

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

FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

**UNITED WAY OF SMITH COUNTY
MARCH 31, 2018 AND 2017**

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	3
Financial Statements	
Statements of Financial Position	4
Statements of Activities	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 19



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, 2018 and 2017, 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, 2018 and 2017, 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
December 7, 2018



**UNITED WAY OF SMITH COUNTY
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2018 AND 2017**

	2018	2017
ASSETS		
Cash and interest-bearing deposits	\$ 1,088,790	\$ 1,125,336
Investment in beneficial interest	185,836	167,700
Grant receivable	52,075	79,382
Pledges receivable, net of allowance for uncollectible pledges of \$77,412 in 2018 and \$73,356 in 2017	774,720	823,959
Pledges receivable, capital	581,710	766,148
Prepaid expenses	1,914	9,112
Property and equipment, net	2,788,880	1,427,395
Total assets	\$ 5,473,925	\$ 4,399,032
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 143,214	\$ 4,385
Accounts payable - capital	283,793	4,500
Compensated absences payable	29,949	23,668
Deferred revenue	28,706	1,400
Line of credit - capital	667,199	474,199
Other liabilities	49,582	50
Total liabilities	1,202,443	508,202
Net assets		
Unrestricted - board designated	2,438,585	1,159,871
Temporarily restricted	1,822,897	2,720,959
Permanently restricted	10,000	10,000
Total net assets	4,271,482	3,890,830
Total liabilities and net assets	\$ 5,473,925	\$ 4,399,032

**UNITED WAY OF SMITH COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions - Annual Campaign	\$ -	\$ 1,287,144	\$ -	\$ 1,287,144
Contributions - Capital Campaign	-	54,501	-	54,501
Contributions - Other	44,372	9,805	-	54,177
Grants	-	368,617	-	368,617
Interest and dividends	11,620	-	-	11,620
In-kind gifts	112,954	-	-	112,954
Special events and fundraisers	-	23,279	-	23,279
Other income	(73,705)	134,143	-	60,438
Net realized and unrealized gain on beneficial interest	12,429	-	-	12,429
Gain on sale of fixed assets	377,981	-	-	377,981
Net assets released from restrictions	2,775,551	(2,775,551)	-	-
Total revenues, gains and other support	<u>3,261,202</u>	<u>(898,062)</u>	<u>-</u>	<u>2,363,140</u>
EXPENSES				
Agencies	1,125,808	-	-	1,125,808
2-1-1	349,333	-	-	349,333
East Texas Center for Nonprofits	118,274	-	-	118,274
Management and general	117,299	-	-	117,299
Marketing	85,632	-	-	85,632
Fundraising	163,847	-	-	163,847
Payments to affiliates	22,295	-	-	22,295
Total expenses	<u>1,982,488</u>	<u>-</u>	<u>-</u>	<u>1,982,488</u>
CHANGE IN NET ASSETS	1,278,714	(898,062)	-	380,652
NET ASSETS				
Beginning of period	1,159,871	2,720,959	10,000	3,890,830
End of period	<u>\$ 2,438,585</u>	<u>\$ 1,822,897</u>	<u>\$ 10,000</u>	<u>\$ 4,271,482</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions - Annual Campaign	\$ -	\$ 1,331,752	\$ -	\$ 1,331,752
Contributions - Capital Campaign	-	571,313	-	571,313
Contributions - Other	31,113	39,524	-	70,637
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	<u>2,935,832</u>	<u>233,748</u>	<u>-</u>	<u>3,169,580</u>
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	<u>2,165,573</u>	<u>-</u>	<u>-</u>	<u>2,165,573</u>
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	<u>\$ 1,159,871</u>	<u>\$ 2,720,959</u>	<u>\$ 10,000</u>	<u>\$ 3,890,830</u>

**UNITED WAY OF SMITH COUNTY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 380,652	\$ 1,004,007
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	8,118	9,455
Provision for bad debts	119,087	44,256
Donated assets	(91,787)	(714,352)
Pledge charge-offs	(115,031)	(73,800)
Net realized and unrealized gain on marketable securities and beneficial interest	(12,429)	(18,123)
Noncash investment income, net of expenses	(1,740)	(4,502)
Net gain on sales of property and equipment	(377,981)	-
Loss on abandoned construction	-	117,971
Changes in assets and liabilities:		
Decrease (increase) in grant receivable	27,307	(4,547)
Decrease (increase) in pledges receivable	229,621	(99,002)
Decrease (increase) in prepaid expenses	7,198	(4,619)
Increase (decrease) in accounts payable	418,122	(3,323)
Increase (decrease) in compensated absences payable	6,281	(4,179)
Increase in deferred revenue	27,306	900
Increase (decrease) in other liabilities	49,532	(36)
Total adjustments	<u>293,604</u>	<u>(753,901)</u>
Net cash provided by operating activities	<u>674,256</u>	<u>250,106</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities	-	270,845
Purchase of investment securities	(3,967)	(116,428)
Property and equipment purchases	(1,359,405)	(133,703)
Proceeds from sales and disposals of property and equipment	459,570	-
Net cash (used in) provided by investing activities	<u>(903,802)</u>	<u>20,714</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	193,000	-
Net cash provided by financing activities	<u>193,000</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(36,546)	270,820
CASH AND CASH EQUIVALENTS		
Beginning of period	1,125,336	854,516
End of period	<u>\$ 1,088,790</u>	<u>\$ 1,125,336</u>
SUPPLEMENTAL DISCLOSURES OF CASH ACTIVITIES		
Cash paid for interest	\$ 13,482	\$ 11,855
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Donated goods and services	\$ 21,167	\$ 11,616
Donated building	-	714,352
Donated equipment	91,787	-

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

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:

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. 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.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FUNCTIONAL EXPENSES - CONTINUED

As presented in Note 10, 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, 2018 AND 2017

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.

RECLASSIFICATION

Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation. These reclassifications had no impact on net assets.

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 any 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 began implementation of this standard April 1, 2018.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

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.

NOTE 2 - INVESTMENTS

Investments in beneficial interest are stated at fair value. Balances as of March 31, 2018 and 2017 were \$185,836 and \$167,700, respectively.

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 4,827	\$ 8,679
Net realized and unrealized gain	<u>12,429</u>	<u>18,123</u>
Total investment income	<u>\$ 17,256</u>	<u>\$ 26,802</u>

Interest and dividends reported on the statement of activities also includes income on interest-bearing deposits of \$6,793 and \$5,466 for the years ended March 31, 2018 and 2017, respectively.

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

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, 2018, approximately \$835,000 or 58% of outstanding pledges receivable, including capital campaign pledges, could be attributed to one company and two foundations, comprised of employee pledges of approximately \$150,000 and corporate pledges of approximately \$685,000. For the year ended March 31, 2017, approximately \$966,000 or 61% of outstanding pledges receivable could be attributed to one company and two foundations, comprised of employee pledges of approximately \$138,000 and corporate pledges of approximately \$828,000.

The Organization maintains deposits in excess of federally insured limits. As of March 31, 2018, the total cash balance in excess of federally insured limits was approximately \$592,000. The Organization also utilizes sweep accounts which sweep funds outside of the bank to a Federated government obligation money market fund which in turn invests in short term U. S. government bonds and is approved for school districts and other municipalities as their investments are lower risk. 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>2018</u>	<u>2017</u>
2017 General Campaign	\$ 851,203	\$ -
2016 General Campaign	929	896,630
2015 General Campaign	-	685
Capital Campaign	<u>581,710</u>	<u>766,148</u>
Total gross pledges	1,433,842	1,663,463
Allowance for uncollectible pledges	<u>(77,412)</u>	<u>(73,356)</u>
Pledges receivable, net	<u><u>\$ 1,356,430</u></u>	<u><u>\$ 1,590,107</u></u>
Gross pledges due in:		
Less than one year	\$ 1,084,258	\$ 1,193,244
One to five years	349,584	470,219
More than five years	-	-
	<u><u>\$ 1,433,842</u></u>	<u><u>\$ 1,663,463</u></u>

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

	<u>2018</u>	<u>2017</u>
Beginning of year balance	\$ 73,356	\$ 102,900
Provision	119,087	44,256
Charge-offs	<u>(115,031)</u>	<u>(73,800)</u>
End of year balance	<u><u>\$ 77,412</u></u>	<u><u>\$ 73,356</u></u>

Two significant company closures and reorganizations during fiscal year 2018 resulted in unusually high pledge charge-offs for the Organization.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 5 - RESTRICTIONS ON NET ASSETS

The board has designated a portion of the funds for operating, allocation and sustainability reserves. Unrestricted-board designated net assets totaled \$2,438,585 and \$1,159,871 for the years ended March 31, 2018 and 2017, respectively.

Temporarily restricted net assets were comprised of the following:

	<u>2018</u>	<u>2017</u>
2017 General Campaign	\$ 1,287,144	\$ -
2016 General Campaign	-	1,331,752
Capital Campaign	-	924,431
2-1-1	483,749	464,776
East Texas Center for Nonprofits	-	-
BGC Partners Fund	52,004	-
	<u>\$ 1,822,897</u>	<u>\$ 2,720,959</u>

Temporarily restricted general campaign receipts shown above consist of pledges and cash contributions received in 2017 and the first three months of 2018, which will be allocated to agencies in fiscal year beginning April 1, 2018.

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>2018</u>	<u>2017</u>
2017 General Campaign	\$ 1,331,752	\$ -
2016 General Campaign	-	1,469,644
Capital Campaign	978,932	203,519
2-1-1	349,644	354,750
East Texas Center for Nonprofits	100,994	118,335
BGC Partners Fund	14,229	-
	<u>\$ 2,775,551</u>	<u>\$ 2,146,248</u>

NOTE 6 - PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Land	\$ 608,411	\$ 531,542
Buildings	587,032	874,461
Building improvements	-	60,014
Furniture and fixtures	48,831	48,831
Computer equipment	83,627	83,627
Equipment	26,578	26,578
Construction in progress	1,584,895	133,704
	2,939,374	1,758,757
Less: accumulated depreciation	(150,494)	(331,362)
Net property and equipment	<u>\$ 2,788,880</u>	<u>\$ 1,427,395</u>

Depreciation expense totaled \$8,118 and \$9,455 for the years ended March 31, 2018 and 2017, respectively.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 6 - PROPERTY AND EQUIPMENT - CONTINUED

In early 2018, the Southpark location was sold for a net gain of \$348,314.

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.

In April 2016, the Woman's Building and 0.634 acres of land in Tyler, Texas, was donated to United Way of Smith County by the Woman's Building Inc. and an individual donor. The estimated value of the donated land and building was approximately \$714,352.

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.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 7 - DONOR-DESIGNATED ENDOWMENT FUNDS - CONTINUED

INVESTMENT RETURN OBJECTIVES, RISK PARAMETERS AND STRATEGIES - CONTINUED

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>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 167,700	\$ 174,376
Interest and dividends	4,816	4,877
Net realized and unrealized gain	12,429	10,624
Investment and administrative expenses	(3,076)	(3,177)
Contributions	3,967	-
Withdrawals	-	(19,000)
Balance, end of year	<u>\$ 185,836</u>	<u>\$ 167,700</u>

NOTE 8 - ACCOUNTS PAYABLE

The following summarizes accounts payable balances for the years ended March 31:

	<u>2018</u>	<u>2017</u>
Campaign payable	\$ 120,768	\$ 4,507
Campaign giveaway payable	10,000	-
Construction payable	283,793	-
Credit card payable	4,952	2,321
Other accounts payable	7,494	2,057
	<u>\$ 427,007</u>	<u>\$ 8,885</u>

The 2016 Campaign allocated payments to the agencies, which totaled \$120,768 at March 31, 2018, will be paid monthly during April, May and June 2018.

NOTE 9 - 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, 2018 and 2017, 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, 2018 AND 2017**

NOTE 10 - ALLOCATION OF JOINT COSTS

During the years ended March 31, 2018 and 2017, 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 \$456,614 and \$478,467 of joint costs for the years ended March 31, 2018 and 2017, 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>2018</u>	<u>2017</u>
Agencies	\$ 288,445	\$ 263,321
2-1-1	891	4,560
East Texas Center for Nonprofits	711	3,636
Management and General	17,835	128,514
Marketing	85,632	33,615
Fundraising	63,100	44,821
	<u>\$ 456,614</u>	<u>\$ 478,467</u>

NOTE 11 - 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, 2018 and 2017. 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, 2018 and 2017, 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 \$46,833 and \$49,816 for years ended March 31, 2018 and 2017, respectively. An employee fully vests immediately as of the date of their participation in the plan.

NOTE 12 - OPERATING LEASES

The Organization leases a postage machine under an operating lease. There are no minimum future lease payments under an operating lease having remaining terms in excess of one year as of March 31, 2018. Lease expense, including leases having terms of less than one year, totaled \$1,154 and \$2,136 for the years ended March 31, 2018 and 2017, respectively.

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

The marketing, fundraising and management and general expense ratio was approximately 16% for both years ended March 31, 2018 and 2017, 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 - LINES 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, 2018 and 2017, respectively. The line of credit renewed in June 2018.

The Organization entered into a \$1,800,000 line of credit agreement with a regional financial institution in July 2017 to pay for real estate improvements. The line of credit is secured by deeds of trust on properties located at W. Grande Blvd. and South Broadway. The line has an interest rate of 3.050% with interest only payments and a single balloon payment due when the loan matures on February 27, 2021. Advances on the line of credit totaled \$193,000 were outstanding as of March 31, 2018.

**UNITED WAY OF SMITH COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

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)
<u>2018</u>				
Beneficial interest	\$ 185,836	\$ -	\$ -	\$ 185,836
Total	<u>\$ 185,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,836</u>
<u>2017</u>				
Beneficial interest	\$ 167,700	\$ -	\$ -	\$ 167,700
Total	<u>\$ 167,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,700</u>

See Note 7 for additional information regarding the investment in beneficial interest.

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 7, 2018, the date on which the financial statements were available to be issued.

**UNITED WAY OF SMITH COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017**

NOTE 17 - SUMMARY OF EXPENSES BY ACTIVITY

The following table presents the detail of expenses by activity for the year ended March 31, 2018:

	Total	Agencies	2-1-1	East Texas Center for Nonprofits	Management and general	Marketing	Fundraising	Payments to affiliates
EXPENSES								
Agency distributions	\$ 714,498	\$ 714,498	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special events	34,688	-	-	-	-	-	34,688	-
United Way (National & State)	22,295	-	-	-	-	-	-	22,295
Salaries	657,812	223,780	235,492	72,663	10,490	66,435	48,952	-
Payroll taxes	49,794	16,747	17,957	5,669	785	4,972	3,664	-
Employee benefits	80,444	21,059	47,167	34	1,325	6,252	4,607	-
Retirement expense	46,833	15,254	17,037	5,962	715	4,528	3,337	-
Professional fees	21,791	-	266	2,975	18,550	-	-	-
Advertising	9,692	-	1,362	160	-	-	8,170	-
Campaign expenses	83,328	-	-	-	48,064	-	35,264	-
Conferences and meetings	31,259	350	9,411	13,991	1,861	-	5,646	-
Depreciation	8,118	5,195	-	-	244	1,542	1,137	-
Equipment rental and maintenance	1,542	-	-	-	1,542	-	-	-
Insurance	8,371	3,317	731	179	2,433	985	726	-
Miscellaneous	58,628	116	10,632	13,315	18,053	-	16,512	-
Occupancy	11,653	-	927	711	10,015	-	-	-
Office supplies	3,308	183	2,106	260	759	-	-	-
Postage	955	142	130	31	185	-	467	-
Telephone	6,000	1,800	4,200	-	-	-	-	-
Computer/internet expense	12,392	4,280	1,915	2,324	2,278	918	677	-
Pledge loss	119,087	119,087	-	-	-	-	-	-
Total expenses	<u>\$ 1,982,488</u>	<u>\$ 1,125,808</u>	<u>\$ 349,333</u>	<u>\$ 118,274</u>	<u>\$ 117,299</u>	<u>\$ 85,632</u>	<u>\$ 163,847</u>	<u>\$ 22,295</u>

UNITED WAY OF SMITH COUNTY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2018 AND 2017

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	29,503	-	-	-	-	-	29,503	-
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	75,728	23,540	34,645	40	10,491	3,005	4,007	-
Retirement expense	49,816	16,025	16,510	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	40,767	119	11,602	8,179	20,636	-	231	-
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	<u>\$ 2,165,573</u>	<u>\$ 1,141,753</u>	<u>\$ 359,043</u>	<u>\$ 143,730</u>	<u>\$ 366,645</u>	<u>\$ 33,748</u>	<u>\$ 98,834</u>	<u>\$ 21,820</u>