

CONSOLIDATED FINANCIAL STATEMENTS

Valley of the Sun United Way
Fiscal Years Ended June 30, 2019 and 2018
With Report of Independent Auditors

Ernst & Young LLP



Valley of the Sun United Way

Consolidated Financial Statements

Fiscal Years Ended June 30, 2019 and 2018

Contents

Report of Independent Auditors 1

Consolidated Financial Statements

Consolidated Statements of Financial Position 3

Consolidated Statements of Activities 4

Consolidated Statements of Functional Expenses 6

Consolidated Statements of Cash Flows 8

Notes to Consolidated Financial Statements 9



Ernst & Young LLP
101 E. Washington Street
Suite 910
Phoenix, AZ 85004

Tel: +1 602 322 3000
ey.com

Report of Independent Auditors

The Board of Directors
Valley of the Sun United Way

We have audited the accompanying consolidated financial statements of Valley of the Sun United Way, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. 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 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 consolidated financial position of Valley of the Sun United Way at June 30, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

November 26, 2019

Valley of the Sun United Way

Consolidated Statements of Financial Position

	June 30	
	2019	2018
Assets		
Current assets:		
Cash (including cash held for others of \$1,012,000 and \$867,000 in 2019 and 2018, respectively)	\$ 5,743,393	\$ 5,996,153
Contributions receivable, less allowance for uncollectible pledges of \$1,351,000 and \$1,414,000 in 2019 and 2018, respectively	9,496,696	10,705,688
Other receivables	1,922,738	1,644,474
Prepays and other assets	545,769	641,272
Total current assets	17,708,596	18,987,587
Long-term investments	49,124,686	52,214,927
Contributions receivable, less current portion	70,706	120,500
Property and equipment, net	1,550,720	1,810,224
Other assets	1,115,481	1,062,753
Total assets	\$ 69,570,189	\$ 74,195,991
Liabilities and net assets		
Current liabilities:		
Allocations payable, undesignated	\$ 2,081,321	\$ 231,042
Allocations payable, donor-designated	5,400,764	5,037,886
Accounts payable and accrued liabilities	8,121,333	10,518,167
Refundable advances	1,314,196	1,690,520
Total current liabilities	16,917,614	17,477,615
Other long term liabilities	622,082	612,339
Total liabilities	17,539,696	18,089,954
Net assets:		
Without donor restrictions		
Undesignated	2,337,809	6,675,423
Board-designated – endowments	33,592,729	32,969,319
With donor restrictions	16,099,955	16,461,295
Total net assets	52,030,493	56,106,037
Total liabilities and net assets	\$ 69,570,189	\$ 74,195,991

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Activities

Fiscal Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Gross campaign results (2018/2019)	\$ 23,540,753	\$ –	\$ 23,540,753
Less donor designations	<u>(9,908,681)</u>	–	<u>(9,908,681)</u>
Campaign revenue	13,632,072	–	13,632,072
Less provision for uncollectible pledges	<u>(692,602)</u>	–	<u>(692,602)</u>
Net campaign revenue (2018/2019)	12,939,470	–	12,939,470
Other net campaign results	2,024,662	(30,000)	1,994,662
Investment income	2,277,585	–	2,277,585
Grants	2,013,911	(331,340)	1,682,571
Cost reimbursement contracts	57,537,180	–	57,537,180
Endowment contributions	18,326	–	18,326
Gifts-in-kind and contributed services	5,819,294	–	5,819,294
Designated from other United Ways	85,824	–	85,824
Administrative fees	452,840	–	452,840
Learn United revenue	125,400	–	125,400
Miscellaneous income	<u>195,110</u>	–	<u>195,110</u>
	<u>70,550,132</u>	<u>(361,340)</u>	<u>70,188,792</u>
Total revenue and support	83,489,602	(361,340)	83,128,262
Expenses:			
Program services:			
Gross funds awarded/distributed	81,103,900	–	81,103,900
Less donor designations	<u>(9,908,681)</u>	–	<u>(9,908,681)</u>
Net funds awarded/distributed	71,195,219	–	71,195,219
Other program services	<u>7,168,788</u>	–	<u>7,168,788</u>
Total program services	78,364,007	–	78,364,007
Supporting services:			
Organizational administration	4,115,730	–	4,115,730
Fundraising	<u>4,724,069</u>	–	<u>4,724,069</u>
Total supporting services	8,839,799	–	8,839,799
Total expenses	<u>87,203,806</u>	–	<u>87,203,806</u>
Changes in net assets	<u>(3,714,204)</u>	<u>(361,340)</u>	<u>(4,075,544)</u>
Net assets, beginning of year	<u>39,644,742</u>	<u>16,461,295</u>	<u>56,106,037</u>
Net assets, end of year	<u>\$ 35,930,538</u>	<u>\$ 16,099,955</u>	<u>\$ 52,030,493</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Activities

Fiscal Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Gross campaign results (2017/2018)	\$ 25,229,677	\$ –	25,229,677
Less donor designations	(9,635,881)	–	(9,635,881)
Campaign revenue	15,593,796	–	15,593,796
Less provision for uncollectible pledges	(791,767)	–	(791,767)
Net campaign revenue (2017/2018)	14,802,029	–	14,802,029
Other net campaign results	2,232,067	(45,000)	2,187,067
Investment income	3,808,856	–	3,808,856
Grants	1,937,429	(390,536)	1,546,893
Cost reimbursement contracts	56,215,192	–	56,215,192
Endowment contributions	173,197	(77,033)	96,164
Gifts-in-kind and contributed services	8,567,577	–	8,567,577
Designated from other United Ways	120,136	–	120,136
Administrative fees	442,862	–	442,862
Learn United revenue	37,300	–	37,300
Miscellaneous income	102,762	–	102,762
	<u>73,637,378</u>	<u>(512,569)</u>	<u>73,124,809</u>
Total revenue and support	88,439,407	(512,569)	87,926,838
Expenses:			
Program services:			
Gross funds awarded/distributed	84,248,001	–	84,248,001
Less donor designations	(9,635,881)	–	(9,635,881)
Net funds awarded/distributed	74,612,120	–	74,612,120
Other program services	6,758,393	–	6,758,393
Total program services	81,370,513	–	81,370,513
Supporting services:			
Organizational administration	4,224,060	–	4,224,060
Fundraising	4,932,385	–	4,932,385
Total supporting services	9,156,445	–	9,156,445
Total expenses	<u>90,526,958</u>	<u>–</u>	<u>90,526,958</u>
Changes in net assets	(2,087,551)	(512,569)	(2,600,120)
Net assets, beginning of year	41,732,293	16,973,864	58,706,157
Net assets, end of year	<u>\$ 39,644,742</u>	<u>\$ 16,461,295</u>	<u>\$ 56,106,037</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Functional Expenses

Fiscal Year Ended June 30, 2019

	Program Services	Supporting Services		Total
		Organizational Administration	Fundraising	
Salaries	\$ 3,967,905	\$ 2,254,152	\$ 2,716,990	\$ 8,939,047
Employee benefits	582,482	337,884	388,029	1,308,395
Payroll taxes	291,243	161,995	200,585	653,823
	4,841,630	2,754,031	3,305,604	10,901,265
Professional fees	487,730	207,463	71,247	766,440
Supplies	42,718	6,647	6,440	55,805
Telephone	130,949	62,007	87,853	280,809
Postage	4,944	2,905	3,877	11,726
Occupancy	470,244	232,168	320,693	1,023,105
Equipment rental and maintenance	47,312	24,522	32,855	104,689
Printing and publications	22,836	7,744	141,404	171,984
Local transportation	38,474	3,189	17,859	59,522
Travel and conferences	57,999	16,345	10,095	84,439
Local meetings	22,445	8,015	7,087	37,547
Other fees	17,713	87,115	11,983	116,811
Computer services	326,643	149,829	88,493	564,965
Advertising	152,122	181,576	107,731	441,429
Staff development	57,736	11,909	7,610	77,255
Special events	46,166	55,954	239,822	341,942
Miscellaneous	31,072	20,134	11,910	63,116
Contributed services	15,466	19,559	10,462	45,487
National dues	120,164	151,973	81,288	353,425
	2,092,733	1,249,054	1,258,709	4,600,496
Depreciation	234,425	112,645	159,756	506,826
	7,168,788	4,115,730	4,724,069	16,008,587
Net funds awarded/distributed	71,195,219	—	—	71,195,219
	\$ 78,364,007	\$ 4,115,730	\$ 4,724,069	\$ 87,203,806

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Functional Expenses

Fiscal Year Ended June 30, 2018

	Program Services	Supporting Services		Total
		Organizational Administration	Fundraising	
Salaries	\$ 3,613,253	\$ 2,316,318	\$ 2,711,033	\$ 8,640,604
Employee benefits	622,479	408,346	475,561	1,506,386
Payroll taxes	262,339	158,851	196,218	617,408
	<u>4,498,071</u>	<u>2,883,515</u>	<u>3,382,812</u>	<u>10,764,398</u>
Professional fees	331,533	159,825	33,693	525,051
Supplies	30,525	12,385	9,415	52,325
Telephone	139,366	69,317	98,574	307,257
Postage	5,180	4,055	4,479	13,714
Occupancy	461,524	239,785	330,848	1,032,157
Equipment rental and maintenance	42,834	22,439	30,397	95,670
Printing and publications	201,962	9,193	218,600	429,755
Local transportation	32,650	3,538	18,072	54,260
Travel and conferences	48,338	17,443	19,934	85,715
Local meetings	23,734	5,918	9,757	39,409
Other fees	14,074	53,226	10,174	77,474
Computer services	282,246	138,095	72,971	493,312
Advertising	198,057	217,915	149,921	565,893
Staff development	21,782	15,145	2,830	39,757
Special events	27,158	33,751	257,864	318,773
Miscellaneous	19,641	24,466	7,906	52,013
Contributed services	29,386	38,291	21,372	89,049
National dues	123,121	160,432	89,543	373,096
	<u>2,033,111</u>	<u>1,225,219</u>	<u>1,386,350</u>	<u>4,644,680</u>
Depreciation	227,211	115,326	163,223	505,760
	<u>6,758,393</u>	<u>4,224,060</u>	<u>4,932,385</u>	<u>15,914,838</u>
Net funds awarded/distributed	74,612,120	-	-	74,612,120
	<u>\$ 81,370,513</u>	<u>\$ 4,224,060</u>	<u>\$ 4,932,385</u>	<u>\$ 90,526,958</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statements of Cash Flows

	Fiscal Year Ended June 30	
	2019	2018
Operating activities		
Changes in net assets	\$ (4,075,544)	\$ (2,600,120)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	506,826	505,760
Provision for uncollectible pledges	692,602	791,767
Net unrealized loss (gain) on investments	1,281,041	(1,235,862)
Changes in operating assets and liabilities:		
Contributions receivable	516,390	219,351
Other receivables	(278,264)	(595,534)
Long-term contributions receivable	49,794	23,970
Prepays and other assets	95,503	(23,592)
Other long-term assets	(52,728)	(68,362)
Allocations payable	2,213,157	(337,070)
Accounts payable and accrued liabilities	(2,773,158)	777,814
Other long-term liabilities	9,743	102,751
Net cash used in operating activities	(1,814,638)	(2,439,127)
Investing activities		
Net proceeds from sale of investments	1,809,200	2,206,531
Purchases of property and equipment	(247,322)	(316,172)
Proceeds from disposal of property and equipment	-	1,666
Net cash provided by investing activities	1,561,878	1,892,025
Decrease in cash	(252,760)	(547,102)
Cash, beginning of year	5,996,153	6,543,255
Cash, end of year	\$ 5,743,393	\$ 5,996,153

See accompanying notes.

Valley of the Sun United Way

Notes to Consolidated Financial Statements

June 30, 2019

1. Description of Business

Valley of the Sun United Way is an Arizona nonprofit organization whose mission is to improve lives by mobilizing the caring power of its community. Valley of the Sun United Way was formed in 1925 and has addressed Maricopa County's most important health and human care needs for more than 90 years. On July 1, 2016, Valley of the Sun United Way organized Learn United, a Delaware limited liability company. Valley of the Sun United Way made an initial cash contribution of \$5,000 and is the sole owner of Learn United (collectively, the Organization).

The Organization develops and supports programs and initiatives to break the cycle of poverty in Maricopa County. Breaking the cycle of poverty is not easy, and no single organization can do it alone. That is why the Organization works with schools, nonprofits, businesses, government, and faith-based organizations to end homelessness and hunger, ensure kids succeed in school, and increase financial stability.

The Organization brings together donors, volunteers, businesses, elected officials, and other nonprofits to break the cycle of poverty for every kid, family, and neighborhood in its community.

Valley of the Sun United Way Areas of Focus

Help Families Thrive

Together with partners, the Organization develops and supports initiatives and programs to ensure every person has the opportunity to achieve the aspirations shared by the community: a good education for children, food on the table, a permanent place to call home, and financial stability.

Ensure Kids Succeed

The Organization fights for kids to succeed in school by assisting with kindergarten readiness, fourth-grade reading proficiency, and increased access to quality after-school and summer programs.

Increase Financial Stability

The Organization increases financial stability by educating individuals about managing their personal finances and providing workforce preparation services to youth and adults that live in poverty.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

1. Description of Business (continued)

End Hunger and Homelessness

The Organization works to end chronic hunger and homelessness for individuals and families. By providing permanent supportive housing for people that suffered homelessness for years, the Organization gives them a hand up to end their homelessness. United against hunger, the Organization works with low-income schools to provide the Breakfast in the Classroom program for elementary-age kids and provide weekend meals for students at partner schools. The Organization receives funds that are allocated to programs serving identified community needs, similar to the Organization's unrestricted funds and Community Objectives.

2. Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements reflect the consolidated operations of all owned operating units of Valley of the Sun United Way and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash

Cash held for others is restricted and consists of cash received from donors designated for specific nonprofit organizations.

Investments

The Organization invests excess cash in investment-grade marketable securities. Such investments are governed by a comprehensive investment policy that details guidelines concerning investment types, concentrations, and maturities.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value (based on quoted market prices). Investment income is presented net of related expenses. Investment-related expenses totaled approximately \$51,000 and \$53,000 in 2019 and 2018, respectively.

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the consolidated statements of financial position.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and contributions receivable. The Organization places its cash with federally insured institutions.

Concentrations of credit risk with respect to contributions receivable are generally limited due to the large number of contributors comprising the Organization's contributor base. As a result, the Organization does not consider itself to have significant concentrations of credit risk with respect to contributions receivable. Substantially all of the Organization's contributions receivable are due from companies and individuals located within Maricopa County.

Cost Reimbursement Contracts

The First Things First (FTF) cost reimbursement contracts stem from a 2006 voter-backed initiative in which Arizona voters imposed an 80-cent per pack increase on tobacco products, which resulted in Arizona legislation that created programs to promote a family-centered, comprehensive, collaborative, and high-quality early childhood system that supports the development, health and early education of all Arizona's children birth through age 5. Revenues from FTF are statutorily designated dollars earmarked to benefit Arizona children. Using this revenue, FTF has contracted with the Organization for over 10 years to leverage the Organization's technology and resources to administer certain statewide programs on which agencies and community stakeholders in all Arizona regions rely. Management of this revenue is a unique and important opportunity for the Organization to collaborate with state government, which then benefits other nonprofits, childcare providers, families, and children located throughout the state of Arizona. This collaboration enables FTF to fulfill its vision that all Arizona's children are ready to succeed in school and in life. Cost reimbursement contracts with FTF totaled approximately \$57,537,000 and \$55,169,000 in 2019 and 2018, respectively.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Contributions Receivable

Unconditional promises to give are recorded at fair value upon receipt of a written commitment from the donor. Multiyear pledges are recognized at their net present value using yields on U.S. Treasury obligations of equivalent maturity dates at the time the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are met.

Property and Equipment

Building, equipment, and software are stated at cost. Depreciation is recorded on a straight-line basis over the following estimated useful lives:

Building improvements	5–10 years
Furniture, fixtures, and equipment	3–10 years
Software	3–5 years

Routine maintenance and repairs are charged to expense as incurred.

Net Assets

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-specific contributions whose restrictions are met within the same year they are received are reported as campaign revenue without donor restrictions in the accompanying consolidated financial statements.

The Organization's net assets without donor restrictions are reported in the following categories:

- *Undesignated* represents amounts available to fund future operating expenses, including allocations payable to health and human service agencies.
- *Board-designated – endowments* represents amounts designated by the Board of Directors for long-term investment purposes. The related principal amounts are not intended for current use.

Contributions designated by the donor for a specific unrelated organization are recognized by the Organization as reductions to campaign results and gross funds awarded/distributed.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Contributions that are restricted by the donor for a specific purpose or time period are reported as campaign revenue with donor restrictions in the accompanying consolidated financial statements. Net assets with donor restrictions also include contributions that require, by donor restriction, that the corpus be invested in perpetuity.

Gifts-in-Kind and Contributed Services

Donated assets and services are reflected as contributions on the accompanying consolidated statements of activities at their estimated fair values at the date of receipt. Gifts-in-kind received includes food, household goods, office furniture, and supplies.

Contributions of services are recognized if the services received create or enhance a nonfinancial asset or the services require specialized skills that are provided by individuals possessing those skills and include television, radio, print, and outdoor advertising. Such contributions are measured at the estimated fair value of the services received. Contributed services are reflected as unrestricted revenue and an equal amount is recorded in unrestricted organizational administration expenses on the consolidated statements of activities, resulting in no net impact on the changes in net assets during the year.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in specific assistance programs, campaign solicitations, and various committee assignments. Since the services provided in these instances do not require specialized skills, they have not been valued or reflected on the accompanying consolidated statements of activities.

Fundraising Costs

All salary, overhead, and miscellaneous costs attributable to fundraising efforts are recorded as operating expenses in the period incurred.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2019 and 2018, was approximately \$441,000 and \$566,000, respectively.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Administrative Fees

Fees deducted from donor-designated contributions to cover administrative costs are recorded as administrative fees.

Allowance for Uncollectible Pledges

The allowance for uncollectible pledges is computed based upon a four-year historical average of collection experience by contribution type, adjusted for management's estimate of current economic factors and using the specific identification method.

Functional Allocation of Expenses

Expenses are classified on a functional basis on the accompanying consolidated statements of activities. Program services are those related to community investment and community initiative activities and include the cost of certain community programs and the expenses associated with the administration and management of these activities. Supporting services are those expenses associated with fundraising and organizational administration.

Net funds awarded/distributed consist of funding of programmatic activities, as well as funds distributed to health and human service organizations, all of which align with the Organization's Community Objectives.

For purposes of the consolidated statements of functional expenses, a portion of organizational administration expenses is allocated to all program and supporting services on the basis of full-time employee equivalents.

Tax Status

The Organization is a nonprofit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, a provision for income taxes has not been included on the accompanying consolidated statements of activities.

Management is of the opinion that substantially all of the Organization's activities are related to its tax-exempt purpose, and no material uncertain tax positions have been identified or recorded in the accompanying consolidated financial statements at June 30, 2019 or 2018.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The provisions of the Act do not have a material tax effect on the Organization's consolidated financial statements. Certain regulatory guidance provides for a measurement period of up to one year during which accounting for the tax effects of the Act may be completed. The Organization will continue to evaluate the impact of the Act and may record adjustments as additional information and guidance is released by the Internal Revenue Service.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* which reduces the number of required net asset classes from three to two categories, net assets with donor restrictions and net assets without donor restrictions. This accounting standard also allows companies to elect to use either the direct or indirect cash flow method, and requires additional liquidity disclosures and presentation of expenses by both natural and functional classification. The Organization has adopted the new financial statement accounting standard as of June 30, 2019, in which the standard primarily revised the presentation of the Organization's net assets between net assets with and without donor restrictions and also added additional disclosure surrounding liquidity.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* (a consensus of the Emerging Issues Task Force). This accounting standard will require entities to present cash receipts and cash payments from cash equivalents and restricted cash accounts within the statements of cash flows. The provisions of this accounting standard are effective for the organization for the year ended June 30, 2020. Management is currently evaluating the impact of this pronouncement on the Organization's 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* (a consensus of the Emerging Issues Task Force). This accounting standard clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The provisions of this accounting standard are effective for the Organization for the year ended June 30, 2020. Management is currently evaluating the impact of this pronouncement on the Organization's consolidated financial statements.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The pronouncement will also require additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. The provisions of ASU 2016-02 are effective for the Organization for the year ended June 30, 2021, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on the Organization's consolidated financial statements.

In May 2014, the FASB issued a new revenue accounting standard, together along with subsequent amendments, updates, and an extension of the effective date, (collectively the New Revenue Standard), which supersedes most existing revenue recognition guidance. The New Revenue Standard provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of a five-step process. The five-step process will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. Additionally, and among other provisions, the New Revenue Standard requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing, and uncertainty of revenue.

The provisions of the New Revenue Standard are effective for the Organization for the year ended June 30, 2020. The Organization is currently evaluating the impact of adopting the New Revenue standard. Contribution revenue is not within the scope of the New Revenue Standard, however, miscellaneous streams of revenue generated by the Organization will be evaluated. Management does not expect the impact to be material on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Accounting Standards Codification 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for transactions in which the organization is the resource recipient for the year ended June 30, 2020, and transactions in which the organization is the resource provider for the year ended June 30, 2021. The Organization is currently evaluating the impact on its consolidated financial statements.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

3. Endowment Campaign

In late fiscal 2007, the Organization commenced an endowment campaign, whereby funds raised are invested and the related investment income is used to underwrite the organizational administration and fundraising costs of the Organization. Through June 30, 2019, the endowment has cumulatively received unconditional pledges, net of pledges deemed to be uncollectible, to the endowment campaign totaling \$15,675,000. Through June 30, 2019, the Organization has received payments of approximately \$15,625,000, and the payments remaining on these multiyear pledges are expected to be received as follows: \$25,000 in 2020 and \$25,000 in 2021. The Organization recorded \$49,500 at June 30, 2019, for endowment campaign contributions receivable, based on the net present value and using a discount rate of 1.29%. These receivables are included in net assets with donor restrictions at June 30, 2019.

The Organization is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are restricted by the donor for a specific purpose that must be met before reclassifying those net assets to net assets without donor restrictions. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors of the Organization has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

3. Endowment Campaign (continued)

(6) Other resources of the Organization

(7) The investment policies of the Organization

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or that the Board of Directors has designated as endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a target annual rate of return greater than the Consumer Price Index plus 4.5%, over a full market cycle (defined over a five-year moving period) without exceeding a standard deviation of 1.2 times a weighted benchmark index. The benchmark index comprises each asset class index weighted by its target allocation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based and fixed-income investments to achieve its long-term objectives within prudent risk constraints. Over the long term, the Organization expects its endowment to grow at an average of the long-term rate of inflation. The Organization's objectives are to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return. The investment income related to the endowment net assets with donor restrictions are not restricted; however, the Board of Directors has designated these amounts to be added to the board-designated endowment, and thus reflected as a transfer to net assets without donor restrictions.

At June 30, 2019, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	\$ 33,592,729	\$ –	\$ 33,592,729
Donor-designated	–	15,674,525	15,674,525
Total funds	\$ 33,592,729	\$ 15,674,525	\$ 49,267,254

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

3. Endowment Campaign (continued)

Changes in endowment net assets for the year ended June 30, 2019, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 32,969,319	\$ 15,674,525	\$ 48,643,844
Investment return:			
Interest and dividends	1,284,567	610,719	1,895,286
Net realized and unrealized gains	243,359	115,699	359,058
Total investment income	<u>1,527,926</u>	<u>726,418</u>	<u>2,254,344</u>
Endowment net assets, subtotal	34,497,245	16,400,943	50,898,188
Transfers and contributions	744,744	(726,418)	18,326
Appropriation of endowment assets for expenditure	<u>(1,649,260)</u>	-	<u>(1,649,260)</u>
Endowment net assets, end of year	<u>\$ 33,592,729</u>	<u>\$ 15,674,525</u>	<u>\$ 49,267,254</u>

At June 30, 2018, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-advised funds	\$ 12,894	\$ -	\$ 12,894
Board-designated	32,956,425	-	32,956,425
Donor-designated	-	15,674,525	15,674,525
Total funds	<u>\$ 32,969,319</u>	<u>\$ 15,674,525</u>	<u>\$ 48,643,844</u>

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

3. Endowment Campaign (continued)

Changes in endowment net assets for the year ended June 30, 2018, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 30,977,821	\$ 15,751,558	\$ 46,729,379
Investment return:			
Interest and dividends	1,068,859	543,492	1,612,351
Net realized and unrealized gains	1,143,828	581,612	1,725,440
Total investment income	<u>2,212,687</u>	<u>1,125,104</u>	<u>3,337,791</u>
Endowment net assets, subtotal	33,190,508	16,876,662	50,067,170
Transfers and contributions	1,378,301	(1,205,104)	173,197
Present value discount (1.29%)	-	2,967	2,967
Appropriation of endowment assets for expenditure	<u>(1,599,490)</u>	<u>-</u>	<u>(1,599,490)</u>
Endowment net assets, end of year	<u>\$ 32,969,319</u>	<u>\$ 15,674,525</u>	<u>\$ 48,643,844</u>

4. Contributions Receivable

Contributions receivable as of June 30 are as follows:

	2019	2018
Less than one year	\$ 10,846,826	\$ 12,119,434
More than one year	75,000	130,000
	10,921,826	12,249,434
Allowance for uncollectible pledges	(1,350,130)	(1,413,746)
Discount (1.07% to 3.16%)	(4,294)	(9,500)
	9,567,402	10,826,188
Less current portion	(9,496,696)	(10,705,688)
	\$ 70,706	\$ 120,500

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements

The Organization uses a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

- *Level 1:* Pricing is based on observable inputs for identical instruments, such as quoted prices in active markets.
- *Level 2:* Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.
- *Level 3:* Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimates, based on assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates.

Assets measured at fair value are based on one or more of three valuation techniques described below.

- (a) *Market approach.* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) *Cost approach.* Amount that would be required to replace the service capacity of an asset (replacement cost).
- (c) *Income approach.* Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option pricing, and excess earnings models).

All of the Organization's investments as of and for the years ended June 30, 2019 and 2018, are considered Level 1 and were valued using the market approach.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

6. Investments

Investments, measured at fair value, consist of the following as of June 30:

	2019	2018
Mutual funds:		
Bond funds	\$ 9,145,885	\$ 9,767,260
Equity funds	39,978,801	42,447,667
Long-term investments	\$ 49,124,686	\$ 52,214,927

Investment income consists of the following for the years ended June 30:

	2019	2018
Interest and dividends	\$ 2,051,584	\$ 1,827,509
Realized gains	1,507,042	745,485
Unrealized (losses) gains	(1,281,041)	1,235,862
	\$ 2,277,585	\$ 3,808,856

7. Property and Equipment

Property and equipment consisted of the following as of June 30:

	2019	2018
Building improvements	\$ 278,170	\$ 278,170
Furniture, fixtures, and equipment	2,511,992	2,349,856
Software	1,495,687	1,410,110
	4,285,849	4,038,136
Less accumulated depreciation	(2,735,129)	(2,227,912)
	\$ 1,550,720	\$ 1,810,224

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan

Thrift Plan

The Organization has a defined contribution 403(b) Thrift Plan for its employees (the Thrift Plan). Employees are eligible to participate in the Thrift Plan after they have completed one year of service and have attained the age of 21. Participants can elect to contribute up to 100% of their pretax annual compensation, as defined by the Thrift Plan, and are subject to the annual limits of the Internal Revenue Code. The Thrift Plan also allows for employer-matching contributions equal to 75% of the first 6% of the salary reduction amount contributed by the employee, which vests 25% each year for four years. For the years ended June 30, 2019 and 2018, the Organization's contributions totaled approximately \$233,000 and \$237,000, respectively.

9. Related-Party Transactions

Volunteers from the local business community are relied upon to serve on the Board of Directors, on committees, and in other key positions within the Organization. Many of the volunteers make significant contributions through their involvement and assistance with fundraising campaigns on behalf of the Organization. Pledges from Board of Directors members totaled approximately \$332,000 and \$250,000 in 2019 and 2018, respectively.

10. Commitments and Contingencies

Operating Leases

In July 2014, the Organization entered into an 11-year noncancelable operating lease agreement for its corporate offices in Phoenix, Arizona. The lease is subject to rent holidays and rent increases, and the Organization recognizes rent expense on a straight-line basis over the lease period. In addition, incentives were granted, including discounted rental payments. As such, these allowances have been recorded as deferred rent and these items are being recognized as adjustments to rental expense on a straight-line basis over the term of the lease. Lease expense for both fiscal years ended June 30, 2019 and 2018, amounted to \$793,000.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

Minimum lease commitments at June 30, 2019, are as follows:

Fiscal Year:	
2020	\$ 887,129
2021	903,532
2022	919,935
2023	936,338
2024	952,677
Thereafter	1,369,931
	<u>\$ 5,969,542</u>

11. Liquidity

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following as of June 30, 2019:

Cash and cash equivalents	\$ 5,743,393
Contributions receivable, net	9,496,696
Other receivables	1,922,738
	<u>\$ 17,162,827</u>

The Organization has the ability to structure its financial assets to be available as its general expenditures and other obligations come due. The Organization also maintains a \$2,000,000 line of credit. As of June 30, 2019, \$2,000,000 remained available on the line of credit.

12. Learn United LLC

The Organization organized Learn United LLC (Learn United), a Delaware limited liability company, on July 1, 2016. As an initial contribution to the capital of Learn United, the Organization made a \$5,000 cash investment. Because Learn United is a single member LLC whose sole owner is the Organization, Learn United benefits from the rights and privileges associated with the Organization's tax-exempt (nonprofit) status. Learn United's purpose is to conduct the business activity of the VELLO program, which includes building collaborative agreements with local United Ways and vendors to run the VELLO program, and to create a streamlined process for multistate partnerships and to operate across the United Way system. The VELLO program and its components are consistent with the Organization's charitable mission.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

12. Learn United LLC (continued)

Learn United's vision is that every kindergarten through third grade student has a team of volunteers and a community of supporters invested in his or her success. The VELLO program makes it possible for volunteers throughout the country to connect with students through the use of simple screen sharing and audio. Learn United leverages technology to break down the most common barriers to volunteerism and increase student access to 21st Century learning environments. Twice each week, strategically selected students receive the benefit of a 1-1 reading tutor through VELLO; students access standards-based texts and reading activities through a custom VELLO tech station in their classroom and volunteers jump into a VELLO session through screen sharing and audio, guiding students as they read. With a global network of local leadership and deep relationships with both businesses and schools, United Ways are uniquely positioned to bring VELLO into communities across the nation. Learn United and its United Way collaborators consider the VELLO program an opportunity to connect thousands of volunteers and community sponsors to local students to support literacy. The components of the VELLO program that Learn United has brokered include an e-library with leveling and benchmark capabilities that will allow students to read books at their instructional levels; screen sharing technology that allows volunteers to connect with students just like a collaborative webinar (no video); and the necessary computer hardware to facilitate VELLO in a high-speed and secure place in the classroom. Learn United uses a digital administrative support platform for United Way program facilitators, teachers, and volunteers to use for VELLO program purposes (such as training and scheduling).

Learn United maintains its own books and records, financial statements, bank accounts, etc., and enters into contracts in its own legal name, but its assets and results of operations are consolidated into the Organization's consolidated financial statements as a result of the Organization's ownership interest in Learn United. All significant intercompany transactions are eliminated. For the year ended June 30, 2019, Learn United received \$254,000 in revenue and had expenses totalling \$351,000 resulting in a net loss of \$97,000. Comparatively, for the year ended June 30, 2018, Learn United received \$137,000 in revenue and had expenses totalling \$298,000 resulting in a net loss of \$161,000. Learn United has a five-year business plan that extends the VELLO program to classrooms nationwide and anticipates a breakeven model by 2021.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

13. Subsequent Events

The Organization has evaluated events subsequent to June 30, 2019, to assess the need for potential recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated through November 26, 2019, the date these consolidated financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the accompanying consolidated financial statements.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.

© 2019 Ernst & Young LLP.
All Rights Reserved.

ey.com