest in perpetual trusts	-	-	24,948,544	24,948,544
Total financial assets	<u>\$ 2,199,456</u>	<u>\$ -</u>	<u>\$ 24,998,544</u>	<u>\$ 27,198,000</u>

**United Ability, Inc.**

**Notes to Consolidated Financial Statements**

**Note 3. Fair Value of Financial Instruments (Continued)**

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Investments:				
Money market fund	\$ 149,365	\$ -	\$ -	\$ 149,365
Common stocks	863,072	-	-	863,072
Mutual funds:				
Balanced income	49,574	-	-	49,574
Convertible securities	106,261	-	-	106,261
Developing markets	27,131	-	-	27,131
Focused international growth	81,992	-	-	81,992
Growth opportunity	33,060	-	-	33,060
Multi-asset income	27,204	-	-	27,204
Multi-asset ultrashort income	50,201	-	-	50,201
Preferred securities	103,232	-	-	103,232
Small cap	81,331	-	-	81,331
Bonds:				
Corporate bonds	401,954	-	-	401,954
U.S. government bonds	10,616	-	-	10,616
Limited partnership interest	-	-	50,000	50,000
Beneficial interest in perpetual trusts	-	-	24,213,129	24,213,129
Total financial assets	<u>\$ 1,984,993</u>	<u>\$ -</u>	<u>\$ 24,263,129</u>	<u>\$ 26,248,122</u>

The tables below are a reconciliation of the beginning and ending balances for financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended September 30:

	2017	
	Beneficial Interest Trusts Held by Third Parties	Limited Partnership Interest
Balance, beginning of year	\$ 24,213,129	\$ 50,000
Net gains realized and unrealized included in changes in net assets	2,248,263	3,500
Purchases, sales, issuances, settlements and distributions:		
Purchases	8,448,260	-
Sales	(8,800,895)	-
Distributions	(1,160,213)	(3,500)
Balance, end of year	<u>\$ 24,948,544</u>	<u>\$ 50,000</u>

**United Ability, Inc.****Notes to Consolidated Financial Statements****Note 3. Fair Value of Financial Instruments (Continued)**

	2016	
	Beneficial Interest Trusts Held by Third Parties	Limited Partnership Interest
Balance, beginning of year	\$ 22,907,918	\$ 50,000
Net gains realized and unrealized included in changes in net assets	2,932,681	3,500
Purchases, sales, issuances, settlements and distributions:		
Purchases	7,656,818	-
Sales	(8,117,625)	-
Distributions	(1,166,663)	(3,500)
Balance, end of year	<u>\$ 24,213,129</u>	<u>\$ 50,000</u>

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. There were no transfers between levels during the years ended September 30, 2017 and 2016.

**Note 4. Property and Equipment**

Property and equipment consist of the following:

	2017	2016
Land and improvements	\$ 1,837,252	\$ 1,840,752
Buildings and improvements	14,450,352	14,237,739
Equipment and furniture	1,942,326	1,731,026
Vehicles	549,390	646,802
Less accumulated depreciation	(5,927,543)	(5,325,241)
	<u>\$ 12,851,777</u>	<u>\$ 13,131,078</u>

Depreciation expense amounted to \$684,055 and \$626,969 for the years ended September 30, 2017 and 2016, respectively, and is allocated among program and supporting services on the accompanying consolidated statements of activities.

**Note 5. Investments**

Investments – board designated consist of the following:

	2017	2016
Money market fund	\$ 95,233	\$ 149,365
Mutual funds	316,160	232,306
Common stocks	475,566	438,713
Bonds	290,435	288,221
	<u>\$ 1,177,394</u>	<u>\$ 1,108,605</u>

## United Ability, Inc.

### Notes to Consolidated Financial Statements

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#### Note 5. Investments (Continued)

Investments – board designated endowment fund consist of the following:

	2017	2016
Mutual funds	\$ 382,692	\$ 327,680
Common stocks	515,975	424,359
Bonds	123,395	124,349
Aberdeen Capital Partners, LLC Class A preferred limited partnership interest	50,000	50,000
	<u>\$ 1,072,062</u>	<u>\$ 926,388</u>

As noted in Note 9, it is the Board's intention that these investments provide long-term stability and growth for the Organization and are therefore deemed unavailable, except as otherwise directed, until other funds have first been expended.

During the years ended September 30, 2017 and 2016, the Organization paid investment fees in the amount of \$8,419 and \$1,648, respectively.

#### Note 6. Beneficial Interest in Perpetual Trusts

The Organization's beneficial interest in perpetual trusts includes interest in trusts held by third parties through whom the Organization has an irrevocable right to receive at least 5% of the Organization's portion of the fair market value of the trusts annually from the trusts' assets in perpetuity. Although the Organization will never receive its interest in the trusts' principal assets, FASB ASC 958-605, Not-for-Profit Entities: Revenue Recognition, requires that the beneficial interest be recorded. As the donor's intent was for these assets to be held in perpetuity, these interests have been designated as permanently restricted as of September 30, 2017 and 2016. During the years ended September 30, 2017 and 2016, distributions from the trusts and changes in the valuation of the trust assets were recorded in the consolidated statements of activities.

Beneficial interest in perpetual trusts consists of the following as of September 30:

	2017		
	Market Value of Trust Assets	Income Beneficiary Percent	Organization's Beneficial Interest
Dwight Beeson Charitable Trust	\$ 10,653,789	25.00%	\$ 2,663,448
Lucille Beeson Charitable Trust	210,236,759	10.60%	22,285,096
			<u>\$ 24,948,544</u>

**United Ability, Inc.****Notes to Consolidated Financial Statements****Note 6. Beneficial Interest in Perpetual Trusts (Continued)**

		2016	
	Market Value of Trust Assets	Income Beneficiary Percent	Organization's Beneficial Interest
Dwight Beeson Charitable Trust	\$ 10,272,684	25.00%	\$ 2,568,171
Lucille Beeson Charitable Trust	204,197,716	10.60%	21,644,958
			<u>\$ 24,213,129</u>

**Note 7. Capital Lease Obligation**

The Organization acquired a truck under a capital lease with a cost of \$89,931 and a net book value of \$62,095 and \$74,942 as of September 30, 2017 and 2016, respectively. The following is a schedule by years of the minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of September 30, 2017:

Years ending September 30:		
2018		\$ 16,371
2019		16,371
2020		16,371
2021		16,371
2022		15,007
Total minimum lease payments		<u>80,491</u>
Less amount representing interest		(13,553)
Present value of net minimum lease payments		66,938
Less current portion		(11,665)
Capital lease obligation, less current portion		<u>\$ 55,273</u>

**Note 8. Long-Term Debt**

Long-term debt consists of the following as of September 30, 2017 and 2016:

	2017	2016
Note payable to Regions Bank collateralized by specified property, payable in variable semi-annual installments		
Fixed interest rate of 2.44%	\$ 1,000,000	\$ 1,925,000
Less current portion	(187,000)	(150,000)
	<u>\$ 813,000</u>	<u>\$ 1,775,000</u>



## United Ability, Inc.

### Notes to Consolidated Financial Statements

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#### Note 8. Long Term Debt (Continued)

On November 1, 2013, the Organization refinanced the note payable to Regions Bank for \$2,200,000, with a bank qualified, tax-exempt fixed rate of 2.44%. Repayment is due in monthly interest-only payments, with semi-annual payments based on a five-year repayment schedule with a balloon payment due in December 2018. The note payable to Regions Bank is secured by all gifts, grants or donations of money or property made to or for the benefit of the Organization and all distributions paid by the Lucille Beeson Charitable Trust.

Maturities of long-term debt for years ending September 30 are as follows:

Years ending September 30:	
2018	\$ 187,000
2019	813,000
	<u>\$ 1,000,000</u>

#### Note 9. Unrestricted Net Assets Designated by the Board for Endowment Purposes

The Board of Directors (Board) designated the unrestricted net assets of the United Ability Foundation, Inc. (Foundation) as a general endowment fund to conduct or support activities exclusively for the benefit of, to perform the functions of and to carry out the purposes of the Organization. To accomplish its mission, the Foundation provides long-term financial stability to the Organization, including, but not limited to, planned giving, endowment solicitation, gift acceptance and acknowledgement and asset management services for the Foundation's investments.

The long-term goals of the Foundation's investment and spending policy are (1) to protect the assets of the Foundation and strive to maximize the total return to the extent possible without assuming excessive risk, (2) to provide a relatively predictable, stable and inflation adjusted payout stream for endowment spending and operations and (3) to maintain a balance between spending and protecting the real (i.e., inflation adjusted) value of the Foundation's assets. The Foundation's investments, to the extent practicable, should support the objectives and mission and may include program related investments when appropriate and consistent with prudent investment risk.

The Foundation's objective is to achieve an annualized total return that, at a minimum, will grow the assets by the rate of inflation, after having allowed for endowment spending and operating expenses. Investment objectives will be achieved using a total return strategy, where long-term return may come from both market value increases (realized and unrealized capital appreciation) and/or from current yield (interest and dividends). In light of the Foundation's long-term horizon and limited liquidity needs over and above withdrawal policies, the fund can assume volatility consistent with a long-term investment return objective. The assets allocation and investment agent guidelines are designed to provide a balance that will avoid concentrations in any single asset class, risk level or manager style.

**United Ability, Inc.**

**Notes to Consolidated Financial Statements**

**Note 9. Unrestricted Net Assets Designated by the Board for Endowment Purposes  
(Continued)**

Composition of and changes in Foundation net assets for the years ended September 30, 2017 and 2016, are as follows:

	2017		
	Unrestricted Designated by the Board	Permanently Restricted Perpetual Trusts	Total
Endowment net assets, beginning of year	\$ 1,056,026	\$ 24,213,129	\$ 25,269,155
Support and revenue:			
Net gain on investments	102,485	-	102,485
Interest income	25,633	-	25,633
Change in fair value of beneficial interest in perpetual trusts	-	735,415	735,415
	<u>128,118</u>	<u>735,415</u>	<u>863,533</u>
Expenses:			
Supporting services			
Management and general	36,821	-	36,821
Fund raising	20,000	-	20,000
	<u>56,821</u>	<u>-</u>	<u>56,821</u>
Endowment net assets, end of year	<u>\$ 1,127,323</u>	<u>\$ 24,948,544</u>	<u>\$ 26,075,867</u>
	2016		
	Unrestricted Designated by the Board	Permanently Restricted Perpetual Trusts	Total
Endowment net assets, beginning of year	\$ 1,029,368	\$ 22,907,918	\$ 23,937,286
Support and revenue:			
Net gain on investments	73,422	-	73,422
Interest income	13,614	-	13,614
Change in fair value of beneficial interest in perpetual trusts	-	1,305,211	1,305,211
	<u>87,036</u>	<u>1,305,211</u>	<u>1,392,247</u>
Expenses:			
Supporting services			
Management and general	40,378	-	40,378
Fund raising	20,000	-	20,000
	<u>60,378</u>	<u>-</u>	<u>60,378</u>
Endowment net assets, end of year	<u>\$ 1,056,026</u>	<u>\$ 24,213,129</u>	<u>\$ 25,269,155</u>

**United Ability, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 10. Unrestricted Net Assets Designated by the Board for Other Purposes, Including Lucille Stewart Beeson Fund**

The Board designated all distributions received from the Lucille Beeson Charitable Trust to be used, as approved by the Board, for certain capital expenditures and operating reserves as needed for future operating deficits. As of September 30, 2017 and 2016, the board designated \$2,110,794 and \$2,546,739, respectively, of funds for such purposes.

**Note 11. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Dwight Moody Beeson Fund expenditures	\$ 168,421	\$ 144,196

Permanently restricted net assets are as follows:

	2017	2016
Beneficial interest in perpetual trusts	\$ 24,948,544	\$ 24,213,129

**Note 12. Net Assets Released From Donor Restrictions**

Net assets during the years ended September 30, 2017 and 2016, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2017	2016
Purpose restrictions accomplished:		
Dwight Moody Beeson Fund expenditures	\$ 95,431	\$ 93,381
Children's services	-	25,000
Adult services	-	25,000
	\$ 95,431	\$ 143,381

**Note 13. Retirement Plan**

The Organization contributes to a 403(b) retirement contribution plan. All employees who work at least 20 hours per week are eligible to participate in the plan. Benefits vest over a six-year period. Effective January 1, 2006, the Organization changed the benefits to allow for a three-year gradual phase-in resulting in a strict matching plan. For calendar years 2017 and 2016, the Organization contributed a dollar for dollar match on the first 5% of participant's contributions and 50 cents on the dollar for contributions from 5% to 7%. As of September 30, 2017 and 2016, 74 and 60 employees participated in the plan, respectively. The Organization's total contribution to the plan for the years ended September 30, 2017 and 2016, was \$173,564 and \$157,313, respectively.

## United Ability, Inc.

### Notes to Consolidated Financial Statements

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#### Note 14. Leases

The Organization leases office space and equipment through various operating leases expiring through 2023. Future minimum lease payments as of September 30, 2017, for each of the next five years and thereafter are as follows:

Years ending September 30:		
2018	\$	38,634
2019		26,913
2020		3,470
2021		3,470
2022		3,470
Thereafter		868
	\$	<u>76,825</u>

Rental expense associated with the operating leases was \$52,061 and \$52,697 for the years ended September 30, 2017 and 2016, respectively, and is included in miscellaneous expenses in the accompanying consolidated statements of functional expenses.

#### Note 15. Risks and Uncertainties

The Organization maintains cash in bank accounts at high credit quality financial institutions. During 2017 and 2016, the Organization had cash on deposit with financial institutions in excess of federal depository insurance limits. The Organization has not experienced and does not anticipate any credit losses on these deposits.

For the years ended September 30, 2017 and 2016, approximately 47% and 48%, respectively, of the Organization's consolidated revenues were provided by the Federal and the Alabama state governments.

The Organization invests in a professionally managed portfolio that contains a money market fund, common stocks, mutual funds, corporate bond funds, and a limited partnership interest. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, is at least reasonably possible that changes in risks in the near-term would materially affect investment balances and amounts reported in the consolidated financial statements.

#### Note 16. Discontinued Operations

Community Concepts, Inc., which was supported and sponsored by the Organization, operates as group homes for the physically handicapped under Section 202 of the National Housing Act and regulated by the U.S. Department of Housing and Urban Development (HUD). Effective October 1, 2016, the Organization entered into an agreement with The Arc of Jefferson County (ARC) to transfer ownership and management of Community Concepts, Inc. Total assets and liabilities transferred to ARC as of October 1, 2016, were \$415,273 and \$522,721, respectively. HUD approved the transfer of Community Concepts, Inc. and the Organization no longer has any continuing involvement, financial or fiduciary responsibilities related to Community Concepts, Inc.

**United Ability, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 16. Discontinued Operations (Continued)**

The following is a reconciliation of the major classes of line items constituting loss on discontinued operations that are presented in the consolidated statements of activities:

	<u>2017</u>	<u>2016</u>
Major classes of line items constituting loss of discontinued operations of Community Concepts:		
Revenue	\$ -	\$ 41,518
Residential services expenses	-	(55,139)
Loss on discontinued operations	<u>\$ -</u>	<u>\$ (13,621)</u>

## **Supplementary Information**

**United Ability, Inc.**

**Consolidating Statement of Financial Position  
September 30, 2017**

	United Ability	Foundation	Eliminations	Consolidated
<b>Assets</b>				
Current assets:				
Cash:				
Undesignated	\$ 821,220	\$ -	\$ -	\$ 821,220
Board designated	783,400	-	-	783,400
Board designated endowment fund	-	59,310	-	59,310
Restricted	168,421	-	-	168,421
Accounts receivable:				
Client fees (net of allowance of \$160,774)	221,620	-	-	221,620
Document destruction (net of allowance of \$50,000)	108,479	-	-	108,479
Grants (net of allowance of \$60,000)	525,474	-	-	525,474
Other	24,424	-	(4,049)	20,375
Current portion of pledges receivable (net of allowance of \$5,000)	146,167	-	-	146,167
Prepaid expenses and other assets	105,538	-	-	105,538
<b>Total current assets</b>	<b>2,904,743</b>	<b>59,310</b>	<b>(4,049)</b>	<b>2,960,004</b>
Property and equipment, net	12,851,777	-	-	12,851,777
Pledges receivable, less current portion	119,082	-	-	119,082
Other assets	11,061	-	-	11,061
Investments:				
Board designated	1,177,394	-	-	1,177,394
Board designated endowment fund	-	1,072,062	-	1,072,062
Beneficial interest in perpetual trusts	24,948,544	-	-	24,948,544
<b>Total assets</b>	<b>\$ 42,012,601</b>	<b>\$ 1,131,372</b>	<b>\$ (4,049)</b>	<b>\$ 43,139,924</b>

(Continued)

United Ability, Inc.

Consolidating Statement of Financial Position (Continued)  
September 30, 2017

	United Ability	Foundation	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Accounts payable	\$ 160,954	\$ 4,049	\$ (4,049)	\$ 160,954
Accrued payroll and benefits	450,507	-	-	450,507
Deferred revenue	58,733	-	-	58,733
Current portion of capital lease obligation	11,665	-	-	11,665
Current portion of long-term debt	187,000	-	-	187,000
<b>Total current liabilities</b>	<b>868,859</b>	<b>4,049</b>	<b>(4,049)</b>	<b>868,859</b>
Long-term portion of accrued benefits	345,383	-	-	345,383
Capital lease obligation, less current portion	55,273	-	-	55,273
Long-term debt, less current portion	813,000	-	-	813,000
<b>Total liabilities</b>	<b>2,082,515</b>	<b>4,049</b>	<b>(4,049)</b>	<b>2,082,515</b>
Net assets:				
Unrestricted:				
Undesignated	12,702,327	-	-	12,702,327
Designated by the Board for endowment purposes	-	1,127,323	-	1,127,323
Designated by the Board for other purposes, including Lucille Stewart Beeson Fund	2,110,794	-	-	2,110,794
	<b>14,813,121</b>	<b>1,127,323</b>	<b>-</b>	<b>15,940,444</b>
Temporarily restricted	168,421	-	-	168,421
Permanently restricted	24,948,544	-	-	24,948,544
<b>Total net assets</b>	<b>39,930,086</b>	<b>1,127,323</b>	<b>-</b>	<b>41,057,409</b>
<b>Total liabilities and net assets</b>	<b>\$ 42,012,601</b>	<b>\$ 1,131,372</b>	<b>\$ (4,049)</b>	<b>\$ 43,139,924</b>



**United Ability, Inc.**

**Consolidating Statement of Financial Position  
September 30, 2016**

	United Ability	Community Concepts	Foundation	Eliminations	Consolidated
<b>Assets</b>					
Current Assets:					
Cash:					
Undesignated	\$ 26,781	\$ -	\$ -	\$ -	\$ 26,781
Board designated	1,138,134	-	-	-	1,138,134
Board designated endowment fund	-	-	129,638	-	129,638
Restricted	144,196	-	-	-	144,196
Accounts receivable:					
Client fees (net of allowance of \$145,000)	234,709	-	-	-	234,709
Document destruction (net of allowance of \$50,000)	77,360	-	-	-	77,360
Grants (net of allowance of \$60,000)	1,117,740	-	-	-	1,117,740
Other	13,267	-	-	-	13,267
Current portion of pledges receivable (net of allowance of \$5,000)	108,960	-	-	-	108,960
Prepaid expenses and other assets	67,911	-	-	-	67,911
Assets of Community Concepts held for transfer	-	415,273	-	-	415,273
<b>Total current assets</b>	<b>2,929,058</b>	<b>415,273</b>	<b>129,638</b>	<b>-</b>	<b>3,473,969</b>
Property and equipment, net	13,131,078	-	-	-	13,131,078
Pledges receivable, less current portion	231,261	-	-	-	231,261
Other assets	19,911	-	-	-	19,911
Investments:					
Board designated	1,108,605	-	-	-	1,108,605
Board designated endowment fund	-	-	926,388	-	926,388
Beneficial interest in perpetual trusts	24,213,129	-	-	-	24,213,129
<b>Total assets</b>	<b>\$ 41,633,042</b>	<b>\$ 415,273</b>	<b>\$ 1,056,026</b>	<b>\$ -</b>	<b>\$ 43,104,341</b>

(Continued)

**United Ability, Inc.**

**Consolidating Statement of Financial Position (Continued)  
September 30, 2016**

	United Ability	Community Concepts	Foundation	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts payable	\$ 135,244	\$ -	\$ -	\$ -	\$ 135,244
Accrued payroll and benefits	463,681	-	-	-	463,681
Deferred revenue	59,000	-	-	-	59,000
Current portion of capital lease obligation	10,810	-	-	-	10,810
Current portion of long-term debt	150,000	-	-	-	150,000
Liabilities of Community Concepts held for transfer	-	522,721	-	-	522,721
<b>Total current liabilities</b>	<b>818,735</b>	<b>522,721</b>	<b>-</b>	<b>-</b>	<b>1,341,456</b>
Long-term portion of accrued benefits	334,168	-	-	-	334,168
Capital lease obligation, less current portion	66,938	-	-	-	66,938
Long-term debt, less current portion	1,775,000	-	-	-	1,775,000
<b>Total liabilities</b>	<b>2,994,841</b>	<b>522,721</b>	<b>-</b>	<b>-</b>	<b>3,517,562</b>
Net assets:					
Unrestricted:					
Undesignated	11,734,137	(107,448)	-	-	11,626,689
Designated by the Board for endowment purposes	-	-	1,056,026	-	1,056,026
Designated by the Board for other purposes, including Lucille Stewart Beeson Fund	2,546,739	-	-	-	2,546,739
	<b>14,280,876</b>	<b>(107,448)</b>	<b>1,056,026</b>	<b>-</b>	<b>15,229,454</b>
Temporarily restricted	144,196	-	-	-	144,196
Permanently restricted	24,213,129	-	-	-	24,213,129
<b>Total net assets</b>	<b>38,638,201</b>	<b>(107,448)</b>	<b>1,056,026</b>	<b>-</b>	<b>39,586,779</b>
<b>Total liabilities and net assets</b>	<b>\$ 41,633,042</b>	<b>\$ 415,273</b>	<b>\$ 1,056,026</b>	<b>\$ -</b>	<b>\$ 43,104,341</b>

**United Ability, Inc.**

**Consolidating Statement of Activities  
Year Ended September 30, 2017**

	United Ability	Community Concepts	Foundation	Eliminations	Consolidated
Changes in unrestricted net assets:					
Support and revenue:					
Government contracts and grants	\$ 5,747,320	\$ -	\$ -	\$ -	\$ 5,747,320
Client fees	2,242,178	-	-	-	2,242,178
United Way funds	772,966	-	-	-	772,966
Sales – document destruction	1,011,468	-	-	-	1,011,468
Distributions from beneficial interest in perpetual trusts	1,040,557	-	-	-	1,040,557
Contributions	518,375	-	-	(31,482)	486,893
Special events	476,104	-	-	-	476,104
Recycling income	213,386	-	-	-	213,386
Contract income	40,810	-	-	-	40,810
Net gain on investments	38,223	-	102,485	-	140,708
Interest income	33,100	-	25,633	-	58,733
Miscellaneous	99,215	-	-	-	99,215
	<b>12,233,702</b>	<b>-</b>	<b>128,118</b>	<b>(31,482)</b>	<b>12,330,338</b>
Net assets released from restrictions	95,431	-	-	-	95,431
	<b>12,329,133</b>	<b>-</b>	<b>128,118</b>	<b>(31,482)</b>	<b>12,425,769</b>

(Continued)

United Ability, Inc.

Consolidating Statement of Activities (Continued)  
Year Ended September 30, 2017

	United Ability	Community Concepts	Foundation	Eliminations	Consolidated
Expenses:					
Program services:					
Children's services	\$ 6,952,042	\$ -	\$ -	\$ -	\$ 6,952,042
Adult services	4,135,109	-	-	-	4,135,109
Supporting services:					
Management and general	204,385	-	36,821	(31,482)	209,724
Fund raising	505,352	-	20,000	-	525,352
	<u>11,796,888</u>	<u>-</u>	<u>56,821</u>	<u>(31,482)</u>	<u>11,822,227</u>
<b>Increase in unrestricted net assets</b>	<b>532,245</b>	<b>-</b>	<b>71,297</b>	<b>-</b>	<b>603,542</b>
Changes in temporarily restricted net assets:					
Distributions from beneficial interest in perpetual trusts	119,656	-	-	-	119,656
Net assets released from restrictions	(95,431)	-	-	-	(95,431)
<b>Increase in temporarily restricted net assets</b>	<b>24,225</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,225</b>
Changes in permanently restricted net assets:					
Change in fair value of beneficial interest in perpetual trusts	735,415	-	-	-	735,415
	<u>735,415</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>735,415</u>
<b>Increase in net assets from continuing operations</b>	<b>1,291,885</b>	<b>-</b>	<b>71,297</b>	<b>-</b>	<b>1,363,182</b>
Transfer of ownership of Community Concepts to non-related organization	-	107,448	-	-	107,448
<b>Increase in net assets</b>	<b>1,291,885</b>	<b>107,448</b>	<b>71,297</b>	<b>-</b>	<b>1,470,630</b>
Net assets:					
Beginning of year	<u>38,638,201</u>	<u>(107,448)</u>	<u>1,056,026</u>	<u>-</u>	<u>39,586,779</u>
End of year	<u>\$ 39,930,086</u>	<u>\$ -</u>	<u>\$ 1,127,323</u>	<u>\$ -</u>	<u>\$ 41,057,409</u>

**United Ability, Inc.**

**Consolidating Statement of Activities  
Year Ended September 30, 2016**

	United Ability	Community Concepts	Foundation	Eliminations	Consolidated
Changes in unrestricted net assets:					
Support and revenue:					
Government contracts and grants	\$ 5,906,142	\$ -	\$ -	\$ -	\$ 5,906,142
Client fees	2,249,475	-	-	-	2,249,475
United Way funds	772,554	-	-	-	772,554
Sales – document destruction	791,629	-	-	-	791,629
Distributions from beneficial interest in perpetual trusts	1,039,674	-	-	-	1,039,674
Contributions	930,069	-	-	(37,382)	892,687
Special events	138,707	-	-	-	138,707
Recycling income	159,082	-	-	-	159,082
Contract income	12,266	-	-	-	12,266
Net loss on investments	81,761	-	73,422	-	155,183
Interest income	21,329	-	13,614	-	34,943
Miscellaneous	60,486	-	-	-	60,486
	12,163,174	-	87,036	(37,382)	12,212,828
Net assets released from restrictions	143,381	-	-	-	143,381
	12,306,555	-	87,036	(37,382)	12,356,209

(Continued)

**Consolidating Statement of Activities (Continued)**  
**Year Ended September 30, 2016**

	United Ability	Community Concepts	Foundation	Eliminations	Consolidated
Expenses:					
Program services:					
Children's services	\$ 6,386,692	\$ -	\$ -	\$ -	\$ 6,386,692
Adult services	4,174,964	-	-	-	4,174,964
Supporting services:					
Management and general	220,863	-	40,378	(37,382)	223,859
Fund raising	494,805	-	20,000	-	514,805
	11,277,324	-	60,378	(37,382)	11,300,320
<b>    Increase (decrease) in unrestricted net assets</b>	1,029,231	-	26,658	-	1,055,889
Changes in temporarily restricted net assets:					
Distributions from beneficial interest in perpetual trusts	126,989	-	-	-	126,989
Net assets released from restrictions	(143,381)	-	-	-	(143,381)
<b>    Decrease in temporarily restricted net assets</b>	(16,392)	-	-	-	(16,392)
Changes in permanently restricted net assets:					
Change in fair value of beneficial interest in perpetual trusts	1,305,211	-	-	-	1,305,211
<b>    Increase in net assets from continuing operations</b>	2,318,050	-	26,658	-	2,344,708
Loss on discontinued operations of Community Concepts	-	(13,621)	-	-	(13,621)
<b>    Increase (decrease) in net assets</b>	2,318,050	(13,621)	26,658	-	2,331,087
Net assets:					
Beginning of year	36,346,470	(120,146)	1,029,368	-	37,255,692
Contribution from United Ability	-	26,319	-	(26,319)	-
Distribution to Community Concepts	(26,319)	-	-	26,319	-
End of year	\$ 38,638,201	\$ (107,448)	\$ 1,056,026	\$ -	\$ 39,586,779