

CONSOLIDATED FINANCIAL STATEMENTS

Valley of the Sun United Way
Fiscal Years Ended June 30, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



Valley of the Sun United Way

Consolidated Financial Statements

Fiscal Years Ended June 30, 2020 and 2019

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



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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, 2020 and 2019, 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, 2020 and 2019, 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 24, 2020

Valley of the Sun United Way

Consolidated Statements of Financial Position

	June 30	
	2020	2019
Assets		
Current assets:		
Cash (including cash held for others of \$932,000 and \$1,012,000 in 2020 and 2019, respectively)	\$ 8,465,651	\$ 5,743,393
Contributions receivable, less allowance for uncollectible pledges of \$1,521,000 and \$1,351,000 in 2020 and 2019, respectively	9,655,286	9,496,696
Other receivables	1,081,644	1,922,738
Prepays and other assets	580,173	545,769
Total current assets	19,782,754	17,708,596
Long-term investments	46,459,523	49,124,686
Contributions receivable, less current portion	180,173	70,706
Property and equipment, net	1,349,997	1,550,720
Other assets	1,150,824	1,115,481
Total assets	\$ 68,923,271	\$ 69,570,189
Liabilities and net assets		
Current liabilities:		
Allocations payable, undesignated	\$ 1,449,805	\$ 2,081,321
Allocations payable, donor-designated	5,793,353	5,400,764
Accounts payable and accrued liabilities	7,519,082	8,121,333
Refundable advances	1,168,647	1,314,196
Total current liabilities	15,930,887	16,917,614
Other long term liabilities	648,375	622,082
Total liabilities	16,579,262	17,539,696
Net assets:		
Without donor restrictions		
Undesignated	3,719,254	2,337,809
Board-designated – endowments	31,200,170	33,592,729
With donor restrictions	17,424,585	16,099,955
Total net assets	52,344,009	52,030,493
Total liabilities and net assets	\$ 68,923,271	\$ 69,570,189

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Activities

Fiscal Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Gross campaign results (2019/2020)	\$ 21,610,958	\$ –	\$ 21,610,958
Less donor designations	(8,094,578)	–	(8,094,578)
Campaign revenue	13,516,380	–	13,516,380
Less provision for uncollectible pledges	(816,944)	–	(816,944)
Net campaign revenue (2019/2020)	12,699,436	–	12,699,436
Other net campaign results	2,844,058	1,708,196	4,552,254
Investment loss	(370,188)	(183,042)	(553,230)
Grants	993,214	(151,000)	842,214
Cost reimbursement contracts	56,465,933	–	56,465,933
Endowment contributions	130,232	(49,524)	80,708
Gifts-in-kind and contributed services	13,603,103	–	13,603,103
Designated from other United Ways	28,791	–	28,791
Administrative fees	510,806	–	510,806
Learn United revenue	203,941	–	203,941
Miscellaneous income	137,878	–	137,878
Paycheck Protection Program revenue	1,502,830	–	1,502,830
	<u>76,050,598</u>	<u>1,324,630</u>	<u>77,375,228</u>
Total revenue and support	88,750,034	1,324,630	90,074,664
Expenses:			
Program services:			
Gross funds awarded/distributed	84,704,337	–	84,704,337
Less donor designations	(8,094,578)	–	(8,094,578)
Net funds awarded/distributed	76,609,759	–	76,609,759
Other program services	5,827,944	–	5,827,944
Total program services	82,437,703	–	82,437,703
Supporting services:			
Organizational administration	3,061,978	–	3,061,978
Fundraising	4,261,467	–	4,261,467
Total supporting services	7,323,445	–	7,323,445
Total expenses	89,761,148	–	89,761,148
Changes in net assets	(1,011,114)	1,324,630	313,516
Net assets, beginning of year	35,930,538	16,099,955	52,030,493
Net assets, end of year	<u>\$ 34,919,424</u>	<u>\$ 17,424,585</u>	<u>\$ 52,344,009</u>

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	(9,908,681)	–	(9,908,681)
Campaign revenue	13,632,072	–	13,632,072
Less provision for uncollectible pledges	(692,602)	–	(692,602)
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	195,110	–	195,110
	<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	(9,908,681)	–	(9,908,681)
Net funds awarded/distributed	71,195,219	–	71,195,219
Other program services	7,168,788	–	7,168,788
Total program services	78,364,007	–	78,364,007
Supporting services:			
Organizational administration	4,115,730	–	4,115,730
Fundraising	4,724,069	–	4,724,069
Total supporting services	8,839,799	–	8,839,799
Total expenses	87,203,806	–	87,203,806
Changes in net assets	(3,714,204)	(361,340)	(4,075,544)
Net assets, beginning of year	39,644,742	16,461,295	56,106,037
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 Functional Expenses

Fiscal Year Ended June 30, 2020

	Program Services	Supporting Services		Total
		Organizational Administration	Fundraising	
Salaries	\$ 3,268,153	\$ 1,613,989	\$ 2,459,646	\$ 7,341,788
Employee benefits	497,098	237,169	357,247	1,091,514
Payroll taxes	246,370	117,999	181,216	545,585
	4,011,621	1,969,157	2,998,109	8,978,887
Professional fees	217,124	164,036	53,188	434,348
Supplies	67,776	6,088	6,865	80,729
Telephone	122,183	51,650	85,867	259,700
Postage	4,555	2,146	3,371	10,072
Occupancy	467,208	213,315	345,455	1,025,978
Equipment rental and maintenance	44,643	19,775	32,293	96,711
Printing and publications	11,335	7,498	101,971	120,804
Local transportation	25,107	2,303	9,808	37,218
Travel and conferences	21,855	5,284	1,753	28,892
Local meetings	6,121	2,471	3,214	11,806
Other fees	24,357	80,981	17,736	123,074
Computer services	308,685	121,805	88,641	519,131
Advertising	109,078	125,104	94,416	328,598
Staff development	14,368	15,814	3,482	33,664
Special events	27,280	30,707	58,175	116,162
Miscellaneous	13,179	12,443	13,293	38,915
Contributed services	–	–	97,942	97,942
National dues	110,628	132,977	82,143	325,748
	1,595,482	994,397	1,099,613	3,689,492
Depreciation	220,841	98,424	163,745	483,010
	5,827,944	3,061,978	4,261,467	13,151,389
Net funds awarded/distributed	76,609,759	–	–	76,609,759
	\$ 82,437,703	\$ 3,061,978	\$ 4,261,467	\$ 89,761,148

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
	<u>4,841,630</u>	<u>2,754,031</u>	<u>3,305,604</u>	<u>10,901,265</u>
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
	<u>2,092,733</u>	<u>1,249,054</u>	<u>1,258,709</u>	<u>4,600,496</u>
Depreciation	234,425	112,645	159,756	506,826
	<u>7,168,788</u>	<u>4,115,730</u>	<u>4,724,069</u>	<u>16,008,587</u>
Net funds awarded/distributed	71,195,219	-	-	71,195,219
	<u>\$ 78,364,007</u>	<u>\$ 4,115,730</u>	<u>\$ 4,724,069</u>	<u>\$ 87,203,806</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statements of Cash Flows

	Fiscal Year Ended June 30	
	2020	2019
Operating activities		
Changes in net assets	\$ 313,516	\$ (4,075,544)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	483,010	506,826
Provision for uncollectible pledges	816,944	692,602
Net unrealized loss (gain) on investments	2,511,607	1,281,041
Changes in operating assets and liabilities:		
Contributions receivable	(975,534)	516,390
Other receivables	841,094	(278,264)
Long-term contributions receivable	(109,467)	49,794
Prepays and other assets	(34,404)	95,503
Other long-term assets	(35,343)	(52,728)
Allocations payable	(238,927)	2,213,157
Accounts payable, accrued liabilities, and refundable advances	(747,800)	(2,773,158)
Other long-term liabilities	26,293	9,743
Net cash provided by (used in) operating activities	2,850,989	(1,814,638)
Investing activities		
Gross proceeds sales of investments	2,995,926	11,771,217
Gross purchases of investments	(2,842,370)	(9,962,017)
Purchases of property and equipment	(282,287)	(247,322)
Net cash (used in) provided by investing activities	(128,731)	1,561,878
Increase (decrease) in cash	2,722,258	(252,760)
Cash, beginning of year	5,743,393	5,996,153
Cash, end of year	\$ 8,465,651	\$ 5,743,393

See accompanying notes.

Valley of the Sun United Way

Notes to Consolidated Financial Statements

June 30, 2020

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).

Since 1925, Valley of the Sun United Way has unified diverse partners, donors, businesses, nonprofits, government, and faith-based communities to build a stronger Valley for us all. Valley of the Sun United Way belongs to our community, so we seek community input on the most pressing issues. Then, we bring people, organizations and companies together to proactively solve them. Many people seek trustworthy insights and information and they want to help, but they don't know how. Valley of the Sun United Way makes it simple for people and organizations to be part of the solution; to come together to take ACTION.

Valley of the Sun United Way belongs to our community and our number one focus is to nimbly and effectively respond to, and develop solutions for, our Valley's most pressing needs. We ACTIVATE resources, ACTIVATE corporate and nonprofit partners, ACTIVATE change, ACTIVATE hope, and provide real solutions to the immediate and evolving needs of our community.

We address the immediate needs of families and individuals, focusing on hunger, housing and homelessness, financial stability, education and out of school time, and the ongoing/emerging needs of our neighbors. To do this, we collaborate with and support our current nonprofit and school partners. We help keep vital nonprofits and schools whole, so they can continue providing uninterrupted services to meet the growing demands for:

- Emergency meals
- Food delivery for seniors
- Filling meal gaps for students
- Emergency shelters
- Support services for individuals living in permanent supportive housing

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

1. Description of Business (continued)

- Access to affordable quality childcare and early education
- Quality afterschool and out-of-school time programs so parents can work
- At-home learning materials, programs and tutoring to help kids read at grade level
- Initiatives to guide high school students to graduation, college and career
- Vital essentials such as face masks, sanitizers, diapers
- Emergency rent, utilities and other financial assistance that maintains family stability
- Support of 2-1-1 to ensure people are connected to the services they need

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.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

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 \$50,000 and \$51,000 in 2020 and 2019, 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 increased tax on tobacco products, which resulted in Arizona legislation creating 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

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 \$56,466,000 and \$57,537,000 in 2020 and 2019, respectively.

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 initially recorded 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.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

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.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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, 2020 and 2019, was approximately \$329,000 and \$441,000, respectively.

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.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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, 2020 or 2019.

Paycheck Protection Program

During fiscal year 2020, the Organization applied for and received proceeds of \$1,891,433 under the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Under the terms of the PPP, certain amounts of the loan may be forgiven if the Organization maintains its payroll levels and the funds are used for qualifying expenses, which include payroll, benefits, rent and utilities. In order to obtain full or partial forgiveness of the PPP, the Organization must request forgiveness and must provide satisfactory documentation in accordance with applicable Small Business Administration (SBA) guidelines. The Organization used the proceeds for purposes consistent with the PPP and management expects full forgiveness of the PPP loan. As of year-end, \$1,502,830 of these proceeds, for which all conditions have been met, are recorded as revenue and \$388,603 of proceeds is recorded as deferred income liability in the accompanying financial statements in accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*.

Recently Issued Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash* (a consensus of the Emerging Issues Task Force). This accounting standard requires 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 was effective for the Organization for the year ended June 30, 2020, and is reflected in the accompanying consolidated financial statements at June 30, 2020 and 2019.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 was effective for the Organization for the year ended June 30, 2020 and management determined the impact to be immaterial on the Organization's consolidated financial statements.

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, 2022, 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 ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, together 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 provisions of the New Revenue Standard are effective for the Organization for the year ended June 30, 2020. Contribution revenue is not within the scope of the New Revenue Standard, however, miscellaneous streams of revenue generated by the Organization were assessed, and management determined the impact to be immaterial 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. Management has determined the impact of this pronouncement to be immaterial on the Organization's 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, 2020, the endowment has cumulatively received unconditional pledges, net of pledges deemed to be uncollectible, to the endowment campaign totaling \$15,625,001 all of which have been collected at June 30, 2020.

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.

The endowment investments are recorded within long-term investments on the Organization's consolidated statement of financial position.

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 earnings be added to the board-designated endowment, and thus reflected as a transfer to net assets without donor restrictions.

At June 30, 2020, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	\$ 31,200,170	\$ –	\$ 31,200,170
Donor-designated	–	15,441,959	15,441,949
Total funds	\$ 31,200,170	\$ 15,441,959	\$ 46,642,129

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, 2020, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 33,592,729	\$ 15,674,525	\$ 49,267,254
Investment return:			
Interest and dividends	903,952	421,788	1,325,740
Net realized and unrealized losses	(1,296,236)	(604,830)	(1,901,066)
Total investment loss	(392,284)	(183,042)	(575,326)
Endowment net assets, subtotal	<u>33,200,445</u>	<u>15,491,483</u>	<u>48,691,928</u>
Transfers, contributions and other	130,232	(49,524)	80,708
Appropriation of endowment assets for expenditure	(2,130,507)	-	(2,130,507)
Endowment net assets, end of year	<u>\$ 31,200,170</u>	<u>\$ 15,441,959</u>	<u>\$ 46,642,129</u>

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	<u>\$ 33,592,729</u>	<u>\$ 15,674,525</u>	<u>\$ 49,267,254</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, 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	1,527,926	726,418	2,254,344
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	(1,649,260)	-	(1,649,260)
Endowment net assets, end of year	\$ 33,592,729	\$ 15,674,525	\$ 49,267,254

4. Contributions Receivable

Contributions receivable as of June 30 are as follows:

	2020	2019
Less than one year	\$ 11,177,103	\$ 10,846,826
More than one year	185,000	75,000
	11,362,103	10,921,826
Allowance for uncollectible pledges	(1,521,817)	(1,350,130)
Discount (1.07% to 3.16%)	(4,827)	(4,294)
	9,835,459	9,567,402
Less current portion	(9,655,286)	(9,496,696)
	\$ 180,173	\$ 70,706

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, 2020 and 2019, 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:

	2020	2019
Mutual funds:		
Bond funds	\$ 7,975,581	\$ 9,145,885
Equity funds	38,483,942	39,978,801
Long-term investments	\$ 46,459,523	\$ 49,124,686

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

	2020	2019
Interest and dividends	\$ 1,339,946	\$ 2,051,584
Realized gains	618,431	1,507,042
Unrealized losses	(2,511,607)	(1,281,041)
	\$ (553,230)	\$ 2,277,585

7. Property and Equipment

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

	2020	2019
Building improvements	\$ 287,492	\$ 278,170
Furniture, fixtures, and equipment	2,050,633	2,511,992
Software	838,338	1,495,687
	3,176,463	4,285,849
Less accumulated depreciation	(1,826,466)	(2,735,129)
	\$ 1,349,997	\$ 1,550,720

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan

The Organization has a defined contribution 403(b) Thrift Plan for its employees (the Thrift Plan). Eligible 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. 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% at the end of each year for four years. For the years ended June 30, 2020 and 2019, the Organization's contributions totaled approximately \$229,000 and \$233,000, 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 \$430,000 and \$332,000 in 2020 and 2019, 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. Base lease expense for both fiscal years ended June 30, 2020 and 2019, amounted to \$793,000, not including parking, taxes, or common area maintenance expenses.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

Minimum lease commitments at June 30, 2020, are as follows:

Fiscal year:	
2021	\$ 903,532
2022	919,935
2023	936,338
2024	952,677
2025	967,010
Thereafter	402,921
	<u>\$ 5,082,413</u>

11. Liquidity

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

	<u>2020</u>	<u>2019</u>
Cash	\$ 8,465,651	\$ 5,743,393
Contributions receivable, net	9,655,286	9,496,696
Other receivables	1,081,644	1,922,738
	<u>\$ 19,202,581</u>	<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, 2020, \$2,000,000 remained available on the line of credit.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

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 and area of focus to ensure kids succeed.

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, 2020, Learn United received \$347,000 in revenue and had expenses totaling \$373,000 resulting in a net loss of \$26,000. Comparatively, for the year ended June 30, 2019, Learn United received \$254,000 in revenue and had expenses totaling \$351,000 resulting in a net loss of \$97,000.

13. Subsequent Events

The Organization has evaluated events subsequent to June 30, 2020, to assess the need for potential recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated through November 24, 2020, 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.

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