Consolidated Financial Statements

Valley of the Sun United Way
Fiscal Years Ended June 30, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Valley of the Sun United Way

Consolidated Financial Statements

Fiscal Years Ended June 30, 2018 and 2017

Contents

Building a better working world

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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, 2018 and 2017, 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.

Building a better working world

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, 2018 and 2017, 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 20, 2018

Valley of the Sun United Way

Consolidated Statements of Financial Position

	June 30 2018	June 30 2017
Assets		
Current assets:		
Cash (including cash held for others of $867,000 and $964,000 in 2018 and 2017, respectively)	**$ 5,996,153**	$ 6,543,255
Contributions receivable, less allowance for uncollectible pledges of $1,414,000 and $1,579,000 in 2018 and 2017, respectively	**10,705,688**	11,716,806
Other receivables	**1,644,474**	1,048,940
Prepaids and other assets	**641,272**	617,680
Total current assets	**18,987,587**	19,926,681
Long-term investments	**52,214,927**	53,185,596
Contributions receivable, less current portion	**120,500**	144,470
Property and equipment, net	**1,810,224**	2,001,478
Other assets	**1,062,753**	994,392
Total assets	**$ 74,195,991**	$ 76,252,617
Liabilities and net assets		
Current liabilities:		
Allocations payable, undesignated	**$ 231,042**	$ 239,252
Allocations payable, donor-designated	**5,037,886**	5,366,746
Accounts payable and accrued liabilities	**10,518,167**	9,464,192
Refundable grant advances	**1,690,520**	1,966,682
Total current liabilities	**17,477,615**	17,036,872
Other long-term liabilities	**612,339**	509,588
Total liabilities	**18,089,954**	17,546,460
Net assets:		
Unrestricted:		
Undesignated	**6,675,423**	10,754,472
Board-designated – endowments	**32,969,319**	30,977,821
Total unrestricted	**39,644,742**	41,732,293
Temporarily restricted	**786,770**	1,222,306
Permanently restricted	**15,674,525**	15,751,558
Total net assets	**56,106,037**	58,706,157
Total liabilities and net assets	**$ 74,195,991**	$ 76,252,617

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Activities

Fiscal Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gross campaign results (2017/2018)	$ 25,229,677	$ –	$ –	25,229,677
Gross campaign results in prior	–	–	–	–
year – released from restriction	–	–	–	–
Total campaign results (2017/2018)	25,229,677	–	–	25,229,677
Less donor designations	(9,635,881)	–	–	(9,635,881)
Campaign revenue	15,593,796	–	–	15,593,796
Less provision for uncollectible pledges	(791,767)	–	–	(791,767)
Net campaign revenue (2017/2018)	14,802,029	–	–	14,802,029
Other net campaign results	2,232,067	(45,000)	–	2,187,067
Investment income	3,808,856	–	–	3,808,856
Grants and contracts	58,152,621	(390,536)	–	57,762,085
Endowment contributions	173,197	–	(77,033)	96,164
Gifts-in-kind and contributed services	8,567,577	–	–	8,567,577
Designated from other United Ways	120,136	–	–	120,136
Administrative fees	442,862	–	–	442,862
Learn United revenue	37,300	–	–	37,300
Miscellaneous income	102,762	–	–	102,762
	73,637,378	(435,536)	(77,033)	73,124,809
Total revenue and support	88,439,407	(435,536)	(77,033)	87,926,838
Expenses:				
Program services:				
Gross funds awarded/distributed	84,248,001	–	–	84,248,001
Less donor designations	(9,635,881)	–	–	(9,635,881)
Net funds awarded/distributed	74,612,120	–	–	74,612,120
Other program services	6,758,393	–	–	6,758,393
Total program services	81,370,513	–	–	81,370,513
Supporting services:				
Organizational administration	4,224,060	–	–	4,224,060
Fundraising	4,932,385	–	–	4,932,385
Total supporting services	9,156,445	–	–	9,156,445
Total expenses	90,526,958	–	–	90,526,958
Changes in net assets	(2,087,551)	(435,536)	(77,033)	(2,600,120)
Net assets, beginning of year	41,732,293	1,222,306	15,751,558	58,706,157
Net assets, end of year	$ 39,644,742	$ 786,770	$ 15,674,525	$ 56,106,037

Valley of the Sun United Way

Consolidated Statement of Activities

Fiscal Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gross campaign results (2016/2017)	$ 29,880,605	$ –	$ –	$ 29,880,605
Gross campaign results in prior year – released from restriction	119,662	(119,662)	–	–
Total campaign results (2016/2017)	30,000,267	(119,662)	–	29,880,605
Less donor designations	(12,204,063)	5,147	–	(12,198,916)
Campaign revenue	17,796,204	(114,515)	–	17,681,689
Less provision for uncollectible pledges	(852,333)	–	–	(852,333)
Net campaign revenue (2016/2017)	16,943,871	(114,515)	–	16,829,356
Other net campaign results	2,536,781	95,000	–	2,631,781
Investment income	6,574,983	–	–	6,574,983
Grants and contracts	54,684,039	(243,160)	–	54,440,879
Endowment contributions	124,549	–	(976)	123,573
Gifts-in-kind and contributed services	5,084,476	–	–	5,084,476
Designated from other United Ways	112,941	–	–	112,941
Administrative fees	387,996	–	–	387,996
Learn United revenue	57,200	–	–	57,200
Miscellaneous income	92,777	–	–	92,777
	69,655,742	(148,160)	(976)	69,506,606
Total revenue and support	86,599,613	(262,675)	(976)	86,335,962
Expenses:				
Program services:				
Gross funds awarded/distributed	83,482,139	–	–	83,482,139
Less donor designations	(12,198,916)	–	–	(12,198,916)
Net funds awarded/distributed	71,283,223	–	–	71,283,223
Other program services	7,705,899	–	–	7,705,899
Total program services	78,989,122	–	–	78,989,122
Supporting services:				
Organizational administration	3,974,829	–	–	3,974,829
Fundraising	4,868,094	–	–	4,868,094
Total supporting services	8,842,923	–	–	8,842,923
Total expenses	87,832,045	–	–	87,832,045
Changes in net assets	(1,232,432)	(262,675)	(976)	(1,496,083)
Net assets, beginning of year	42,964,725	1,484,981	15,752,534	60,202,240
Net assets, end of year	$ 41,732,293	$ 1,222,306	$ 15,751,558	$ 58,706,157

Valley of the Sun United Way

Consolidated Statement of Functional Expenses

Fiscal Year Ended June 30, 2018

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

See accompanying notes.

Valley of the Sun United Way

Consolidated Statement of Functional Expenses

Fiscal Year Ended June 30, 2017

		Supporting Services		
	Program Services	**Organizational Administration**	**Fundraising**	**Total**
Salaries	$ 4,207,006	$ 2,040,459	$ 2,619,642	$ 8,867,107
Employee benefits	714,659	351,191	461,834	1,527,684
Payroll taxes	301,332	143,626	188,573	633,531
	5,222,997	2,535,276	3,270,049	11,028,322
Professional fees	373,109	195,495	48,806	617,410
Supplies	30,367	10,496	11,140	52,003
Telephone	136,942	56,264	82,820	276,026
Postage	6,214	4,863	8,535	19,612
Occupancy	465,762	197,225	285,230	948,217
Equipment rental and maintenance	38,258	16,069	23,088	77,415
Printing and publications	193,779	14,962	214,146	422,887
Local transportation	30,223	2,640	23,045	55,908
Travel and conferences	88,991	25,778	22,338	137,107
Local meetings	32,712	5,593	11,808	50,113
Other fees	52,396	91,822	33,410	177,628
Computer services	164,796	118,573	66,402	349,771
Advertising	320,794	289,062	195,670	805,526
Staff development	39,645	30,681	10,497	80,823
Special events	30,018	28,161	265,701	323,880
Miscellaneous	38,956	44,331	20,666	103,953
Contributed services	19,945	21,504	12,765	54,214
National dues	168,136	181,274	107,610	457,020
	2,231,043	1,334,793	1,443,677	5,009,513
Depreciation	251,859	104,760	154,368	510,987
	7,705,899	3,974,829	4,868,094	16,548,822
Net funds awarded/distributed	71,283,223	–	–	71,283,223
	$ 78,989,122	$ 3,974,829	$ 4,868,094	$ 87,832,045

See accompanying notes.

Valley of the Sun United Way

Consolidated Statements of Cash Flows

	Fiscal Year Ended June 30	
	2018	**2017**
Operating activities		
Changes in net assets	**(2,600,120)**	$ (1,496,083)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	**505,760**	510,987
Provision for uncollectible pledges	**791,767**	852,333
Net unrealized gain on investments	**(1,235,862)**	(2,633,893)
Changes in operating assets and liabilities:		
Contributions receivable	**219,351**	(161,970)
Other receivables	**(595,534)**	198,641
Long-term contributions receivable	**23,970**	228,732
Prepaids and other assets	**(23,592)**	(201,673)
Changes in other long-term assets	**(68,361)**	(527,293)
Allocations payable	**(337,070)**	(1,421,075)
Accounts payable and accrued liabilities	**777,813**	(1,201,561)
Changes in other long-term liabilities	**102,751**	509,588
Net cash used in operating activities	**(2,439,127)**	(5,343,267)
Investing activities		
Net proceeds of investments	**2,206,531**	1,939,637
Purchases of property and equipment	**(316,172)**	(554,655)
Proceeds from disposal of property and equipment	**1,666**	360
Net cash provided by investing activities	**1,892,025**	1,385,342
Decrease in cash	**(547,102)**	(3,957,925)
Cash, beginning of year	**6,543,255**	10,501,180
Cash, end of year	**$ 5,996,153**	$ 6,543,255

See accompanying notes.

1. Description of Business

Valley of the Sun United Way (VSUW) is an Arizona nonprofit organization whose mission is to improve lives by mobilizing the caring power of its community. VSUW 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, VSUW organized Learn United, a Delaware limited liability company. VSUW made an initial cash contribution of $5,000 and is the sole owner of Learn United (collectively, the Organization).

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

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

Valley of the Sun United Way Areas of Focus

Help Families Thrive

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

Ensure Kids Succeed

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

Increase Financial Stability

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

1. Description of Business (continued)

End Hunger and Homelessness

The Organization works to end chronic hunger and homelessness for individuals and families. By providing permanent housing for people that suffered homelessness for years, the Organization gives them a hand up to end their homelessness. United against hunger, the Organization works with low-income schools to provide the Breakfast in the Classroom program for elementary-age kids and provide weekend meals for students at partner schools. The Organization receives funds that are allocated to programs serving identified community needs, similar to the Organization's unrestricted funds and Community Objectives. The primary source of grant funds is the state of Arizona through the First Things First (FTF) program. Grants received are managed by the Organization on behalf of the state and include financial support to parents to allow their children to attend high-quality childcare centers.

2. Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements reflect the consolidated operations of all owned operating units of VSUW 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.

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 $53,000 in both 2018 and 2017.

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. At June 30, 2018 and 2017, $50,000 and $229,000, respectively, of total contributions receivable were due from one and five individual donors and families, respectively, for the endowment campaign described in Note 3.

Grant Revenue

Grants received from FTF totaled approximately $55,169,000 and $52,468,000 in 2018 and 2017, respectively. The Organization receives FTF grants on a prepayment basis, and funds received that are not spent during the grant period are required to be reimbursed to FTF. The refund payable is recorded in refundable grant advances. Grant revenue also includes grants from various other agencies which are received on a cost-reimbursement basis. Funds disbursed pursuant to these grants prior to reimbursement by the granting agency are recognized in other receivables.

2. Significant Accounting Policies (continued)

Contributions Receivable

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

Property and Equipment

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

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

Routine maintenance and repairs are charged to expense as incurred.

Net Assets

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-specific contributions whose restrictions are met within the same year they are received are reported as unrestricted campaign revenue in the accompanying consolidated financial statements.

The Organization's unrestricted net assets 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.

2. Significant Accounting Policies (continued)

Contributions that are restricted by the donor for a specific purpose or time period are reported as temporarily restricted when the restriction is not met within the year of receipt and the ultimate purpose of the proceeds is not permanently restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restriction.

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.

Permanently restricted net assets 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, clothing and household goods, office furniture, and supplies. Contributions of services are recognized if the services received create or enhance a nonfinancial asset or the services require specialized skills that are provided by individuals possessing those skills and include television, radio, print, and outdoor advertising.

Such contributions are measured at the estimated fair value of the services received. Contributed services are reflected as unrestricted revenue and an equal amount is recorded in unrestricted organizational administration expenses on the consolidated statements of activities, resulting in no net impact on the changes in net assets during the year.

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

Fundraising Costs

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

2. Significant Accounting Policies (continued)

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2018 and 2017, was approximately $566,000 and $806,000, 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 grant funds (mainly from FTF), as well as funds distributed to health and human service organizations that have programs which are in line with the Organization's Community Objectives.

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

Tax Status

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

2. Significant Accounting Policies (continued)

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 accompany consolidated financial statements at June 30, 2018 or 2017.

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

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profit Entities*, which requires changes that are designed to make the financial statements easier for donors, creditors, and other users to understand and compare. The standard reduces the number of required net asset classes from three to two categories, net assets with donor restrictions and net assets without donor restrictions. This accounting standard also allows companies to elect to use either the direct or indirect cash flow method, and requires additional liquidity disclosures and presentation of expenses by both natural and functional classification. The ASU is effective for the Organization's fiscal year beginning July 1, 2018, but early adoption is permitted. The Organization is currently evaluating the impact on its 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 starting July 1, 2020, and early adoption is permitted. Management is currently evaluating the impact of this pronouncement on the Organization's consolidated financial statements.

2. Significant Accounting Policies (continued)

In May 2014, the FASB issued a new revenue accounting standard, together along with subsequent amendments, updates, and an extension of the effective date, (collectively the New Revenue Standard), which supersedes most existing revenue recognition guidance. The New Revenue Standard provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The five-step process will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. Additionally, and among other provisions, the New Revenue Standard requires expanded quantitative and qualitative disclosures, including disclosure about the nature, amount, timing, and uncertainty of revenue.

The provisions of the New Revenue Standard are effective for annual periods beginning after December 15, 2018, by applying either the full retrospective method or the cumulative catch-up transition method. The full retrospective method requires application of the provisions of the New Revenue Standard for all periods presented while the cumulative catch-up transition method requires the application of the provisions of the New Revenue Standard as of the date of adoption with the cumulative effect of the retrospective application of the provision as an adjustment through retained earnings. Currently, the Organization anticipates adopting the provisions of the New Revenue Standard using the full retrospective method for all periods presented.

As VSUW progresses with its implementation efforts to adopt the New Revenue Standard, management continues to evaluate and refine its estimates of the anticipated impacts it will have on its revenue recognition policies, procedures, financial position, results of operations, cash flows, financial disclosures, and control framework. Contribution revenue is not within the scope of the New Revenue Standard, however, miscellaneous streams of revenue generated by VSUW and Learn United will be evaluated. Management does not expect the impact to be material on its consolidated financial statements.

2. Significant Accounting Policies (continued)

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. The ASU is effective for the Organization's fiscal year beginning July 1, 2019, but early adoption is permitted. The Organization is currently evaluating the impact on its consolidated financial statements.

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, 2018, the endowment has cumulatively received unconditional pledges, net of pledges deemed to be uncollectible, to the endowment campaign totaling $15,675,000. Through June 30, 2018, the Organization has received payments of approximately $15,625,000, and the payments remaining on these multiyear pledges are expected to be received as follows: $25,000 in 2019 and $25,000 in 2020. The Organization recorded $49,500 at June 30, 2018, for endowment campaign contributions receivable, based on the net present value and using a discount rate of 1.29%. These receivables are included in permanently restricted net assets at June 30, 2018.

The Board of Directors has interpreted the Arizona State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment (less any transfers out if the donor's intent changes and the donor directs the transfer), (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund, including interest and dividends earned, that is not classified in permanently restricted net assets is classified as unrestricted net assets, as those amounts are appropriated for expenditure by the Organization in the same fiscal period in a manner consistent with the standard of prudence prescribed by SPMIFA.

3. Endowment Campaign (continued)

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

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

(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

3. Endowment Campaign (continued)

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.

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

	Unrestricted	Permanently Restricted	Total
Donor-advised funds	**$ 12,894**	**$ –**	**$ 12,894**
Board-designated – quasi-endowment	**24,533,510**	**–**	**24,533,510**
Board-designated – endowment	**8,422,915**	**–**	**8,422,915**
Donor-designated – endowment	**–**	**15,674,525**	**15,674,525**
Total funds	**$ 32,969,319**	**$ 15,674,525**	**$ 48,643,844**

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

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 30,977,821**	**$ 15,751,558**	**$ 46,729,379**
Investment return:			
Interest and dividends	**1,612,350**	**–**	**1,612,350**
Net realized and unrealized gains	**1,725,440**	**–**	**1,725,440**
Total investment income	**3,337,790**	**–**	**3,337,790**
Transfers and contributions	**253,198**	**(80,000)**	**173,198**
Present value discount (1.29%)	**–**	**2,967**	**2,967**
Appropriation of endowment assets for expenditure	**(1,599,490)**	**–**	**(1,599,490)**
Endowment net assets, end of year	**$ 32,969,319**	**$ 15,674,525**	**$ 48,643,844**

3. Endowment Campaign (continued)

At June 30, 2017, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Permanently Restricted	Total
Donor-advised funds	$ 14,433	$ –	$ 14,433
Board-designated – quasi-endowment	23,438,963	–	23,438,963
Board-designated – endowment	7,524,425	–	7,524,425
Donor-designated – endowment	–	15,751,558	15,751,558
Total funds	$ 30,977,821	$ 15,751,558	$ 46,729,379

Changes in endowment net assets for the year ended June 30, 2017, consisted of the following:

	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 26,997,651	$ 15,752,534	$ 42,750,185
Investment return:			
Interest and dividends	1,167,808	–	1,167,808
Net realized and unrealized gains	4,379,142	–	4,379,142
Total investment income	5,546,950	–	5,546,950
Transfers and contributions	124,550	(10,000)	114,550
Present value discount (1.07%–3.49%)	–	9,024	9,024
Appropriation of endowment assets for expenditure	(1,691,330)	–	(1,691,330)
Endowment net assets, end of year	$ 30,977,821	$ 15,751,558	$ 46,729,379

4. Contributions Receivable

Contributions receivable as of June 30 are as follows:

	2018	2017
Less than one year	**$ 12,119,434**	$ 13,295,831
More than one year	**130,000**	160,000
	12,249,434	13,455,831
Allowance for uncollectible pledges	**(1,413,746)**	(1,579,025)
Discount (1.07% to 3.49%)	**(9,500)**	(15,530)
	10,826,188	11,861,276
Less current portion	**(10,705,688)**	(11,716,806)
	$ 120,500	$ 144,470

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.

5. Fair Value Measurements (continued)

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, 2018 and 2017, are considered Level 1 and were valued using the market approach.

6. Investments

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

	2018	2017
Mutual funds:		
Bond funds	**9,767,260**	10,268,754
Equity funds	**42,447,667**	42,916,842
Long-term investments	**$ 52,214,927**	$ 53,185,596

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

	2018	2017
Interest and dividends	**$ 1,827,509**	$ 1,391,428
Realized gains	**745,485**	2,549,662
Unrealized gains	**1,235,862**	2,633,893
	$ 3,808,856	$ 6,574,983

7. Property and Equipment

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

	2018	2017
Building improvements	**$ 278,170**	$ 272,291
Furniture, fixtures, and equipment	**2,349,856**	2,218,387
Software	**1,410,110**	1,318,656
	4,038,136	3,809,334
Less accumulated depreciation	**(2,227,912)**	(1,807,856)
	$ 1,810,224	$ 2,001,478

8. Retirement Plan

Thrift Plan

The Organization has a defined contribution 403(b) Thrift Plan for its employees (the Thrift Plan). Employees are eligible to participate in the Thrift Plan after they have completed one year of service and have attained the age of 21. Participants can elect to contribute up to 100% of their pretax annual compensation, as defined by the Thrift Plan, and are subject to the annual limits of the Internal Revenue Code. The Thrift Plan also allows for employer-matching contributions equal to 75% of the first 6% of the salary reduction amount contributed by the employee, which vests 25% each year for four years. For the years ended June 30, 2018 and 2017, the Organization's contributions totaled approximately $237,000 and $367,000, 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 $250,000 and $499,000 in 2018 and 2017, respectively.

10. Commitments and Contingencies

Operating Leases

In July 2014, the Organization entered into an 11-year noncancelable operating lease agreement for its corporate offices in Phoenix, Arizona. The lease is subject to rent holidays and rent increases, and the Organization recognizes rent expense on a straight-line basis over the lease period. In addition, incentives were granted, including discounted rental payments. As such, these allowances have been recorded as deferred rent and these items are being recognized as adjustments to rental expense on a straight-line basis over the term of the lease. Lease expense for both fiscal years ended June 30, 2018 and 2017, amounted to $793,000.

Minimum lease commitments at June 30, 2018, are as follows:

Fiscal Year:	
2019	$ 870,726
2020	887,129
2021	903,532
2022	919,935
2023	936,338
Thereafter	2,322,608
	$ 6,840,268

11. 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.

Learn United’s vision is that every kindergarten through third grade student has a team of volunteers and a community of supporters invested in his or her success. The VELLO program

11. Learn United LLC (continued)

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

Learn United maintains its own books and records, financial statements, bank accounts, etc., and enters into contracts in its own legal name, but its assets and results of operations are consolidated into the Organization’s consolidated financial statements as a result of the Organization’s ownership interest in Learn United. All significant intercompany transactions are eliminated. For the year ended June 30, 2018, Learn United received $137,000 in revenue and had expenses totalling $298,000 resulting in a net loss of $161,000. Comparatively, for the year ended June 30, 2017, Learn United received $57,000 in revenue, $5,000 in investment income, and had expenses totalling $200,000 resulting in a net loss of $138,000. Learn United has a five-year business plan that extends the VELLO program to classrooms nationwide and anticipates a breakeven model by 2020.

12. Subsequent Events

The Organization has evaluated events subsequent to June 30, 2018, to assess the need for potential recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated through November 20, 2018, 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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