UNITED WAY OF SMITH COUNTY
TYLER, TEXAS

FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

UNITED WAY OF SMITH COUNTY
MARCH 31, 2017 AND 2016

TABLE OF CONTENTS

HENRY & PETERS
CERTIFIED PUBLIC ACCOUNTANTS | EST. 1929

INDEPENDENT AUDITOR'S 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, 2017 and 2016, 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.

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 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, 2017 and 2016, 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
November 1, 2017

TYLER OFFICE P: 903 597-6311
3310 S Broadway, Ste. 100 | Tyler, Texas 75701

LONGVIEW OFFICE P: 903 758-0648
1127 Judson Road, Ste. 233 | Longview, Texas 75601

UNITED WAY OF SMITH COUNTY
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and interest-bearing deposits	$ 1,125,336	$ 854,516
Marketable securities	-	125,116
Investment in beneficial interest	167,700	174,376
Grant receivable	79,382	74,835
Pledges receivable, net of allowance for uncollectible pledges of $73,356 in 2017 and $102,900 in 2016	1,590,107	1,461,561
Prepaid expenses	9,112	4,493
Property and equipment, net	1,427,395	706,766
Total assets	$ 4,399,032	$ 3,401,663
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 8,885	$ 12,208
Compensated absences payable	23,668	27,847
Deferred revenue	1,450	586
Line of credit	474,199	474,199
Total liabilities	508,202	514,840
Net assets		
Unrestricted - board designated	1,159,871	389,612
Temporarily restricted	2,720,959	2,487,211
Permanently restricted	10,000	10,000
Total net assets	3,890,830	2,886,823
Total liabilities and net assets	$ 4,399,032	$ 3,401,663

UNITED WAY OF SMITH COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 31,113	$ 1,942,589	$ -	$ 1,973,702
Grants	-	367,237	-	367,237
Interest and dividends	14,145	-	-	14,145
In-kind gifts	725,968	-	-	725,968
Other income	235	70,170	-	70,405
Net realized and unrealized gain on marketable securities	7,499	-	-	7,499
Net realized and unrealized gain on beneficial interest	10,624	-	-	10,624
Net assets released from restrictions	2,146,248	(2,146,248)	-	-
Total revenues, gains and other support	2,935,832	233,748	-	3,169,580
EXPENSES				
Agencies	1,141,753	-	-	1,141,753
2-1-1	359,043	-	-	359,043
East Texas Center for Nonprofits	143,730	-	-	143,730
Management and general	366,645	-	-	366,645
Marketing	33,748	-	-	33,748
Fundraising	98,834	-	-	98,834
Payments to affiliates	21,820	-	-	21,820
Total expenses	2,165,573	-	-	2,165,573
CHANGE IN NET ASSETS	770,259	233,748	-	1,004,007
NET ASSETS				
Beginning of period	389,612	2,487,211	10,000	2,886,823
End of period	$ 1,159,871	$ 2,720,959	$ 10,000	$ 3,890,830

See accompanying notes to financial statements

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	2,045,552	(2,045,552)	-	-
Total revenues, gains and other support	2,097,227	(37,222)	-	2,060,005
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	2,144,833	-	-	2,144,833
CHANGE IN NET ASSETS	(47,606)	(37,222)	-	(84,828)
NET ASSETS				
Beginning of period	437,218	2,524,433	10,000	2,971,651
End of period	$ 389,612	$ 2,487,211	$ 10,000	$ 2,886,823

UNITED WAY OF SMITH COUNTY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,004,007	$ (84,828)
Adjustments to reconcile change in net assets		
to net cash provided by (used in) operating activities:		
Depreciation	9,455	9,586
Provision for bad debts	44,256	78,930
In-kind donation - building	(714,352)	-
Pledge charge-offs	(73,800)	(98,562)
Net realized and unrealized (gain) loss on marketable securities	(18,123)	11,452
Noncash investment income, net of expenses	(4,502)	(1,301)
Loss on abandoned construction	117,971	-
Changes in assets and liabilities:		
(Increase) decrease in grant receivable	(4,547)	19,170
(Increase) decrease in pledges receivable	(99,002)	48,186
(Increase) decrease in prepaid expenses	(4,619)	17,897
(Decrease) increase in accounts payable	(3,323)	10,544
Decrease in compensated absences payable	(4,179)	(653)
Increase (decrease) in deferred revenue	864	(6,904)
Total adjustments	(753,901)	88,345
Net cash provided by operating activities	250,106	3,517
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities	270,845	132,189
Purchase of investment securities	(116,428)	(133,730)
Property and equipment purchases	(133,703)	(9,585)
Net cash provided by (used in) investing activities	20,714	(11,126)
Net increase (decrease) in cash and cash equivalents	270,820	(7,609)
CASH AND CASH EQUIVALENTS		
Beginning of period	854,516	862,125
End of period	$ 1,125,336	$ 854,516
SUPPLEMENTAL DISCLOSURES OF CASH ACTIVITIES		
Cash paid for interest	$ 11,855	$ 11,887
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Donated goods and services	$ 11,616	$ 36,227
Donated building	714,352	-

UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2017 AND 2016

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.

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:

<u>Unrestricted</u> – Net assets that are not subject to donor-imposed stipulations.

<u>Temporarily Restricted</u> – 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.

<u>Permanently Restricted</u> – 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. Contributions also include capital campaign pledges which are also designated as temporarily restricted.

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 EXPENSES

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 and based on an analysis of personnel time and space utilized for the related activities. Other expenses that are common to several functions are allocated as deemed appropriate.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUNCTIONAL EXPENSES - CONTINUED

As presented in Note 9, 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.

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:

	Estimated Useful Lives
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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, Not for Profit Entities. Among other provisions, this update (1) reduces the net asset classification from three categories to two; net assets with donor restrictions and net assets without donor restrictions, (2) requires additional disclosures of governance and self-imposed limits on the resources without donor-imposed restrictions and net assets with donor restrictions, (3) provides qualitative and quantitative information on liquidity and availability of financial assets, (4) requires disclosure of expenditures by both their natural classification and their functional classification, (5) adds disclosure of methods to allocate costs among program and support functions, (6) provides for enhanced disclosures on underwater endowment funds, and (7) requires disclosure of investment return and related investment expenses. This update is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization’s management is evaluating the impact of this standard and currently plans to implement this standard beginning on April 1, 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - CONTINUED

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update requires lessees to recognize assets and liabilities for leases with lease terms of more than 12 months and disclose key information about leasing arrangements. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. The update is effective for reporting periods beginning after December 15, 2019 for non-public entities with early adoption permitted. The Organization's management is in the process of evaluating the impact of this accounting guidance and currently plans to implement this standard beginning on April 1, 2020.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers. This ASU defers the effective date of ASU 2014-09, Revenue from Contracts with Customers, for non-public entities to annual reporting periods after December 15, 2018 with early implementation permitted for annual reporting periods after December 15, 2016. ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and establishes a new five step process for revenue recognition. The Organization's management is currently evaluating the impact of this standard of this accounting guidance and does not expect any significant impact on the financial statements. Management currently plans to implement this standard beginning on April 1, 2019.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40). This update establishes guidance to GAAP about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This new rule requires management to annually assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles currently in U.S. auditing standards. Specifically, the update (1) defines the term substantial doubt, (2) requires an evaluation of every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plan, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued. This guidance is effective for annual periods ending after December 15, 2016, which is effective for the current fiscal year.

NOTE 2 - INVESTMENTS

Investments are stated at fair value as follows:

	March 31, 2017	March 31, 2016
Exchange-traded funds	$ -	$ 75,082
Mutual funds	-	50,034
Investment in beneficial interest	167,700	174,376
	$ 167,700	$ 299,492

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

	2017	2016
Interest and dividends	$ 8,679	$ 5,749
Net realized and unrealized gain (loss)	18,123	(11,452)
Total investment income (loss)	$ 26,802	$ (5,703)

NOTE 2 - INVESTMENTS - CONTINUED

Interest and dividends reported on the statement of activities also includes income on interest-bearing deposits of $5,466 and $6,484 for the years ended March 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017, approximately $966,000 or 61% of outstanding pledges receivable, including capital campaign pledges, could be attributed to one company and two foundations, comprised of employee pledges of approximately $138,000 and corporate pledges of approximately $828,000. For the year ended 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.

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:

	2017	2016
2016 General Campaign	$ 896,630	$ -
2015 General Campaign	685	1,012,118
2014 General Campaign	-	21,691
Capital Campaign	766,148	530,652
Total gross pledges	1,663,463	1,564,461
Allowance for uncollectible pledges	(73,356)	(102,900)
Pledges receivable, net	$ 1,590,107	$ 1,461,561
Gross pledges due in:		
Less than one year	$ 1,193,244	$ 1,553,943
One to five years	470,219	10,518
More than five years	-	-
	$ 1,663,463	$ 1,564,461

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

	2017	2016
Beginning of year balance	$ 102,900	$ 122,532
Provision	44,256	78,930
Charge-offs	(73,800)	(98,562)
End of year balance	$ 73,356	$ 102,900

NOTE 5 - RESTRICTIONS ON NET ASSETS

Unrestricted net assets are comprised of interest-bearing deposits. The board has designated a portion of the funds for operating, allocation and sustainability reserves. Unrestricted-board designated net assets totaled $1,159,871 and $389,612 for the years ended March 31, 2017 and 2016, respectively.

Temporarily restricted net assets were comprised of the following:

	2017	2016
2016 General Campaign	$ 1,331,752	$ -
2015 General Campaign	-	1,469,644
Capital Campaign	924,431	556,637
2-1-1	464,776	451,594
East Texas Center for Nonprofits	-	9,336
	$ 2,720,959	$ 2,487,211

Temporarily restricted general campaign receipts shown above consist of pledges and cash contributions received in 2016 and the first three months of 2017, which will be allocated to agencies in fiscal year beginning April 1, 2017.

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:	2017	2016
2016 General Campaign	$ 1,469,644	$ -
2015 General Campaign	-	1,553,097
Capital Campaign	203,519	29,436
2-1-1	354,750	322,959
East Texas Center for Nonprofits	118,335	140,060
	$ 2,146,248	$ 2,045,552

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2017	2016
Land	$ 531,542	$ 514,690
Buildings	874,461	176,961
Building improvements	60,014	60,014
Furniture and fixtures	48,831	48,831
Computer equipment	83,627	83,627
Equipment	26,578	26,577
Construction in progress	133,704	117,971
	1,758,757	1,028,671
Less: accumulated depreciation	(331,362)	(321,905)
Net property and equipment	$ 1,427,395	$ 706,766

Depreciation expense totaled $9,455 and $9,586 for the years ended March 31, 2017 and 2016, respectively.

During 2017, $117,971 of construction in progress related to the West Grande building project was expensed due to the donation and future relocation to the Woman's Building.

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 Organization'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.

In accordance with the Uniform Prudent Management of Institutional Funds Act ("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.

INTERPRETATION OF RELEVANT LAW

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.

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.

NOTE 7 - DONOR-DESIGNATED ENDOWMENT FUNDS - CONTINUED

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:

	2017	2016
Balance, beginning of year	$ 174,376	$ 177,457
Interest and dividends	4,877	5,998
Net realized and unrealized gain (loss)	10,624	(6,913)
Investment and administrative expenses	(3,177)	(2,166)
Withdrawals	(19,000)	-
Balance, end of year	$ 167,700	$ 174,376

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, 2017 and 2016, 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.

NOTE 9 - ALLOCATION OF JOINT COSTS

During the years ended March 31, 2017 and 2016, 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 nonprofit development programs. The costs of conducting those activities included a total of $478,467 and $495,456 of joint costs for the years ended March 31, 2017 and 2016, 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:

	2017	2016
Agencies	$ 148,493	$ 168,455
2-1-1	4,293	1,032
East Texas Center for Nonprofits	3,423	823
Management and General	160,264	176,509
Marketing	49,496	49,546
Fundraising	112,498	99,091
	$ 478,467	$ 495,456

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 of their total compensation for the years ended March 31, 2017 and 2016. This amount increases by $6,000 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, 2017 and 2016, 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 $49,170 and $48,745 for years ended March 31, 2017 and 2016, 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 year ended March 31, 2016 is summarized below:

Assets:		
Cash	$	11,041
Pledges receivable, net		-
Liabilities:		
Agency distribution payable		10,877
Due to United Way		-
Net assets	$	164
Income activity:		
Campaign pledges	$	-
Campaign expenses		-
	$	-

NOTE 12 - OPERATING LEASES

The Organization leases a copier and a postage machine under operating leases. There are no minimum future lease payments under operating leases having remaining terms in excess of one year as of March 31, 2017. Lease expense, including leases having terms of less than one year, totaled $2,136 and $2,255 for the years ended March 31, 2017 and 2016, respectively.

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

The marketing, fundraising and management and general expense ratio was approximately 16% and 24% for the years ended March 31, 2017 and 2016, 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 2013, the Organization renewed a $500,000, closed end line of credit at 2.5%, 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 outstanding balance totaled $474,199 at March 31, 2017 and 2016, respectively. The line of credit was renewed in June 2017 and matures on June 27, 2018.

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.

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)
2017				
Beneficial interest	$ 167,700	$ -	$ -	$ 167,700
Total	$ 167,700	$ -	$ -	$ 167,700
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	$ 299,492	$ 125,116	$ -	$ 174,376

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 1, 2017, the date on which the financial statements were available to be issued.

NOTE 17 - SUMMARY OF EXPENSES BY ACTIVITY

The following table presents the detail of expenses by activity for the year ended March 31, 2017:

	Total	Agencies	2-1-1	East Texas Center for Nonprofits	Management and general	Marketing	Fundraising	Payments to affiliates
EXPENSES								
Agency distributions	$ 810,932	$ 810,932	$ -	$ -	$ -	$ -	$ -	$ -
Special events	29,599	-	-	-	-	-	29,599	-
United Way (National & State)	21,820	-	-	-	-	-	-	21,820
Salaries	653,447	197,059	238,155	79,873	79,662	25,156	33,542	-
Payroll taxes	50,262	15,218	18,057	6,302	6,152	1,943	2,590	-
Employee benefits	76,374	23,540	35,291	40	10,491	3,005	4,007	-
Retirement expense	49,170	16,025	15,864	6,029	6,478	2,046	2,728	-
Professional fees	22,854	-	146	4,703	18,005	-	-	-
Advertising	9,700	60	4,084	587	-	-	4,969	-
Campaign expenses	103,971	18,815	-	-	69,762	-	15,394	-
Conferences and meetings	32,794	-	1,808	27,630	1,219	-	2,137	-
Depreciation	9,456	5,555	-	-	2,246	709	946	-
Equipment rental and maintenance	23,017	-	20,396	3	2,618	-	-	-
Insurance	9,136	3,567	638	212	3,657	455	607	-
Miscellaneous	40,671	119	11,602	8,179	20,636	-	135	-
Occupancy	28,486	-	4,293	3,423	20,770	-	-	-
Office supplies	7,163	1,285	1,324	2,636	1,608	133	177	-
Postage	2,501	60	40	134	665	-	1,602	-
Telephone	5,750	1,655	4,095	-	-	-	-	-
Computer/internet expense	16,243	3,607	3,250	3,979	4,705	301	401	-
Pledge loss	44,256	44,256	-	-	-	-	-	-
Loss on abandoned construction	117,971	-	-	-	117,971	-	-	-
Total expenses	$ 2,165,573	$ 1,141,753	$ 359,043	$ 143,730	$ 366,645	$ 33,748	$ 98,834	$ 21,820

NOTE 17 - SUMMARY OF EXPENSES BY ACTIVITY - CONTINUED

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 and 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	-
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	$ 2,144,833	$ 1,147,534	$ 323,031	$ 154,881	$ 267,738	$ 52,157	$ 183,413	$ 16,079