

CONSOLIDATED FINANCIAL STATEMENTS

Valley of the Sun United Way
Fiscal Years Ended June 30, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP



Valley of the Sun United Way

Consolidated Financial Statements

Fiscal Years Ended June 30, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Valley of the Sun United Way

Opinion

We have audited the consolidated financial statements of Valley of the Sun United Way (the Organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization at June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

November 16, 2022

Valley of the Sun United Way

Consolidated Statements of Financial Position

	June 30	
	2022	2021
Assets		
Current assets:		
Cash (including cash held for others of \$599,000 and \$989,000 in 2022 and 2021, respectively)	\$ 17,125,624	\$ 12,471,868
Contributions receivable, less allowance for uncollectible pledges of \$1,172,000 and \$1,433,000 in 2022 and 2021, respectively	8,023,349	8,755,618
Other receivables	759,664	1,010,527
Prepays and other assets	1,324,853	536,017
Total current assets	27,233,490	22,774,030
Long-term investments	73,725,855	84,351,377
Contributions receivable, less current portion	765,766	389,747
Property and equipment, net	1,548,927	1,042,687
Other assets	824,893	1,174,413
Total assets	\$ 104,098,931	\$ 109,732,254
Liabilities and net assets		
Current liabilities:		
Allocations payable, undesignated	\$ 7,071,056	\$ 7,799,852
Allocations payable, donor-designated	4,305,799	5,696,563
Accounts payable and accrued liabilities	6,508,773	7,741,242
Line of credit	2,000,000	–
Refundable advances	15,510,201	3,568,536
Total current liabilities	35,395,829	24,806,193
Other long term liabilities	331,462	673,207
Total liabilities	35,727,291	25,479,400
Net assets:		
Without donor restrictions:		
Undesignated	16,309,238	24,574,396
Board-designated – endowments	34,161,256	43,317,435
With donor restrictions	17,901,146	16,361,023
Total net assets	68,371,640	84,252,854
Total liabilities and net assets	\$ 104,098,931	\$ 109,732,254

See accompanying notes.

Valley of the Sun United Way
Consolidated Statement of Activities

Fiscal Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Gross campaign results (2021/2022)	\$ 17,561,943	\$ –	\$ 17,561,943
Less donor designations	<u>(6,087,304)</u>	–	<u>(6,087,304)</u>
Campaign revenue	11,474,639	–	11,474,639
Less provision for uncollectible pledges	<u>(639,320)</u>	–	<u>(639,320)</u>
Net campaign revenue (2021/2022)	10,835,319	–	10,835,319
Other net campaign results	2,191,891	530,123	2,722,014
Investment losses	(11,391,617)	–	(11,391,617)
Grants	767,500	–	767,500
Government contracts	52,902,740	–	52,902,740
Endowment contributions	794,410	1,010,000	1,804,410
Gifts-in-kind and contributed services	397,136	–	397,136
Designated from other United Ways	27,947	–	27,947
Administrative fees	350,264	–	350,264
Learn United revenue	94,800	–	94,800
Miscellaneous income	131,968	–	131,968
	<u>46,267,039</u>	<u>1,540,123</u>	<u>47,807,162</u>
Total revenue and support	57,102,358	1,540,123	58,642,481
Expenses:			
Program services:			
Gross funds awarded/distributed	67,705,619	–	67,705,619
Less donor designations	<u>(6,087,304)</u>	–	<u>(6,087,304)</u>
Net funds awarded/distributed	61,618,315	–	61,618,315
Other program services	<u>5,537,551</u>	–	<u>5,537,551</u>
Total program services	67,155,866	–	67,155,866
Supporting services:			
Organizational administration	3,470,077	–	3,470,077
Fundraising	<u>3,897,752</u>	–	<u>3,897,752</u>
Total supporting services	7,367,829	–	7,367,829
Total expenses	<u>74,523,695</u>	–	<u>74,523,695</u>
Changes in net assets	<u>(17,421,337)</u>	1,540,123	<u>(15,881,214)</u>
Net assets, beginning of year	67,891,831	16,361,023	84,252,854
Net assets, end of year	<u>\$ 50,470,494</u>	<u>\$ 17,901,146</u>	<u>\$ 68,371,640</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Activities

Fiscal Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Gross campaign results (2020/2021)	\$ 20,161,127	\$ –	\$ 20,161,127
Less donor designations	(7,688,595)	–	(7,688,595)
Campaign revenue	12,472,532	–	12,472,532
Less provision for uncollectible pledges	(756,285)	–	(756,285)
Net campaign revenue (2020/2021)	11,716,247	–	11,716,247
Other net campaign results	3,352,431	(1,479,604)	1,872,827
Investment income	15,055,252	183,042	15,238,294
Grants	26,397,277	233,000	26,630,277
Government contracts	57,812,445	–	57,812,445
Endowment contributions	28,326	–	28,326
Gifts-in-kind and contributed services	285,581	–	285,581
Designated from other United Ways	34,447	–	34,447
Administrative fees	479,879	–	479,879
Learn United revenue	161,500	–	161,500
Miscellaneous income	103,288	–	103,288
Paycheck Protection Program revenue	388,603	–	388,603
	<u>104,099,029</u>	<u>(1,063,562)</u>	<u>103,035,467</u>
Total revenue and support	115,815,276	(1,063,562)	114,751,714
Expenses:			
Program services:			
Gross funds awarded/distributed	77,935,564	–	77,935,564
Less donor designations	(7,688,595)	–	(7,688,595)
Net funds awarded/distributed	70,246,969	–	70,246,969
Other program services	5,553,819	–	5,553,819
Total program services	75,800,788	–	75,800,788
Supporting services:			
Organizational administration	2,922,804	–	2,922,804
Fundraising	4,119,277	–	4,119,277
Total supporting services	7,042,081	–	7,042,081
Total expenses	82,842,869	–	82,842,869
Changes in net assets	32,972,407	(1,063,562)	31,908,845
Net assets, beginning of year	34,919,424	17,424,585	52,344,009
Net assets, end of year	<u>\$ 67,891,831</u>	<u>\$ 16,361,023</u>	<u>\$ 84,252,854</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Functional Expenses

Fiscal Year Ended June 30, 2022

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Organizational Administration</u>	<u>Fundraising</u>	
Salaries	\$ 3,035,280	\$ 1,766,211	\$ 2,212,771	\$ 7,014,262
Employee benefits	521,444	270,581	377,554	1,169,579
Payroll taxes	235,898	132,325	173,079	541,302
	<u>3,792,622</u>	<u>2,169,117</u>	<u>2,763,404</u>	<u>8,725,143</u>
Professional fees	274,715	197,658	63,613	535,986
Supplies	74,691	8,842	5,988	89,521
Telephone	73,565	36,207	49,603	159,375
Postage	2,623	2,756	3,448	8,827
Occupancy	467,691	243,928	322,935	1,034,554
Equipment rental and maintenance	19,531	12,386	13,558	45,475
Printing and publications	15,873	13,023	48,430	77,326
Local transportation	425	429	733	1,587
Travel and conferences	3,725	1,026	3,383	8,134
Local meetings	1,249	1,362	1,602	4,213
Other fees	19,189	90,251	12,853	122,293
Computer services	268,169	168,905	116,800	553,874
Advertising	149,490	193,567	131,406	474,463
Staff development	12,719	18,132	6,904	37,755
Special events	19,486	24,501	101,679	145,666
Miscellaneous	22,594	27,692	13,971	64,257
Contributed services	7,387	9,565	22,562	39,514
National dues	117,376	151,985	79,869	349,230
	<u>1,550,498</u>	<u>1,202,215</u>	<u>999,337</u>	<u>3,752,050</u>
Depreciation	194,431	98,745	135,011	428,187
	<u>5,537,551</u>	<u>3,470,077</u>	<u>3,897,752</u>	<u>12,905,380</u>
Gifts-in-kind distributed	357,622	-	-	357,622
Grants and contracts awarded/ distributed	61,260,693	-	-	61,260,693
Net funds awarded/distributed	<u>61,618,315</u>	<u>-</u>	<u>-</u>	<u>61,618,315</u>
	<u>\$ 67,155,866</u>	<u>\$ 3,470,077</u>	<u>\$ 3,897,752</u>	<u>\$ 74,523,695</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Functional Expenses

Fiscal Year Ended June 30, 2021

	<u>Supporting Services</u>			Total
	Program Services	Organizational Administration	Fundraising	
Salaries	\$ 2,992,230	\$ 1,471,745	\$ 2,292,448	\$ 6,756,423
Employee benefits	546,837	291,121	432,464	1,270,422
Payroll taxes	219,374	107,687	171,654	498,715
	<u>3,758,441</u>	<u>1,870,553</u>	<u>2,896,566</u>	<u>8,525,560</u>
Professional fees	374,043	149,139	69,784	592,966
Supplies	21,989	4,422	2,950	29,361
Telephone	69,132	29,701	51,769	150,602
Postage	2,942	1,709	2,820	7,471
Occupancy	463,172	207,385	350,267	1,020,824
Equipment rental and maintenance	23,074	10,535	17,540	51,149
Printing and publications	10,792	8,015	116,685	135,492
Local transportation	55	50	59	164
Travel and conferences	162	140	822	1,124
Local meetings	894	942	1,116	2,952
Other fees	18,188	68,194	13,382	99,764
Computer services	321,638	148,744	113,578	583,960
Advertising	131,281	151,507	126,138	408,926
Staff development	6,360	11,245	30	17,635
Special events	27,681	31,943	38,238	97,862
Miscellaneous	14,638	13,378	7,658	35,674
Contributed services	-	-	75,204	75,204
National dues	109,266	128,548	83,556	321,370
	<u>1,595,307</u>	<u>965,597</u>	<u>1,071,596</u>	<u>3,632,500</u>
Depreciation	200,071	86,654	151,115	437,840
	<u>5,553,819</u>	<u>2,922,804</u>	<u>4,119,277</u>	<u>12,595,900</u>
Gifts-in-kind distributed	210,377	-	-	210,377
Grants and contracts awarded/ distributed	70,036,592	-	-	70,036,592
Net funds awarded/distributed	<u>70,246,969</u>	<u>-</u>	<u>-</u>	<u>70,246,969</u>
	<u>\$ 75,800,788</u>	<u>\$ 2,922,804</u>	<u>\$ 4,119,277</u>	<u>\$ 82,842,869</u>

See accompanying notes.

Valley of the Sun United Way

Consolidated Statements of Cash Flows

	Fiscal Year Ended June 30	
	2022	2021
Operating activities		
Changes in net assets	\$ (15,881,214)	\$ 31,908,845
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	428,187	437,840
Provision for uncollectible pledges	639,320	756,285
Net unrealized loss (gain) on investments	15,239,843	(12,536,534)
Changes in operating assets and liabilities:		
Contributions receivable	92,949	143,383
Other receivables	(314,326)	71,117
Long-term contributions receivable	(376,019)	(209,574)
Prepays and other assets	(223,647)	44,156
Other long-term assets	349,520	(23,589)
Allocations payable	(2,119,560)	6,253,257
Accounts payable, accrued liabilities, and refundable advances	10,709,196	2,622,049
Other long-term liabilities	(341,745)	24,832
Net cash provided by operating activities	8,202,504	29,492,067
Investing activities		
Gross proceeds sales of investments	11,538,666	12,288,734
Gross purchases of investments	(16,152,987)	(37,644,054)
Purchases of property and equipment	(934,427)	(130,530)
Net cash used in investing activities	(5,548,748)	(25,485,850)
Financing activities		
Borrowings on line of credit	2,000,000	—
Net cash provided by financing activities	2,000,000	—
Increase in cash	4,653,756	4,006,217
Cash, beginning of year	12,471,868	8,465,651
Cash, end of year	\$ 17,125,624	\$ 12,471,868

See accompanying notes.

Valley of the Sun United Way

Notes to Consolidated Financial Statements

June 30, 2022

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. Formed in 1925, Valley of the Sun United Way has addressed Maricopa County's most important health and human care needs for more than 95 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).

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 and our partners envision a community where every child, family and individual is healthy, has a safe place to live and has every opportunity to succeed in school, life and work. We belong 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.

In March of 2021, we announced Mighty Change 2026 (MC2026), our new five-year community plan designed to address the most urgent needs of the community. In it, we unveiled bold goals in the areas of Health, Housing and Homelessness, Education and Workforce Development. By 2026, together with nonprofit, community, regional and corporate partners, we will work to:

- Decrease food insecurity by 50%
- Increase the number of individuals with access to affordable healthcare by 100,000
- Reduce homelessness by 50%
- Increase third grade reading proficiency by 25%
- Increase youth age 16-24 engaged in education and employment opportunities by 38%
- Increase preparation of individuals for a living wage job by 33%
- Increase achievement of higher paying employment by 20%

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

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 of America 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.

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 \$72,000 and \$57,000 in 2022 and 2021, 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.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

Government Contracts

The First Things First (FTF) contracts for service originate from a 2006 voter-backed initiative in which Arizona voters imposed an 80-cent-per-pack increased tax on tobacco products. The successful passage of that initiative resulted in Arizona legislation creating the First Things First state agency and its 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 from birth through age five. Revenues from FTF are statutorily designated dollars earmarked to benefit Arizona children. Using this revenue, FTF has contracted with the Organization for over ten 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. The Organization receives advances of funding for these programs with any unused funding considered as refundable advances due back to FTF. For the year ended June 30, 2022, contract for service revenue with FTF totaled approximately \$51,769,000 and refundable advances totaled approximately \$15,510,000. Comparatively, for the year ended June 30, 2021, contract for service revenue with FTF totaled approximately \$56,753,000 and refundable advances totaled approximately \$3,569,000.

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 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.

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.

In fiscal year 2021, the Organization received a \$25,000,000 unrestricted grant from philanthropist, author, and Amazon co-founder MacKenzie Scott (National Philanthropic Trust). The transformational gift is being deployed directly into the community over the five years beginning fiscal year 2021. The funds are being used to execute its MC2026 plan and will provide multiyear support to help stabilize foundational community programs. The grant will also allow the Organization to create capacity to build deeper engagement opportunities around key issues to involve members of the community like never before, and to invest in expanding efforts to make Diversity, Equity, Access, and Inclusion foundational to all its work. As a result of this gift, the consolidated financial statements at June 30, 2021 showed a substantial increase to net assets. The Organization's five-year expenditure plan for this gift resulted in a planned decrease in net assets, excluding investment loss, of \$5,773,000 for the year ended June 30, 2022.

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, 2022 and 2021, was approximately \$474,000 and \$409,000, 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, 2022 or 2021.

Paycheck Protection Program

During fiscal year 2020, the Organization applied for and received proceeds of \$1,891,000 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 received full forgiveness of the PPP loan in May 2021. The PPP loan forgiven in 2021 and no additional amount was received for year ended June 30, 2022. For the year ended June 30, 2021, \$389,000 of these proceeds are recorded as revenue in the accompanying financial statements in accordance with Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities – Revenue Recognition*.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2023, and early adoption is permitted. 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)

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, 2022, the endowment has cumulatively received unconditional pledges, net of pledges deemed to be uncollectible, to the endowment campaign totaling \$16,635,000, all of which have been collected at June 30, 2022.

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

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

3. Endowment Campaign (continued)

- (5) The expected total return from income and the appreciation of investments
- (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, 2022, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	\$ 34,161,256	\$ –	\$ 34,161,256
Donor-designated	–	16,635,001	16,635,001
Total funds	\$ 34,161,256	\$ 16,635,001	\$ 50,796,257

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, 2022, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 43,317,435	\$ 15,625,001	\$ 58,942,436
Investment return:			
Interest and dividends	2,305,303	831,544	3,136,847
Net realized and unrealized losses	(8,184,137)	(2,952,093)	(11,136,230)
Total investment losses	(5,878,834)	(2,120,549)	(7,999,383)
Endowment net assets, subtotal	37,438,601	13,504,452	50,943,053
Transfers, contributions, and other	(1,326,139)	3,130,549	1,804,410
Appropriation of endowment assets for expenditure	(1,951,206)	-	(1,951,206)
Endowment net assets, end of year	\$ 34,161,256	\$ 16,635,001	\$ 50,796,257

At June 30, 2021, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated	\$ 43,317,435	\$ -	\$ 43,317,435
Donor-designated	-	15,625,001	15,625,001
Total funds	\$ 43,317,435	\$ 15,625,001	\$ 58,942,436

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, 2021, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 31,200,170	\$ 15,441,959	\$ 46,642,129
Investment return:			
Interest and dividends	920,278	455,476	1,375,754
Net realized and unrealized gains	8,791,528	4,351,207	13,142,735
Total investment gains	9,711,806	4,806,683	14,518,489
Endowment net assets, subtotal	40,911,976	20,248,642	61,160,618
Transfers, contributions, and other	4,651,967	(4,623,641)	28,326
Appropriation of endowment assets for expenditure	(2,246,508)	—	(2,246,508)
Endowment net assets, end of year	\$ 43,317,435	\$ 15,625,001	\$ 58,942,436

4. Contributions Receivable

Contributions receivable as of June 30 are as follows:

	2022	2021
Less than one year	\$ 9,195,218	\$ 10,188,371
More than one year	792,099	391,000
	9,987,317	10,579,371
Allowance for uncollectible pledges	(1,171,870)	(1,432,753)
Discount (.16% to 1.62%)	(26,332)	(1,253)
	8,789,115	9,145,365
Less current portion	(8,023,349)	(8,755,618)
	\$ 765,766	\$ 389,747

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, 2022 and 2021, 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:

	2022	2021
Mutual funds:		
Bond funds	\$ 14,557,584	\$ 8,105,090
Equity funds	41,163,346	48,584,510
Exchange-traded funds	18,004,925	27,661,777
Long-term investments	\$ 73,725,855	\$ 84,351,377

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

	2022	2021
Interest and dividends	\$ 3,861,357	\$ 1,572,906
Realized (losses) gains	(13,131)	1,128,854
Unrealized (losses) gains	(15,239,843)	12,536,534
	\$ (11,391,617)	\$ 15,238,294

7. Property and Equipment

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

	2022	2021
Building improvements	\$ 1,062,717	\$ 287,492
Furniture, fixtures, and equipment	2,122,322	2,140,009
Software	1,025,388	872,328
	4,210,427	3,299,829
Less accumulated depreciation	(2,661,500)	(2,257,142)
	\$ 1,548,927	\$ 1,042,687

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. 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, 2022 and 2021, the Organization's contributions totaled approximately \$203,000 and \$224,000, 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 \$821,000 and \$324,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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, 2022, are as follows:

Fiscal year:	
2023	\$ 936,338
2024	952,677
2025	967,010
2026	402,921
	<u>\$ 3,258,946</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>2022</u>	<u>2021</u>
Cash	\$ 17,125,624	\$ 12,471,868
Contributions receivable, net	8,023,349	8,755,618
Other receivables	759,664	1,010,527
	<u>\$ 25,908,637</u>	<u>\$ 22,238,013</u>

The Organization has the ability to structure its financial assets to be available as its general expenditures and other obligations come due.

12. Line of Credit

The Organization maintains a line of credit (LOC) agreement to manage timing and cash flow needs. The credit agreement is up to \$2,000,000 with a termination date of April 2023 and bears an annual interest rate of the greater of (i) the Prime Rate or (ii) 2.50%. The renewal of the LOC agreement is reviewed annually for further extensions.

Amounts outstanding under the LOC totaled \$2,000,000 and \$0 as of June 30, 2022 and 2021, respectively. The Organization was in compliance with all debt covenants as of June 30, 2022.

Valley of the Sun United Way

Notes to Consolidated Financial Statements (continued)

13. 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, 2022, Learn United received \$162,000 in revenue and had expenses totaling \$145,000 resulting in a net gain of \$17,000. Comparatively, for the year ended June 30, 2021, Learn United received \$279,000 in revenue and had expenses totaling \$360,000 resulting in a net loss of \$81,000.

14. Subsequent Events

The Organization has evaluated events subsequent to June 30, 2022, to assess the need for potential recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated through November 16, 2022, 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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