

Financial Statements and Report of Independent  
Certified Public Accountants

**United Way, Inc.**

June 30, 2018

(with summarized comparative financial information for June 30,  
2017)

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# Grant Thornton

## **Report of Independent Certified Public Accountants**

The Board of Directors  
United Way, Inc.

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We have audited the accompanying financial statements of United Way, Inc., which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Way, Inc. at June 30, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on 2017 summarized comparative information**

We have previously audited United Way, Inc.'s 2017 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2017. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Grant Thornton LLP*

Los Angeles, California  
November 16, 2018

United Way, Inc.

STATEMENT OF FINANCIAL POSITION  
(in thousands)

June 30, 2018, with summarized comparative financial  
information as of June 30, 2017

	June 30,	
	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 18,431	\$ 20,731
Marketable securities	9,541	9,038
Receivables:		
Current portion of pledges, less allowance for uncollectible pledges of \$1,180 and \$1,381 as of June 30, 2018 and 2017, respectively	11,373	13,152
Other	1,383	1,410
Prepaid expenses	236	351
Total current assets	40,964	44,682
Long-term pledges receivable, net of discount	372	135
Custodian asset	419	419
Prepaid pension plan asset	413	-
Equipment and leasehold improvements, net	848	1,011
Total assets	\$ 43,016	\$ 46,247
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,274	\$ 2,985
Current portion of capitalized lease obligation	49	42
Designations and liabilities to other charities	7,362	9,225
Total current liabilities	10,685	12,252
Long-term portion of capitalized lease obligation	37	86
Deferred rent and lease incentives	1,571	1,757
Custodian liability	419	419
Pension plan liability	-	370
Other postretirement plan obligations	402	546
Total liabilities	13,114	15,430
Net assets:		
Unrestricted		
Board-designated endowment fund	3,768	3,398
Undesignated	15,430	19,018
Total unrestricted	19,198	22,416
Temporarily restricted	10,704	8,401
Total net assets	29,902	30,817
Total liabilities and net assets	\$ 43,016	\$ 46,247

See the accompanying notes to these financial statements.

United Way, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
(in thousands)

Year ended June 30, 2018, with summarized comparative financial  
information for the year ended June 30, 2017

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Total	
Public support and revenue				
Public support:				
Gross campaign results	\$ 31,134	\$ 14,640	\$ 45,774	\$ 65,519
Less designations to other charitable organizations	(17,351)	-	(17,351)	(39,366)
Campaign revenue	13,783	14,640	28,423	26,153
Less provision for uncollectible pledges	(953)	-	(953)	(965)
Net campaign revenue	12,830	14,640	27,470	25,188
Other support	557	-	557	691
Total public support	13,387	14,640	28,027	25,879
Administrative fee and expense recovery	801	-	801	1,257
Investment gains	373	-	373	551
Miscellaneous income	166	-	166	112
Net assets released from restrictions	12,337	(12,337)	-	-
Total public support and revenue	27,064	2,303	29,367	27,799
Distributions, program services and expenses				
Program services				
Gross funds awarded/distributed	30,929	-	30,929	51,675
Less donor designations	(17,351)	-	(17,351)	(39,366)
Net funds awarded/distributed	13,578	-	13,578	12,309
Community impact program services	4,028	-	4,028	3,061
Other program services	4,363	-	4,363	2,993
Total program services	21,969	-	21,969	18,363
Support services expenses				
Fund-raising	7,049	-	7,049	7,722
Organizational administration	3,037	-	3,037	2,309
Total support services	10,086	-	10,086	10,031
Total distributions, program services and expenses	32,055	-	32,055	28,394
Changes in net assets before additional pension liability	(4,991)	2,303	(2,688)	(595)
Change in pension liability	1,773	-	1,773	4,158
Changes in net assets	(3,218)	2,303	(915)	3,563
Net assets at beginning of year	22,416	8,401	30,817	27,254
Net assets at end of year	\$ 19,198	\$ 10,704	\$ 29,902	\$ 30,817

See the accompanying notes to these financial statements.

United Way, Inc.

STATEMENT OF FUNCTIONAL EXPENSES  
(in thousands)

Year ended June 30, 2018, with summarized comparative financial  
information for the year ended June 30, 2017

	2018				2018 Total	2017 Total
	Program Services		Support Services			
	Community Impact	Other Programs	Fund-Raising	Organizational Administration		
Salaries	\$ 1,635	\$ 1,123	\$ 3,480	\$ 1,234	\$ 7,472	\$ 6,771
Employee benefits	125	98	239	101	563	613
Retirement expense	364	-	505	306	1,175	915
Payroll taxes	87	128	238	84	537	525
Total salaries and related expenses	2,211	1,349	4,462	1,725	9,747	8,824
Other expenses						
Printing supplies and publications	112	198	201	62	573	922
Occupancy	267	26	383	220	896	1,029
Depreciation and amortization	51	-	70	42	163	176
Professional fees	643	2,427	668	424	4,162	2,184
Travel	64	74	124	56	318	340
Postage	116	1	222	69	408	590
Telephone	40	7	77	33	157	185
Rental and maintenance of equipment	35	37	62	22	156	161
Conferences, conventions, and meetings	51	122	92	33	298	313
Miscellaneous	271	122	456	211	1,060	807
United Way Worldwide dues	167	-	232	140	539	554
Total other expenses	1,817	3,014	2,587	1,312	8,730	7,261
	4,028	4,363	7,049	3,037	18,477	16,085
Net funds awarded/distributed	13,578	-	-	-	13,578	12,309
Total distributions, program services and expenses	\$ 17,606	\$ 4,363	\$ 7,049	\$ 3,037	\$ 32,055	\$ 28,394

See the accompanying notes to these financial statements.

United Way, Inc.

STATEMENT OF CASH FLOWS  
(in thousands)

Year ended June 30, 2018, with summarized comparative financial  
information for the year ended June 30, 2017

	Years ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net cash received from donors by campaign year:		
2018-2017 campaign year	\$ 33,847	\$ -
2017-2016 campaign year	12,347	51,069
2016-2015 campaign year	165	13,421
2015-2014 and prior campaign years	3	306
Cash received from bequests	174	207
Cash paid to member agencies and projects	(13,113)	(11,988)
Cash paid to agencies/other charitable organizations for designations and area wide pledges	(19,165)	(39,228)
Cash paid to employees and suppliers	(16,380)	(15,261)
Cash received from investment and miscellaneous income	526	503
Cash paid for interest expense	(16)	(22)
Other cash received net of other cash paid	(156)	1,328
	<u>(1,768)</u>	<u>335</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Purchases of marketable securities	(855)	(1,603)
Proceeds from sale and maturities of marketable securities	365	1,187
	<u>(490)</u>	<u>(416)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Principal payments under capital lease obligations	(42)	(36)
	<u>(42)</u>	<u>(36)</u>
Net cash used in financing activities		
Net change in cash and cash equivalents	(2,300)	(117)
Cash and cash equivalents at beginning of year	20,731	20,848
Cash and cash equivalents at end of year	<u>\$ 18,431</u>	<u>\$ 20,731</u>

See the accompanying notes to these financial statements.

United Way, Inc.

STATEMENT OF CASH FLOWS - CONTINUED  
(in thousands)

Year ended June 30, 2018, with summarized comparative financial  
information for the year ended June 30, 2017

	Years ended June 30,	
	2018	2017
Changes in net assets	\$ (915)	\$ 3,563
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	163	176
Net unrealized (gain) on investments	(13)	(160)
Changes in assets and liabilities		
Pledges and other receivables	1,569	1,069
Prepaid expenses	115	(74)
Accounts payable and accrued expenses	289	(172)
Designation liabilities	(1,863)	(569)
Deferred rent and lease incentives	(186)	(185)
Pension plan liability	(783)	(3,072)
Other postretirement plan obligations	(144)	(241)
Net cash (used in) provided by operating activities	<u>\$ (1,768)</u>	<u>\$ 335</u>

See the accompanying notes to these financial statements.

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

United Way, Inc., dba United Way of Greater Los Angeles (United Way or Organization), is a tax-exempt, nonprofit organization under the Internal Revenue Code Section 501(c)(3) that administers an annual fund-raising campaign in Los Angeles County, California, and uses those funds to support a variety of human services programs in the Greater Los Angeles area.

United Way is committed to Creating Pathways Out of Poverty so that everyone who lives in its communities can have a better quality of life. The Organization is focused on providing long-term solutions in the three interconnected areas that are the root causes of poverty:

- Helping people have access to permanent housing with supportive services,
- Helping students graduate from high school prepared for college and the workplace,
- Helping people become financially stable.

United Way's mission is to permanently break the cycle of poverty for most vulnerable neighbors: families, children, veterans and the homeless.

Basis of Presentation

The financial statements of United Way have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations. Among its principles, the guidance states that the net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of United Way and changes therein are classified and reported as follows:

Unrestricted net assets include all support unless donor stipulations specify how the donated assets must be used.

Temporarily restricted net assets include gifts of cash and other assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation (continued)

As of June 30, 2018 and 2017, total temporarily restricted net assets of \$10,704,000 and \$8,401,000, respectively, represent unspent grants and donations made by donors that are specifically intended for United Way's programs that benefit the Creating Pathways Out of Poverty plan and multi-year pledges for which time restrictions have not expired.

Permanently restricted net assets include gifts that require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations and accordance with donor restrictions. United Way does not have any permanently restricted net assets as of June 30, 2018 and 2017.

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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Campaign Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Campaign contributions arise from a fund-raising campaign conducted by United Way and are included in campaign revenue. Contributions for which United Way has little or no discretion in determining how the funds will be used (e.g., designations and distributions to other United Ways) are excluded from net campaign revenues. The regular annual fund-raising campaign generally commences in the fall and concludes at June 30 each year.

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions that have donor-imposed or time restrictions are recorded as temporarily restricted net assets until the restrictions have been met or the time has lapsed. Contributions generally include:

1. Cash contributions
2. Pledges (promises to give) received represented by signed pledges or written commitments
3. Employer reports of pledges (promises to give) by employees under payroll deduction plans.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donor Designations to Other Charitable Organizations

Donor organizations and individuals participating in such entities' campaigns may choose to designate all or part of their contributions to specific charitable organizations. These transactions are reported as part of the current year campaign, and are deducted as "Designations to other charitable organizations" to arrive at net campaign revenue. Amounts designated where donation funds are received directly by United Way are recorded as "Designations and liabilities to other charities" until paid to the designated charitable organizations. Processing fees of up to 10% of amounts designated, subject to certain limitations, are recorded as administrative fee revenue and collected through receipt of the designated amounts.

"Designations to other charitable organizations" also include designations that are paid directly to designated charitable organization by the donor organization, another United Way or a third-party processor.

Program Services

Net funds awarded/distributed represent the total amount awarded to other not-for-profit organizations at United Way's discretion. It also includes payments to eligible participants or organizations that enrolled in utility assistance programs or other assistance programs.

Community impact program services consist of the total expenses allocated to United Way's internal operating program activities. Most of these programs are funded through unrestricted contributions.

Other program services are activities that are covered through grants and contracts funded by corporations, private foundations, and government agencies. Most of these programs fall under one of the three interconnected areas that directly support achievement of the Creating Pathways Out of Poverty goals.

Equipment and Leasehold Improvements

Fixed assets are recorded at cost, if purchased. Donated fixed assets are reported at estimated fair value at the date of contribution. Gifts of long-lived assets received without donor-imposed restrictions are reported as unrestricted support. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Equipment and Leasehold Improvements (continued)

Leasehold improvements and equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the financial statements. Estimated useful lives are as follows:

Leasehold improvements	Shorter of the estimated useful lives or the remaining term of the lease
Furniture and equipment	5 years
Vehicles	4 years
Software	3-5 years

Equipment is capitalized if it has a cost of \$5,000 or more, and has a useful life of more than one year when acquired. Routine maintenance and repairs are charged to expense as incurred.

United Way reviews the recoverability of its long-lived assets as required by Accounting Standards Codification (ASC) Topic 360, *Property, Plant and Equipment*, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. If the sum of the projected undiscounted cash flows is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. As of and for the years ended June 30, 2018 and 2017, no indicators of impairment were identified and no impairment was recorded.

Marketable Securities

Marketable securities received as payments on pledges are sold and the net proceeds recorded as payments on those pledges. Marketable securities purchased by United Way are reported at fair value provided by the custodians using market quoted prices. Realized gains and losses and net investment gains are recognized as earned and are reported in the statement of activities and changes in net assets as changes in unrestricted or temporarily restricted net assets, depending on the donor stipulations on the use of the income. Unrealized gains and losses are reported in the statement of activities and changes in net assets as changes in unrestricted net assets unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

The carrying amount of cash and cash equivalents, pledges and other receivables, and accounts payable and accrued expenses approximates fair value due to short-term maturities of these instruments.

ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Cash and Cash Equivalents

United Way considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. United Way maintains its cash balances at several financial institutions located in Southern California. Cash balances held may have at times exceeded the federally insured limits. United Way has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Services

The contribution of services is recognized at fair value if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

United Way also received services from a large number of volunteers who have donated their time in United Way's program services and its fund-raising campaign. No amounts have been reflected for these types of donated services in the financial statements, as they do not meet the criteria outlined above.

Income Taxes

United Way follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

United Way is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. United Way has also been recognized by the California Franchise Tax Board as exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. United Way has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. United Way has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

The open federal and state tax years are as follows:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Federal – US	2014 through 2017
California	2013 through 2017

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional Allocation of Expenses

Expenses are classified on a functional basis in the statement of activities and changes in net assets. Program services are those related to community impact program services and other program services and include the cost of certain community programs and the expenses associated with the administration and management of these activities. Supporting services are those expense associated with fundraising and organizational administration.

For purposes of the statement 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.

Summarized Financial Information for Fiscal 2017

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class or functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the June 30, 2017, financial statements of United Way, from which the summarized information was derived.

Reclassification of Financial Statements

Certain reclassifications have been made to the financial statements for the year ended June 30, 2017 to conform to the year ended June 30, 2018 financial statement presentation. Such reclassifications have no effect on net assets as previously reported. Custodian funds, both asset and liability, are reflected in the statement of financial position.

New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The provisions of this ASU will require an entity to recognize right-of-use assets and lease liabilities on its statement of financial position. Certain enhanced disclosures are also required. The update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Organization is in the process of evaluating the impact of this ASU on its operations.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

## NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncements (continued)

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958)*. The provisions of this ASU include a change from three classes of net assets to two, *net assets with donor restrictions and net assets without donor restrictions*. Certain enhanced disclosures are also required. The amendments in this update are effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is in the process of evaluating the impact of this ASU on its operations.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The guidance defers the implementation date of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* to reporting periods beginning after December 15, 2017 for public business entities. ASU 2014-09 will impact the way in which some entities recognize revenue for certain types of transactions. The Organization is in the process of evaluating the impact of this standard on its operations.

## NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable and the allowance for uncollectible accounts on net campaign revenue during the fiscal years ended June 30, are summarized as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Pledges receivable arising from undesignated campaign contributions	\$ 8,649	\$ 9,057
Pledges receivable arising from designated campaign contributions	<u>4,294</u>	<u>5,616</u>
Total gross pledges receivable	12,943	14,673
Less: allowance for uncollectible accounts	(1,180)	(1,381)
Unamortized discount	<u>(18)</u>	<u>(5)</u>
Total net pledges receivable	<u>\$ 11,745</u>	<u>\$ 13,287</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

## NOTE 2 – PLEDGES RECEIVABLE - Continued

Amounts included in the statements of financial position at June 30, consist of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Current portion of pledges receivable	\$ 11,373	\$ 13,152
Long-term pledges receivable	<u>372</u>	<u>135</u>
Total net pledges receivable	<u>\$ 11,745</u>	<u>\$ 13,287</u>

The provision for uncollectible pledges is made on net campaign contributions (undesignated contributions) and is based primarily on recent historical experience as well as other factors anticipated to affect collections.

Total gross pledges receivable at June 30, 2018, are due to be collected in the following fiscal years (in thousands):

Amounts due in:	
Less than one year	\$ 12,571
One to five years	<u>372</u>
Total gross pledges receivable	<u>\$ 12,943</u>

Included in pledges receivable at June 30, 2018 and 2017, are multi-year pledges of approximately \$580,000 and \$280,000, respectively. The multi-year pledges are discounted using effective rates that range from 0.61% to 2.61%.

United Way received a conditional promise to give in the amount of \$6,000,000 over two years beginning in September 2015, to support the Organization's programs under permanent housing. For the year ended June 30, 2018, \$1,250,000 of revenue was recognized from this conditional grant when payment conditions were met, including raising matching gifts. The remaining conditional promise to give was \$0 at June 30, 2018. Upon the completion of the above conditional grant, a new conditional promise to give in the amount of \$8,500,000 over two and a half years was received in September 2017. For the year ended June 30, 2018, \$2,945,000 of revenue was recognized from this conditional grant when payment conditions were met, including raising matching gifts. The remaining conditional promise to give was \$5,555,000 at June 30, 2018.

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 3 – MARKETABLE SECURITIES AND FAIR VALUE

The schedules below classify United Way’s marketable securities carried at fair value based upon the three-tier hierarchy required by ASC 820 (in thousands):

	Fair Value Measurements at June 30, 2018			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 637	\$ 609	\$ 28	\$ -
Mutual funds - fixed income	6,223	6,223	-	-
Mutual funds - equity	2,681	2,681	-	-
Total investments assets at fair value	<u>\$ 9,541</u>	<u>\$ 9,513</u>	<u>\$ 28</u>	<u>\$ -</u>

	Fair Value Measurements at June 30, 2017			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 530	\$ 502	\$ 28	\$ -
Mutual funds - fixed income	5,978	5,978	-	-
Mutual funds - equity	2,530	2,530	-	-
Total investments assets at fair value	<u>\$ 9,038</u>	<u>\$ 9,010</u>	<u>\$ 28</u>	<u>\$ -</u>

The Organization has a certificate of deposit investment and management determined the recorded value approximates fair value, therefore this investment was included in money market funds in the tables above.

Investment gains (losses) included in the following components for the year ended June 30, (in thousands):

	2018	2017
Interest and dividends	\$ 270	\$ 184
Net realized and unrealized gains	103	367
Total investment gains	<u>\$ 373</u>	<u>\$ 551</u>

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

## NOTE 4 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvement at June 30 consists of the following (in thousands):

	2018	2017
	<u>          </u>	<u>          </u>
Vehicles	\$ 79	\$ 79
Leasehold improvements	1,728	1,728
Furniture, equipment and software	1,171	1,171
Capital leases - equipment	205	205
	<u>3,183</u>	<u>3,183</u>
Less accumulated depreciation	<u>(2,335)</u>	<u>(2,172)</u>
Equipment and leasehold improvements, net	<u>\$ 848</u>	<u>\$ 1,011</u>

Depreciation and amortization expense of equipment and leasehold improvements in total is approximately \$163,000 and \$176,000 for the years ended June 30, 2018 and 2017, respectively. Included in the amount is amortization expense on the capital lease equipment of approximately \$41,000 and \$41,000 for the years ended June 30, 2018 and 2017, respectively. Accumulated amortization on the capital lease equipment is approximately \$137,000 and \$96,000 as of June 30, 2018 and 2017, respectively.

## NOTE 5 – ADMINISTRATIVE FEE AND EXPENSE RECOVERY

United Way performs fund-raising and processing services for certain agencies, nonprofit organizations, and a Combined Federal Campaign for which it is reimbursed. Such amounts are reflected as administrative fee and expense recovery and totaled \$801,000 and \$1,257,000 for the years ended June 30, 2018 and 2017, respectively. The processing service for the Combined Federal Campaign was ended in June 2018.

## NOTE 6 – RETIREMENT PLANS

United Way has a defined benefit, noncontributory pension plan (the Plan) covering substantially all of its regular employees. The Plan is accounted for in accordance with the provisions of ASC Topic 715, *Compensation – Retirement Benefits* (ASC 715). The benefits are based on years of service and the employee's compensation during the last three years of employment. United Way's funding policy is to contribute annually the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 6 – RETIREMENT PLANS - Continued

ASC 715 requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, recognize changes in that funded status in the year in which the changes occur through changes in net assets, and measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year.

The following tables set forth the funded status of the Plan as provided by United Way's consulting actuaries at June 30, (in thousands):

	<u>2018</u>	<u>2017</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 21,535	\$ 22,876
Service cost	611	686
Interest cost	776	762
Actuarial (gain)	(1,037)	(1,903)
Benefits paid	<u>(2,551)</u>	<u>(886)</u>
 Projected benefit obligation at end of year	 <u>\$ 19,334</u>	 <u>\$ 21,535</u>
	<u>2018</u>	<u>2017</u>
Change in plan assets:		
Fair value of assets at beginning of year	\$ 21,165	\$ 19,434
Actual return on plan assets	1,133	2,617
Benefits paid	<u>(2,551)</u>	<u>(886)</u>
Fair value of assets at end of year	<u>\$ 19,747</u>	<u>\$ 21,165</u>
 Fair value of assets of the Plan	 \$ 19,747	 \$ 21,165
Projected benefit obligation	<u>(19,334)</u>	<u>(21,535)</u>
Funded status	<u>\$ 413</u>	<u>\$ (370)</u>

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 6 – RETIREMENT PLANS - Continued

Amounts included in the statement of financial position at June 30, consist of (in thousands):

	<u>2018</u>	<u>2017</u>
Prior service cost	\$ (49)	\$ (58)
Net loss	<u>(4,936)</u>	<u>(6,736)</u>
Additional pension liability	(4,985)	(6,794)
Prepaid pension expense	<u>5,398</u>	<u>6,424</u>
Net asset (liability) recognized in the statement of financial position	<u>\$ 413</u>	<u>\$ (370)</u>

Net periodic pension cost includes the following components for the year ended June 30, (in thousands):

	<u>2018</u>	<u>2017</u>
Service cost	\$ 611	\$ 686
Interest cost	776	762
Expected return on plan assets	(1,343)	(1,281)
Amortization of prior service costs	9	9
Amortization of actuarial loss	<u>973</u>	<u>839</u>
Net periodic pension costs	<u>\$ 1,026</u>	<u>\$ 1,015</u>

The net asset (liability) reflected in the accompanying statements of financial position is the excess or deficit of the fair value of Plan assets over (under) the projected benefit obligation, or the “funded status” of the Plan at June 30, 2018 and 2017.

Estimated amounts that will be amortized from additional pension liability over the next fiscal year are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Prior service cost	\$ 9	\$ 9
Net loss	\$ (287)	\$ (444)

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 6 – RETIREMENT PLANS - Continued

Assumptions used to determine benefit obligations at June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	4.09%	3.69%
Rate of compensation increases	3.00%	3.00%
Measurement date	6/30/2018	6/30/2017

Assumptions used to determine the net pension cost at June 30, are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	3.69%	3.40%
Rate of compensation increases	3.00%	3.00%
Long-term rate of return on assets	6.50%	6.75%
Measurement date	6/30/2017	6/30/2016

Additional year-end information at June 30, is as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Projected benefit obligation	\$ 19,334	\$ 21,535
Accumulated benefit obligation	\$ 17,951	\$ 19,910
Fair value of Plan assets	\$ 19,747	\$ 21,165

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 6 – RETIREMENT PLANS - Continued

The following tables set forth by level, within the fair value hierarchy, United Way’s plan assets at fair values as of June 30, (in thousands).

	Total	Fair Value Measurements at June 30, 2018		
		Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 253	\$ 253	\$ -	\$ -
Common stock	2,257	2,257	-	-
Mutual funds - equity	9,299	9,299	-	-
Mutual funds - fixed income	7,215	7,215	-	-
Mutual funds - balanced	723	723	-	-
Total investment assets fair value	\$ 19,747	\$ 19,747	\$ -	\$ -

	Total	Fair Value Measurements at June 30, 2017		
		Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 132	\$ 132	\$ -	\$ -
Common stock	2,373	2,373	-	-
Mutual funds - equity	10,660	10,660	-	-
Mutual funds - fixed income	7,323	7,323	-	-
Mutual funds - balanced	677	677	-	-
Total investment assets fair value	\$ 21,165	\$ 21,165	\$ -	\$ -

Asset allocations are as follows at June 30:

	2018	2017
Actual asset allocations:		
Equity securities	58.5%	61.6%
Fixed income/debt securities	36.5%	34.6%
Balanced	3.7%	3.2%
Cash	1.3%	0.6%
Total	100.0%	100.0%
Target asset allocations:		
Equity securities	61.5%	61.5%
Fixed income/debt securities	35.0%	35.0%
Balanced	3.5%	3.5%
Total	100.0%	100.0%

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 6 – RETIREMENT PLANS - Continued

The policy of the Plan is to provide for growth of principal through diversification in a portfolio of common stock, bonds, cash equivalents, and other investments that may reflect varying rates of return. Although there is no specific allocation to cash equivalents, the percentage of total assets allocated to cash equivalents at any time should be sufficient to ensure enough liquidity to meet benefit disbursements and general operating expenses.

To develop the expected long-term rate of return on assets assumption, United Way considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This results in the selection of the 6.50% long-term rate of return on assets assumption for the fiscal year ended June 30, 2018.

Due to the funded status of the Plan, United Way does not intend to make additional contributions during the year ended June 30, 2019.

Estimated future pension benefit payments for the following fiscal years are as follows (in thousands):

	Benefits Payments
2019	\$ 1,009
2020	1,225
2021	707
2022	1,124
2023	809
2024 through 2028	6,725
Total	<u>\$ 11,599</u>

In fiscal year 2009, United Way established a Supplemental Executive Retirement Plan for one of its officers. As of June 30, 2018, the related liability in the statement of financial position was \$659,000, of which \$257,000 was included in accounts payable and accrued expenses for the current portion of the obligation, and the remaining balance of \$402,000 was presented in other postretirement plan obligations in noncurrent liabilities. As of June 30, 2017, the related liability was \$546,000 and was presented in other postretirement plan obligations in noncurrent liabilities.

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 6 – RETIREMENT PLANS - Continued

United Way also has a qualified matching employee retirement savings plan (the Savings Plan) under Internal Revenue Code Section 403(b), which was established in 1997. All employees are eligible to participate in the Savings Plan immediately upon employment and may contribute up to 25% of their compensation, subject to IRC annual limitations. After one year of service, United Way makes matching contributions equal to 50% of the first 6% of employee contributions, which contributions vest over a period of two to five years based on years of vesting service. United Way contributions under the Savings Plan totaled approximately \$73,000 and \$70,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 – CUSTODIAN FUNDS

Custodian funds are held by United Way on behalf of other entities and are disbursed only upon instructions from such entities.

The amounts of custodian funds held for other parties and not commingled by United Way totaled \$419,000 and \$419,000 as of June 30, 2018 and 2017, respectively, and are reflected in both noncurrent assets and noncurrent liabilities in the statement of financial position.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Leases

During fiscal 2015, United Way entered into a capital lease for the leasing of various copiers. The lease is for a term of 60 months expiring in 2020. The lease for the copiers requires aggregate minimum future lease payments of \$97,000 including amounts due for the following fiscal year (in thousands):

Years ending June 30:	
2019	\$ 58
2020	39
Total minimum lease payments	<u>97</u>
Less amount representing interest	<u>(11)</u>
Present value of net minimum lease payments	86
Less current portion	<u>(49)</u>
Long-term portion of capital lease obligations	<u><u>\$ 37</u></u>

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 8 – COMMITMENTS AND CONTINGENCIES - Continued

United Way entered into a 15-year operating lease that commenced in April 2010 and relocated its corporate headquarters during fiscal year 2010. Under the terms of the lease, United Way received approximately \$2,048,000 as a tenant improvement allowance, which covered most of the relocating and renovation costs. In addition, United Way was entitled to a refurbishment allowance of approximately \$79,000 which was used in the year ended June 30, 2017. The deferred rent and lease incentives liability is approximately \$1,571,000 and \$1,757,000 as of June 30, 2018 and 2017, respectively, and it consists of the tenant improvement allowance, refurbishment allowance, and rent abatement, which are amortized over the lease term.

Total rent expense relating to the corporate headquarters, including operating expense and property tax pass-throughs, amounted to approximately \$819,000 and \$813,000 for the years ended June 30, 2018 and 2017, respectively. The lease requires aggregate minimum future rental payments of \$6,729,000, including amounts due for the following fiscal years (in thousands):

Years ending June 30:

2019	\$ 948
2020	965
2021	1,014
2022	1,014
2022	1,014
2023 and thereafter	1,774
	<u>\$ 6,729</u>

In addition, United Way has noncancelable operating lease agreements expiring through the year ended June 30, 2019 for equipment and other office space under which the related rental expense was approximately \$23,000 and \$40,000 for the years ended June 30, 2018 and 2017, respectively, and whose minimum future payments as of June 30, 2018, are as follows (in thousands):

Years ending June 30:

2019	<u>\$ 8</u>
	<u>\$ 8</u>

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 8 – COMMITMENTS AND CONTINGENCIES - Continued

Legal Matters

United Way may from time to time become a party to various legal proceedings, arising in the ordinary course of business. United Way investigates these claims as they arise. United Way does not believe, based on current knowledge and advice of legal counsel, that any of the current claims are likely to have a material adverse effect on its financial position, results of activities, or cash flows.

NOTE 9 – LINE OF CREDIT

United Way has a line of credit with a bank that allowed for borrowing of up to \$2,000,000 at the bank's referenced rate (LIBOR+2%). The line of credit expires on March 31, 2019. There were no borrowings under the line of credit during the year ended June 30, 2018 and there were no fees paid for the unused line of credit. There are no financial covenants related to the line of credit.

NOTE 10 – RELATED-PARTY TRANSACTIONS

Certain board members and their affiliated organizations provide consulting services for various projects and programs for United Way. Consulting services for the years ended June 30, 2018 and 2017, were approximately \$8,000 and \$7,000, respectively, and were recorded as professional fees expenses in the accompanying statement of activities and changes in net assets. All transactions were arm's-length and processed in accordance with United Way's purchasing policy. As United Way is an organization that interfaces with many businesses in Los Angeles County, the Board of Directors includes prominent leaders in the community.

NOTE 11 – BOARD-DESIGNATED ENDOWMENT FUND

The Board-Designated Endowment Fund (Endowment Fund) was set up to invest funds and provide security to the future operations of United Way. The Endowment Fund is invested to provide safety of principal through diversification in a portfolio of money market and mutual funds, which may reflect varying risks, and rates of return. The investments are diversified within asset classes (e.g., equities are diversified by economic sector, industry, quality, and size).

United Way, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 11 – BOARD-DESIGNATED ENDOWMENT FUND - Continued

The long-term target asset allocation for the investment portfolio is determined by the investment committee of United Way to facilitate the achievement of the Endowment Fund’s long-term investment objectives within the established risk parameters. As of June 30, 2018, the target asset allocation was 61.5% equities, 3.5% balanced, and 35% fixed income for consistency with Note 6. The actual asset allocation, which will fluctuate with market conditions, will receive the ongoing scrutiny of the investment committee, which bears the responsibility for making adjustments in order to maintain target ranges.

The investments and related income generated by the Endowment Fund are considered unrestricted assets. The changes in the Endowment Fund net assets for the fiscal years ended June 30, (in thousands) are as follows:

	<u>2018</u>	<u>2017</u>
Board-Designated Endowment Fund, beginning of the year	\$ 3,398	\$ 2,955
Contributions	100	-
Investment return:		
Investment income	168	124
Net appreciation (realized and unrealized)	<u>102</u>	<u>319</u>
Total investment return	<u>270</u>	<u>443</u>
Board-Designated Endowment Fund, end of the year	<u><u>\$ 3,768</u></u>	<u><u>\$ 3,398</u></u>

The Endowment Fund assets are included in marketable securities in the statement of financial position. The spending policy for the Endowment Fund is 4.5% per year. The spending rate is applied the market value at fiscal year-end wherein market value is defined as a rolling three-year average. No amount was appropriated for expenditure during the fiscal years ended June 30, 2018 and 2017.

NOTE 12 – SUBSEQUENT EVENTS

United Way has evaluated events subsequent to June 30, 2018 to assess the need for potential recognition or disclosures in the financial statements. Such events were evaluated through November 16, 2018, the date these 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 financial statements.