

**UNITED WAY OF SMITH COUNTY
TYLER, TEXAS**

FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

**UNITED WAY OF SMITH COUNTY
MARCH 31, 2016 AND 2015**

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HENRY & PETERS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
United Way of Smith County
Tyler, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of United Way of Smith County (a nonprofit organization), which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities 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 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 from material misstatement, whether due to fraud or error.

Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 of Smith County as of March 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Henry + Peters, P.C.

Tyler, Texas
August 10, 2016

**UNITED WAY OF SMITH COUNTY
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015**

	2016	2015
ASSETS		
Cash and interest-bearing deposits	\$ 854,516	\$ 862,125
Marketable securities	125,116	130,645
Investment in beneficial interest	174,376	177,457
Grant receivable	74,835	94,005
Pledges receivable, net of allowance for uncollectible pledges of \$102,900 in 2016 and \$122,532 in 2015	1,461,561	1,490,115
Prepaid expenses	4,493	22,390
Property and equipment, net	706,766	706,767
Total assets	\$ 3,401,663	\$ 3,483,504
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 12,208	\$ 1,664
Compensated absences payable	27,847	28,500
Deferred revenue	586	7,490
Line of credit	474,199	474,199
Total liabilities	514,840	511,853
Net assets		
Unrestricted - board designated	389,612	437,218
Temporarily restricted	2,487,211	2,524,433
Permanently restricted	10,000	10,000
Total net assets	2,886,823	2,971,651
Total liabilities and net assets	\$ 3,401,663	\$ 3,483,504

**UNITED WAY OF SMITH COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ -	\$ 1,572,544	\$ -	\$ 1,572,544
Grants	-	391,186	-	391,186
Interest and dividends	12,233	-	-	12,233
In-kind gifts	36,227	-	-	36,227
Other income	14,667	44,600	-	59,267
Net realized and unrealized loss on marketable securities	(4,539)	-	-	(4,539)
Net realized and unrealized loss on beneficial interest	(6,913)	-	-	(6,913)
Net assets released from restrictions	<u>2,045,552</u>	<u>(2,045,552)</u>	-	-
Total revenues, gains and other support	<u>2,097,227</u>	<u>(37,222)</u>	-	<u>2,060,005</u>
EXPENSES				
Agencies	1,147,534	-	-	1,147,534
2-1-1	323,031	-	-	323,031
East Texas Center for Nonprofits	154,881	-	-	154,881
Management and general	267,738	-	-	267,738
Marketing	52,157	-	-	52,157
Fundraising	183,413	-	-	183,413
Payments to affiliates	16,079	-	-	16,079
Total expenses	<u>2,144,833</u>	-	-	<u>2,144,833</u>
CHANGE IN NET ASSETS	(47,606)	(37,222)	-	(84,828)
NET ASSETS				
Beginning of period	<u>437,218</u>	<u>2,524,433</u>	<u>10,000</u>	<u>2,971,651</u>
End of period	<u>\$ 389,612</u>	<u>\$ 2,487,211</u>	<u>\$ 10,000</u>	<u>\$ 2,886,823</u>

**UNITED WAY OF SMITH COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ -	\$ 1,966,329	\$ -	\$ 1,966,329
Grants	-	396,001	-	396,001
Interest and dividends	14,800	-	-	14,800
In-kind gifts	58,128	-	-	58,128
Other income	10,219	48,524	-	58,743
Net realized and unrealized loss on marketable securities	(3,516)	-	-	(3,516)
Net realized and unrealized gain on beneficial interest	5,923	-	-	5,923
Net assets released from restrictions	2,076,328	(2,076,328)	-	-
Total revenues, gains and other support	<u>2,161,882</u>	<u>334,526</u>	<u>-</u>	<u>2,496,408</u>
EXPENSES				
Agencies	1,330,401	-	-	1,330,401
2-1-1	370,022	-	-	370,022
East Texas Center for Nonprofits	142,046	-	-	142,046
Management and general	264,937	-	-	264,937
Marketing	27,885	-	-	27,885
Fundraising	205,178	-	-	205,178
Payments to affiliates	19,276	-	-	19,276
Total expenses	<u>2,359,745</u>	<u>-</u>	<u>-</u>	<u>2,359,745</u>
CHANGE IN NET ASSETS	(197,863)	334,526	-	136,663
NET ASSETS				
Beginning of period	<u>635,081</u>	<u>2,189,907</u>	<u>10,000</u>	<u>2,834,988</u>
End of period	<u>\$ 437,218</u>	<u>\$ 2,524,433</u>	<u>\$ 10,000</u>	<u>\$ 2,971,651</u>

**UNITED WAY OF SMITH COUNTY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (84,828)	\$ 136,663
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,586	9,318
Provision for bad debts	78,930	134,632
Net realized and unrealized loss (gain) on investments	11,452	(2,407)
Noncash investment income, net of expenses	(1,301)	(2,040)
Changes in assets and liabilities:		
Decrease (increase) in grant receivable	19,170	(9,412)
(Increase) in pledges receivable	(50,376)	(264,997)
Decrease (increase) in prepaid expenses	17,897	(12,612)
Decrease in other assets	-	10,000
Increase (decrease) in accounts payable	10,544	(1,547)
(Decrease) increase in compensated absences payable	(653)	1,084
(Decrease) in deferred revenue	(6,904)	(32,351)
Total adjustments	<u>88,345</u>	<u>(170,332)</u>
Net cash provided by (used in) operating activities	<u>3,517</u>	<u>(33,669)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, maturities and reinvested earnings	132,189	35,553
Purchase of investment securities	(133,730)	(123,175)
Donated investment securities	-	(3,516)
Property and equipment purchases	(9,585)	-
Net cash used in investing activities	<u>(11,126)</u>	<u>(91,138)</u>
 Net decrease in cash and cash equivalents	(7,609)	(124,807)
 CASH AND CASH EQUIVALENTS		
Beginning of period	<u>862,125</u>	<u>986,932</u>
End of period	<u>\$ 854,516</u>	<u>\$ 862,125</u>
 SUPPLEMENTAL DISCLOSURES OF CASH ACTIVITIES		
Cash paid for interest	\$ 11,887	\$ 12,273
 SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Donated goods and services	\$ 36,227	\$ 58,128

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION ACTIVITY

United Way of Smith County (Organization) is a local fundraising organization comprised primarily of volunteers. The Organization raises funds through campaigns, fundraisers and special events, and in turn, allocates the funds raised to character-building, health-oriented and community-minded agencies. The allocation decisions are determined by United Way volunteers and are controlled by the community.

In addition to the general agency campaign, the Organization conducts separate campaigns for Federal and State agencies and maintains separate accounts for such activities.

BASIS OF FINANCIAL STATEMENT PRESENTATION

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210-50-3, *Financial Statements of Not-for-profit Organizations* in preparing the financial statements. Under ASC 958-210-50-3, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Descriptions of the three net asset categories and the types of transactions affecting each category follow:

Unrestricted – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization or that expire with the passage of time.

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on these assets.

SUPPORT AND REVENUES

Unconditional promises to give are recorded as received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. In connection with its annual campaign, donors may designate specific United Way Agencies as pass-through recipients. Since such specific designations have historically been less than actual agency allocations, these designations, while accounted for as temporarily restricted funds, are not separately identified by pass-through recipient agencies.

Donated property is recorded at estimated value at date of receipt. The Organization receives certain volunteer services which are not measurable and, therefore, have been excluded from the financial statements.

PLEDGES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE PLEDGES

The Organization maintains pledges receivable from donors and donor companies. The allowance for uncollectible pledges is based on historical write-offs and any known write-offs that are likely to occur from major donor companies.

FUNCTIONAL EXPENSE

The Organization allocated its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated according to their natural expenditure classification. Other expenses that are common to several functions are allocated as deemed appropriate.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED
FUNCTIONAL EXPENSES - CONTINUED**

As presented in Note 17, the Organization's principal program and support services include:

Agencies

The Organization runs annual campaigns to raise money to be allocated to local agencies for the benefit of community programs.

2-1-1

2-1-1 East Texas is a free, anonymous information and referral service that is available to anyone, 7 days per week, 24 hours each day. The service helps to connect people with critical social services and charitable programs that are available in the local community.

East Texas Center for Nonprofits

The East Texas Center for Nonprofits is a professional resource in partnership with nonprofits in 14 counties in East Texas to create a community of excellence. The Center offers leadership training, coaching and mentoring for the East Texas nonprofit community.

Marketing

The Organization employs staff to generate public awareness of services provided by United Way of Smith County.

Fundraising

The Organization employs staff to generate public awareness of collection efforts of United Way of Smith County for annual campaign contributions.

Payments to Affiliates

United Way of Smith County pays membership dues of 1% of campaign revenue to United Way Worldwide (UWW). This membership provides the Organization with access to major companies who have chosen United Way as their charitable giving partner as well as advertising advantages across the country.

INVESTMENTS

Investments include marketable securities with readily determinable fair values and certificates of deposit which are carried at fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Additionally, certain investments are being held at East Texas Communities Foundation for the benefit of United Way of Smith County. The beneficial interest in these assets has been reported in the accompanying financial statements in the investments caption in accordance with FASB ASC 958 at current fair market value.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term, and such changes could materially affect the investment value.

PROPERTY AND EQUIPMENT

The Organization follows the practice of capitalizing all expenditures in excess of \$1,000 for property and equipment at cost; the fair value of donated fixed assets is similarly capitalized. Computers and other short-lived assets purchased with grant monies are expensed at the time of purchase. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Routine repairs and maintenance are expensed as incurred.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED
PROPERTY AND EQUIPMENT - CONTINUED**

The following summarizes the classes and estimated useful lives of property and equipment:

	<u>Estimated Useful Lives</u>
Buildings	31.5 years
Building improvements	15 - 39 years
Furniture and fixtures	5 - 7 years
Computer equipment	3 - 5 years
Equipment	5 - 7 years

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include interest-bearing deposits other than those subject to permanent restrictions.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FEDERAL INCOME TAX

United Way of Smith County is an Organization exempt from Federal income tax under the Internal Revenue Code Section 501(c)(3). Accordingly, the Organization files Form 990, "Return of Organization Exempt from Income Tax" annually.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns, and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require disclosure in the accompanying financial statements. The Organization's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

RECLASSIFICATIONS

Certain prior year amounts in the Statement of Financial Position and Statement of Activities have been reclassified to conform to the current year financial statement presentation. These reclassifications had no impact on total net assets.

NOTE 2 - INVESTMENTS

Investments are stated at fair value as follows:

	<u>March 31,</u>	
	<u>2016</u>	<u>2015</u>
Exchange-traded funds	\$ 75,082	\$ 69,816
Mutual funds	50,034	60,829
Investment in beneficial interest	174,376	177,457
	<u>\$ 299,492</u>	<u>\$ 308,102</u>

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 2 - INVESTMENTS - CONTINUED

The following is a breakdown of the amounts included in investment income related to the above investments:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 5,749	\$ 9,319
Net realized and unrealized (loss) gain	<u>(11,452)</u>	<u>2,407</u>
Total investment income	<u>\$ (5,703)</u>	<u>\$ 11,726</u>

Interest and dividends reported on the statement of activities also includes income on interest-bearing deposits of \$6,484 and \$5,481 for the years ended March 31, 2016 and 2015, respectively.

The fair values of investments in equity securities are based on quoted market prices for those investments which are classified as Level 1, under ASC 820, *Fair Value Measurements and Disclosures* (See Note 15). For fiscal years ended March 31, 2016 and 2015, the application of valuation techniques applied to similar assets has been consistent. Beneficial interest receivable is valued at the market value for the underlying marketable securities held by the trustee, and are classified as Level 3, under ASC 820, *Fair Value Measurements and Disclosures* (See Note 15).

NOTE 3 - CONCENTRATIONS OF CREDIT AND RISK

The Organization's major source of receivables is from pledges made by local companies and their employees. As of March 31, 2016, approximately \$274,000 or 27% of outstanding pledges receivable could be attributed to one company, comprised of employee pledges of approximately \$131,000 and corporate pledges of approximately \$143,000. For the year ended March 31, 2015, approximately \$301,000 or 29% of outstanding pledges receivable could be attributed to two companies, comprised of employee pledges of approximately \$143,000 and corporate pledges of approximately \$158,000.

The Organization maintains deposits in excess of federally insured limits. Management monitors the financial stability of institutions in which the Organization has uninsured cash balances.

NOTE 4 - PLEDGES RECEIVABLE

The following tables summarize the Organization's pledges receivable at March 31:

	<u>2016</u>	<u>2015</u>
2015 General Campaign	\$ 1,012,118	\$ -
2014 General Campaign	21,691	1,038,216
2013 General Campaign	-	5,342
Capital Campaign	<u>530,652</u>	<u>569,089</u>
Total gross pledges	1,564,461	1,612,647
Allowance for uncollectible pledges	<u>(102,900)</u>	<u>(122,532)</u>
Pledges receivable, net	<u>\$ 1,461,561</u>	<u>\$ 1,490,115</u>
Gross pledges due in:		
Less than one year	\$ 1,553,943	\$ 1,602,129
One to five years	<u>10,518</u>	<u>10,518</u>
	<u>\$ 1,564,461</u>	<u>\$ 1,612,647</u>

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 4 - PLEDGES RECEIVABLE - CONTINUED

A summary of the changes in the allowance is as follows:

	<u>2016</u>	<u>2015</u>
Beginning of year balance	\$ 122,532	\$ 77,600
Provision	78,930	134,632
Charge-offs	<u>(98,562)</u>	<u>(89,700)</u>
End of year balance	<u>\$ 102,900</u>	<u>\$ 122,532</u>

NOTE 5 - RESTRICTIONS ON NET ASSETS

Unrestricted net assets are comprised of interest-bearing deposits that have been board designated for operating, allocation and sustainability reserves. Unrestricted-board designated net assets totaled \$389,612 and \$437,218 for the years ended March 31, 2016 and 2015, respectively.

Temporarily restricted net assets were comprised of the following:

	<u>2016</u>	<u>2015</u>
2015 General Campaign	\$ 1,469,644	\$ -
2014 General Campaign	-	1,450,197
Capital Campaign	556,637	586,073
2-1-1	451,594	418,867
East Texas Center for Nonprofits	<u>9,336</u>	<u>69,296</u>
	<u>\$ 2,487,211</u>	<u>\$ 2,524,433</u>

Temporarily restricted general campaign receipts shown above consist of pledges and cash contributions received in 2015 and the first three months of 2016, which will be allocated to agencies in fiscal year beginning April 1, 2016.

Net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or by occurrences of other events specified by donors:

Purpose restrictions accomplished:	<u>2016</u>	<u>2015</u>
2015 General Campaign	\$ 1,553,097	\$ -
2014 General Campaign	-	1,551,689
Capital Campaign	29,436	42,308
Program Services	<u>463,019</u>	<u>482,331</u>
	<u>\$ 2,045,552</u>	<u>\$ 2,076,328</u>

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 6 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost, less accumulated depreciation at March 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 514,690	\$ 514,690
Buildings	176,961	176,961
Building improvements	60,014	60,014
Furniture and fixtures	48,831	45,121
Computer equipment	83,626	77,752
Equipment	26,578	26,577
Construction in progress	<u>117,972</u>	<u>117,972</u>
	1,028,672	1,019,087
Less: accumulated depreciation	<u>(321,906)</u>	<u>(312,320)</u>
Net property and equipment	<u>\$ 706,766</u>	<u>\$ 706,767</u>

Depreciation expense totaled \$9,586 and \$9,318 for the years ended March 31, 2016 and 2015, respectively.

NOTE 7 - DONOR-DESIGNATED ENDOWMENT FUNDS

The Organizations' endowment consists of various funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The investment in beneficial interest represents investments held by East Texas Communities Foundation (ETCF) and consists primarily of mutual funds, equity investments, and fixed income investments. These assets have been reported in the accompanying financial statements in accordance with ASC 958-605-50, subsections 4-6, *Transfer of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Holds Contributions for Others* at current fair market value as determined by ETCF. These funds are restricted and managed according to the holding Organizations's guidelines. Generally, the Organization may withdraw up to 5% of the funds in any year, but could request to withdraw these funds at any time. Of these funds, \$10,000 is permanently restricted based upon donor intent. The remaining balance is unrestricted but has been board designated as a reserve to fund future operations.

INTERPRETATION OF RELEVANT LAW

Effective September 1, 2007, the State of Texas adopted H.B. No. 860, known as the Uniform Prudent Management of Institutional Funds Act ("TX UPMIFA"). The Board of Directors of the Organization has interpreted the TX UPMIFA 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, (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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TX UPMIFA.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 7 - DONOR-DESIGNATED ENDOWMENT FUNDS - CONTINUED

In accordance with TX UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

INVESTMENT RETURN OBJECTIVES, RISK PARAMETERS AND STRATEGIES

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. Actual returns in any given year may vary from the amount expected. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

SPENDING POLICY

The Organization has a policy of appropriating for distribution each year those funding requests which in total shall not exceed the accrued interest and other realized returns on investments of the Organization. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal rate annually, which is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

The following summarizes the changes in the investment in beneficial interest for the years ended March 31:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 177,457	\$ 169,501
Interest and dividends	5,998	5,061
Net realized and unrealized (loss) gain	(6,913)	5,923
Investment and administrative expenses	<u>(2,166)</u>	<u>(3,028)</u>
Balance, end of year	<u>\$ 174,376</u>	<u>\$ 177,457</u>

NOTE 8 - EAST TEXAS CENTER FOR NONPROFITS' GRANTS

The Organization has special grant monies contributed by donors and restricted for nonprofit development programs. For the years ended March 31, 2016 and 2015, the nonprofit development programs provided capacity building resources through professional and organizational development training, consulting services, conferences, onsite library and research center, and others. The Organization has allocated a portion of these grants to cover administrative expenses as agreed to by donors.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 9 - ALLOCATION OF JOINT COSTS

During the years ended March 31, 2016 and 2015, the Organization conducted activities that included requests for contributions, as well as program and management and general components. Those activities included general campaign activities, special events and non profit development programs. The costs of conducting those activities included a total of \$495,456 and \$464,732 of joint costs for the years ended March 31, 2016 and 2015, respectively, which are not specifically attributable to particular components of the activities.

Joint costs were allocated as follows using the Full-time Employee Equivalent Method:

	<u>2016</u>	<u>2015</u>
Agencies	\$ 168,455	\$ 171,950
2-1-1	1,032	1,146
East Texas Center for Nonprofits	823	914
Management and General	176,509	165,243
Marketing	49,546	27,885
Fundraising	99,091	97,594
	<u>\$ 495,456</u>	<u>\$ 464,732</u>

NOTE 10 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a defined contribution employee benefit plan that covers all full-time employees with at least one year of service. An employee could elect to defer up to \$18,000 and \$17,500 of their total compensation for the years ended March 31, 2016 and 2015, respectively. These amounts increase by \$6,500 (2016) and \$6,000 (2015) once the employee reaches age 50. Employer contributions to the plan are at the discretion of the board of directors. During the years ended March 31, 2016 and 2015, the Organization elected to provide a discretionary contribution of 8% of all participants' salaries plus a match of the lesser of 25% of participant contributions or 0.25% of participant's salary. Employer contributions totaled \$48,745 and \$42,740 for years ended March 31, 2016 and 2015, respectively. An employee fully vests immediately as of the date of their participation in the plan.

NOTE 11 - COMBINED FEDERAL CHARITABLE CAMPAIGNS

The Organization served as a fiscal agent for the 2014 Combined Federal Campaign, which was completed in 2015. Summary financial information for the Federal campaign for the years ended March 31, 2016 and 2015 is summarized below:

	<u>2016</u>	<u>2015</u>
Assets:		
Cash	\$ 11,041	\$ 6,174
Pledges receivable, net	-	27,986
Liabilities:		
Agency distribution payable	10,877	25,863
Due to United Way	-	8,297
Net assets	<u>\$ 164</u>	<u>\$ -</u>
Income activity:		
Campaign pledges	\$ -	\$ 36,115
Campaign expenses	-	(10,249)
	<u>\$ -</u>	<u>\$ 25,866</u>

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 12 - OPERATING LEASES

The Organization leases a copier and a postage machine under operating leases. Minimum future lease payments under operating leases having remaining terms in excess of one year as of March 31, 2016 are as follows:

<u>Year ended March 31,</u> 2017	\$ 2,136
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Lease expense, including leases having terms of less than one year, totaled \$2,255 and \$2,377 for the years ended March 31, 2016 and 2015, respectively.

NOTE 13 - MARKETING, FUNDRAISING AND MANAGEMENT AND GENERAL EXPENSE RATIO

The marketing, fundraising and management and general expense ratio was approximately 23% and 20% for the years ended March 31, 2016 and 2015, respectively. The numerator for this ratio is calculated by adding the total marketing, fundraising and management and general expenses for the period. The denominator is total revenue.

NOTE 14 - LINE OF CREDIT

In June 2012, the Organization obtained a \$500,000, 2.85%, closed end line of credit, secured by a certificate of deposit, with monthly interest-only payments. This line was utilized to purchase land for the future site of the Organization, and a capital campaign was conducted to raise the funds to pay off the note upon maturity. The line of credit matures June 27, 2017. The outstanding balance totaled \$474,199 at March 31, 2016 and 2015, respectively.

NOTE 15 - FAIR VALUE MEASUREMENT

ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 15 - FAIR VALUE MEASUREMENT - CONTINUED

The following tables set forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of March 31:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
2016				
Exchange-traded funds	\$ 75,082	\$ 75,082	\$ -	\$ -
Mutual funds	50,034	50,034	-	-
Total marketable securities	125,116	125,116	-	-
Beneficial interest	174,376	-	-	174,376
Total	<u>\$ 299,492</u>	<u>\$ 125,116</u>	<u>\$ -</u>	<u>\$ 174,376</u>
2015				
Exchange-traded funds	\$ 69,816	\$ 69,816	\$ -	\$ -
Mutual funds	60,829	60,829	-	-
Total marketable securities	130,645	130,645	-	-
Beneficial interest	177,457	-	-	177,457
Total	<u>\$ 308,102</u>	<u>\$ 130,645</u>	<u>\$ -</u>	<u>\$ 177,457</u>

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 10, 2016, the date on which the financial statements were available to be issued.

**UNITED WAY OF SMITH COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 17 - SUMMARY OF EXPENSES BY ACTIVITY

The following table presents the detail of expenses by activity for the year ended March 31, 2016:

	Total	Agencies	2-1-1	East Texas Center for Nonprofits	Management & General	Marketing	Fundraising	Payments to Affiliates
EXPENSES								
Agency distributions	\$ 895,554	\$ 895,554	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Program services	78	-	-	78	-	-	-	-
Special events	21,656	-	-	-	-	-	21,656	-
United Way (National & State)	20,478	-	-	-	4,399	-	-	16,079
Salaries	672,150	121,500	230,597	84,200	128,647	35,735	71,471	-
Payroll taxes	51,382	9,239	17,679	6,529	9,782	2,718	5,435	-
Employee benefits	69,219	14,359	26,624	364	15,203	4,223	8,446	-
Retirement expense	48,745	9,687	16,467	3,788	10,257	2,848	5,698	-
Professional fees	22,210	-	-	4,110	18,100	-	-	-
Advertising	35,771	188	13,783	822	-	-	20,978	-
Campaign expenses	65,886	-	-	-	29,883	2,611	33,392	-
Conferences and meetings	43,182	112	3,446	34,550	4,522	-	552	-
Depreciation	9,586	3,259	-	-	3,451	959	1,917	-
Equipment rental and maintenance	8,553	878	2,378	3,592	930	259	516	-
Insurance	4,388	242	676	215	3,042	71	142	-
Interest expense and finance charges	-	-	-	-	-	-	-	-
Miscellaneous	48,081	1,745	3,843	11,605	26,642	-	4,246	-
Occupancy	19,863	6,753	1,032	823	5,296	1,986	3,973	-
Office supplies	5,131	614	1,774	1,103	1,163	159	318	-
Postage	1,660	141	40	18	791	-	670	-
Telephone	5,480	1,477	3,000	-	547	152	304	-
Computer/internet expense	11,417	1,375	615	3,084	3,515	-	2,828	-
Web page expense	5,433	1,481	1,077	-	1,568	436	871	-
Pledge loss	78,930	78,930	-	-	-	-	-	-
Total expenses	<u>\$ 2,144,833</u>	<u>\$ 1,147,534</u>	<u>\$ 323,031</u>	<u>\$ 154,881</u>	<u>\$ 267,738</u>	<u>\$ 52,157</u>	<u>\$ 183,413</u>	<u>\$ 16,079</u>

**UNITED WAY OF SMITH COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

NOTE 17 - SUMMARY OF EXPENSES BY ACTIVITY - CONTINUED

The following table presents the detail of expenses by activity for the year ended March 31, 2015:

	Total	Agencies	2-1-1	East Texas Center for Nonprofits	Management & General	Marketing	Fundraising	Payments to Affiliates
EXPENSES								
Agency distributions	\$ 1,020,000	\$ 1,020,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Program services	95	-	-	95	-	-	-	-
Special events	5,453	-	-	-	-	-	5,453	-
United Way (National & State)	23,507	-	-	-	4,231	-	-	19,276
Salaries	666,650	126,140	251,017	74,713	122,732	20,455	71,593	-
Payroll taxes	50,612	9,571	18,976	5,767	9,312	1,553	5,433	-
Employee benefits	61,044	11,988	28,185	460	11,663	1,944	6,804	-
Retirement expense	42,740	7,612	19,301	2,865	7,407	1,234	4,321	-
Professional fees	49,353	-	-	7,300	42,053	-	-	-
Advertising	32,956	352	1,016	319	-	-	31,269	-
Campaign expenses	48,776	-	-	-	1,150	-	47,626	-
Conferences and meetings	59,171	900	10,115	40,484	5,688	-	1,984	-
Depreciation	9,318	3,448	-	-	3,354	559	1,957	-
Equipment rental and maintenance	4,671	1,265	1,251	1	1,230	206	718	-
Insurance	4,762	460	628	192	3,146	75	261	-
Interest expense and finance charges	12,286	-	-	-	12,286	-	-	-
Miscellaneous	55,286	428	5,050	5,137	24,583	-	20,088	-
Occupancy	21,118	7,813	1,146	914	5,543	1,267	4,435	-
Office supplies	6,495	908	1,469	1,148	2,515	101	354	-
Postage	2,104	140	66	82	1,207	-	609	-
Telephone	8,590	1,717	3,950	-	1,671	278	974	-
Computer/internet expense	8,946	1,715	217	2,569	3,890	-	555	-
Web page expense	31,180	1,312	27,635	-	1,276	213	744	-
Pledge loss	134,632	134,632	-	-	-	-	-	-
Total expenses	<u>\$ 2,359,745</u>	<u>\$ 1,330,401</u>	<u>\$ 370,022</u>	<u>\$ 142,046</u>	<u>\$ 264,937</u>	<u>\$ 27,885</u>	<u>\$ 205,178</u>	<u>\$ 19,276</u>