

United Way of Greater Houston

Financial Statements
and Independent Auditors' Report
for the years ended March 31, 2019 and 2018

United Way of Greater Houston

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Independent Auditors' Report

To the Board of Trustees of
United Way of Greater Houston:

We have audited the accompanying financial statements of United Way of Greater Houston, which comprise the statements of financial position as of March 31, 2019 and 2018 and the related statements of activities, of functional expenses, and of 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 our audits 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 auditors' 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 Greater Houston as of March 31, 2019 and 2018 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, United Way of Greater Houston adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended March 31, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended March 31, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

August 20, 2019

United Way of Greater Houston

Statements of Financial Position as of March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash equivalents <i>(Note 4)</i>	\$ 11,614,965	\$ 18,270,891
Government contracts and other receivables	625,250	909,892
Short-term investments restricted for Hurricane Relief <i>(Note 6)</i>	11,893,388	35,903,183
Prepaid expenses and other assets	520,786	560,376
Contributions receivable, net <i>(Note 5)</i>	36,648,316	35,909,185
Investments <i>(Note 6)</i>	19,792,688	19,097,089
Property and equipment, net <i>(Note 7)</i>	<u>31,683,768</u>	<u>32,029,294</u>
TOTAL ASSETS	<u>\$ 112,779,161</u>	<u>\$ 142,679,910</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 738,501	\$ 1,161,499
Payroll and other accrued liabilities	1,322,356	1,249,641
Amounts committed to community program services	31,750,293	31,241,975
Amounts donor-designated for other campaigns	1,296,941	1,180,721
Deferred revenue	<u>173,766</u>	<u>181,631</u>
Total liabilities	<u>35,281,857</u>	<u>35,015,467</u>
Commitments and contingencies <i>(Note 13)</i>		
Net assets:		
Without donor restrictions <i>(Note 8)</i>	61,824,835	64,424,648
With donor restrictions <i>(Note 9)</i>	<u>15,672,469</u>	<u>43,239,795</u>
Total net assets	<u>77,497,304</u>	<u>107,664,443</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 112,779,161</u>	<u>\$ 142,679,910</u>

See accompanying notes to financial statements.

United Way of Greater Houston

Statement of Activities for the year ended March 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Annual campaign contributions <i>(Note 10)</i>	\$ 66,012,083	\$ 1,869,611	\$ 67,881,694
Less: Donor-designated gifts to other campaigns	(1,214,551)		(1,214,551)
Less: Provision for estimated uncollectible contributions receivable on current year campaign	(4,779,912)		(4,779,912)
Contributions from previous annual campaign	2,273,890		2,273,890
Hurricane Relief contributions <i>(Note 11)</i>		1,388,346	1,388,346
Other contributions	441,147	1,697,871	2,139,018
Government contracts	2,952,477		2,952,477
Program fees and other revenue	1,752,938		1,752,938
Net investment return	<u>1,345,809</u>		<u>1,345,809</u>
Total revenue	68,783,881	4,955,828	73,739,709
Net assets released from restrictions:			
Disaster response expenditures	29,012,825	(29,012,825)	
Program expenditures	<u>3,510,329</u>	<u>(3,510,329)</u>	
Total	<u>101,307,035</u>	<u>(27,567,326)</u>	<u>73,739,709</u>
EXPENSES:			
Program services:			
Community investments in program services <i>(Note 10)</i>	49,156,335		49,156,335
Disaster response <i>(Note 11)</i>	28,751,774		28,751,774
Community impact program services	13,607,868		13,607,868
In-kind community support <i>(Note 10)</i>	<u>1,108,930</u>		<u>1,108,930</u>
Total program services	92,624,907		92,624,907
Fundraising	7,455,974		7,455,974
Management and general	<u>3,825,967</u>		<u>3,825,967</u>
Total expenses	<u>103,906,848</u>		<u>103,906,848</u>
CHANGES IN NET ASSETS	(2,599,813)	(27,567,326)	(30,167,139)
Net assets, beginning of year	<u>64,424,648</u>	<u>43,239,795</u>	<u>107,664,443</u>
Net assets, end of year	<u>\$ 61,824,835</u>	<u>\$ 15,672,469</u>	<u>\$ 77,497,304</u>

See accompanying notes to financial statements.

United Way of Greater Houston

Statement of Activities for the year ended March 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Annual campaign contributions (<i>Note 10</i>)	\$ 69,008,823	\$ 3,562,556	\$ 72,571,379
Less: Donor-designated gifts to other campaigns	(962,886)		(962,886)
Less: Provision for estimated uncollectible contributions receivable on current year campaign	(5,063,764)		(5,063,764)
Contributions from previous annual campaign	970,740		970,740
Hurricane Relief contributions (<i>Note 11</i>)		48,504,839	48,504,839
Other contributions	495,685	4,549,271	5,044,956
Government contracts	2,631,873		2,631,873
Program fees and other revenue	1,401,697		1,401,697
Net investment return	<u>1,629,328</u>		<u>1,629,328</u>
Total revenue	70,111,496	56,616,666	126,728,162
Net assets released from restrictions:			
Disaster response expenditures	12,819,610	(12,819,610)	
Program expenditures	<u>7,300,764</u>	<u>(7,300,764)</u>	
Total	<u>90,231,870</u>	<u>36,496,292</u>	<u>126,728,162</u>
EXPENSES:			
Program services:			
Community investments in program services (<i>Note 10</i>)	52,137,864		52,137,864
Disaster response (<i>Note 11</i>)	12,819,610		12,819,610
Community impact program services	13,638,276		13,638,276
In-kind community support (<i>Note 10</i>)	<u>903,382</u>		<u>903,382</u>
Total program services	79,499,132		79,499,132
Fundraising	6,838,310		6,838,310
Management and general	<u>3,026,395</u>		<u>3,026,395</u>
Total expenses	<u>89,363,837</u>		<u>89,363,837</u>
CHANGES IN NET ASSETS	868,033	36,496,292	37,364,325
Net assets, beginning of year (<i>Note 2</i>)	<u>63,556,615</u>	<u>6,743,503</u>	<u>70,300,118</u>
Net assets, end of year	<u>\$ 64,424,648</u>	<u>\$ 43,239,795</u>	<u>\$107,664,443</u>

See accompanying notes to financial statements.

United Way of Greater Houston

Statement of Functional Expenses for the year ended March 31, 2019

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL</u>
Community investments (grants for program services)	\$ 50,265,265			\$ 50,265,265
Disaster response grants	28,751,774			28,751,774
Salaries and related expenses	8,990,805	\$ 4,272,209	\$ 2,588,619	15,851,633
Occupancy	2,018,162	378,217	187,829	2,584,208
Professional and contract services	729,645	1,059,438	588,212	2,377,295
Depreciation	712,177	243,306	146,446	1,101,929
Printing and supplies	396,934	398,635	67,080	862,649
Conferences and meetings	84,122	647,792	43,497	775,411
Dues to national organization	366,737	168,450	152,133	687,320
Advertising	129,628	129,628		259,256
Professional development and travel	141,515	67,813	18,523	227,851
Other	<u>38,143</u>	<u>90,486</u>	<u>33,628</u>	<u>162,257</u>
Total expenses	<u>\$ 92,624,907</u>	<u>\$ 7,455,974</u>	<u>\$ 3,825,967</u>	<u>\$ 103,906,848</u>

See accompanying notes to financial statements.

United Way of Greater Houston

Statement of Functional Expenses for the year ended March 31, 2018

<u>EXPENSES</u>	<u>PROGRAM SERVICES</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL</u>
Community investments (grants for program services)	\$ 53,041,246			\$ 53,041,246
Disaster response grants	12,819,610			12,819,610
Salaries and related expenses	8,999,045	\$ 4,477,983	\$ 1,822,822	15,299,850
Occupancy	1,958,967	365,471	177,779	2,502,217
Professional and contract services	790,321	741,779	541,168	2,073,268
Depreciation	715,419	242,496	149,373	1,107,288
Printing and supplies	424,103	235,564	52,267	711,934
Conferences and meetings	112,974	406,093	26,297	545,364
Dues to national organization	364,863	183,065	142,158	690,086
Advertising	115,915	115,915		231,830
Professional development and travel	89,255	45,472	25,818	160,545
Other	67,414	24,472	88,713	180,599
Total expenses	<u>\$ 79,499,132</u>	<u>\$ 6,838,310</u>	<u>\$ 3,026,395</u>	<u>\$ 89,363,837</u>

See accompanying notes to financial statements.

United Way of Greater Houston

Statements of Cash Flows for the years ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (30,167,139)	\$ 37,364,325
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	1,101,929	1,107,290
Net realized and unrealized gain on investments	(85,156)	(853,358)
Changes in operating assets and liabilities:		
Government contracts and other receivables	284,642	(355,029)
Prepaid expenses and other assets	39,590	(120,979)
Contributions receivable	(739,131)	2,916,022
Accounts payable	(422,998)	362,930
Payroll and other accrued liabilities	72,715	62,793
Amounts committed to community program services	508,318	(1,129,764)
Amounts donor-designated for other campaigns	116,220	(394,023)
Deferred revenue	<u>(7,865)</u>	<u>(37,725)</u>
Net cash provided (used) by operating activities	<u>(29,298,875)</u>	<u>38,922,482</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	33,395,569	52,092
Purchase of investments	(2,128,888)	(32,656,120)
Net change in money market mutual funds held as investments	(7,867,329)	(4,025,827)
Purchases of property and equipment	<u>(756,403)</u>	<u>(433,800)</u>
Net cash provided (used) by investing activities	<u>22,642,949</u>	<u>(37,063,655)</u>
NET CHANGE IN CASH EQUIVALENTS	(6,655,926)	1,858,827
Cash equivalents, beginning of year	<u>18,270,891</u>	<u>16,412,064</u>
Cash equivalents, end of year	<u>\$ 11,614,965</u>	<u>\$ 18,270,891</u>

See accompanying notes to financial statements.

United Way of Greater Houston

Notes to Financial Statements for the years ended March 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – United Way of Greater Houston (United Way), a Texas non-profit corporation, was created in 1922 and its mission is to engage caring people to improve lives and build a stronger community. United Way’s strategic vision is to be the leader and trusted partner in improving lives, tackling key community social issues and making a lasting improvement. To ensure the community’s future, United Way is being reframed in such a way as to create the opportunity for individuals and families to thrive.

United Way strives to lead in the social services sector to create solutions, advocate for increasing financial security and household income, connect individuals to an integrated network of support, engage donors and other stakeholders to assist in this work, and unite the community to the vision that thriving individuals and families create a strong and thriving region.

United Way invests in a broad array of services that focus on developing children and youth to their full potential, creating strong families and safe neighborhoods, sustaining senior independence and supporting people rebuilding their lives. United Way services touched over 2 million lives in the community last year. United Way connects people with services through the 2-1-1 Texas/United Way HELPLINE, the Community Resource Center, and Area Centers that house nonprofit organizations in order to bring services closer to where people live. Additionally, the United Way Nonprofit Connection is a key resource for building Houston’s social service nonprofit capacity.

United Way’s fundraising efforts include workplace campaigns, individual leadership giving programs, corporate giving, foundation grants and special efforts to respond to emerging issues such as disaster recovery.

Federal income tax status – United Way is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash equivalents include highly liquid financial instruments with original maturities of three months or less. The certificate of deposit included with cash equivalents is a non-negotiable, timed bank deposit reported at face value plus accrued interest.

Short-term investments include money market mutual funds restricted for Hurricane Harvey relief efforts.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to the present value of their estimated future cash flows.

An allowance for uncollectible contributions receivable is provided when it is believed that receivable balances may not be collected in full. It is United Way’s policy to write off receivables against the allowance when management determines the receivable will not be collected. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and individual analysis of receivable balances each period.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and equipment are reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated using the straight-line method over estimated useful lives of 2 to 40 years. United Way capitalizes additions and improvements that have a tangible future economic life and a cost of more than \$2,500.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Conditional contributions are recognized in the same manner when the conditions are substantially met.

In-kind contributions – Donated materials, use of facilities, and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Government contracts and program fees are recognized when the related services are provided. Amounts received but unearned are included in the statement of financial position as deferred revenue.

Community investments in program services include grants made that are recognized at estimated fair value when United Way approves an unconditional commitment to a recipient. Conditional grants are recognized in the same manner when the conditions are substantially met by the recipient or when the possibility that the conditions will not be met is deemed remote. Commitments made by United Way but not yet paid are reflected in the statement of financial position as amounts committed to community program services. At March 31, 2019, these commitments are due to be paid within one year.

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the activities benefitted.

Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and facility management costs are allocated based on square footage. Information technology costs are allocated based on number of computer units utilized by each department. Advertising costs are allocated based on management estimates of costs utilized by each department.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. United Way is required to apply the amendments in its March 31, 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management does not expect this adoption will have a material impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. United Way plans to adopt this ASU for fiscal year ending March 31, 2021. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

United Way adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended March 31, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended March 31, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of March 31, 2019 comprise the following:

Financial assets:	
Cash equivalents	\$ 11,614,965
Government contracts and other receivables	625,250
Short-term investments restricted for Hurricane Relief	11,893,388
Contributions receivable, net	36,648,316
Investments	<u>19,792,688</u>
Total financial assets	80,574,607
Less financial assets not available for general expenditure:	
Restricted by donors for building maintenance	(1,573,052)
Restricted by donors for program initiatives and other	(803,277)
Contributions receivable due in more than one year	(1,879,876)
Amounts donor-designated for other campaigns	(1,296,941)
Board-designated operating reserve	(11,120,000)
Board-designated disaster response reserve	(500,000)
Board designated capital maintenance reserve	<u>(313,013)</u>
Total financial assets available for general expenditure	<u>\$ 63,088,448</u>

As part of liquidity management, United Way’s policy is to structure our financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, United Way’s Board of Trustees (the Board) has designated assets for other purposes as shown in Note 8. These board-designated funds are invested in short-term investments and while they are not intended to be spent for purposes other than those identified, these funds could be made available for current operations at the Board’s discretion.

United Way’s cash flows have seasonal variations during the year attributable to campaign activities. These activities tend to generate significant cash flow during the last two quarters of its fiscal year. United Way’s spending pattern tends to be constant throughout the fiscal year. To manage liquidity, United Way optimizes usage of short-term investments included in its total investments portfolio. All investments can be accessed on an immediate basis.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, United Way considers all expenditures related to its investment in programs which create the opportunity for every individual and family to thrive, as well as the conduct of services undertaken to support those activities, to be general expenditures. Entering the third year of recovery efforts associated with Hurricane Harvey, resources restricted for those efforts are expected to be fully utilized for that purpose in the next 12 months.

NOTE 4 – CASH EQUIVALENTS

Cash equivalents consist of the following:

	<u>2019</u>	<u>2018</u>
Money market mutual funds	\$ 11,564,449	\$ 18,220,375
Certificate of deposit	<u>50,516</u>	<u>50,516</u>
Total cash equivalents	<u>\$ 11,614,965</u>	<u>\$ 18,270,891</u>

United Way maintains an overnight sweep of excess cash into a money market mutual fund that trades on the public market and is not federally insured.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2019</u>	<u>2018</u>
Contributions receivable – annual campaign	\$ 37,691,545	\$ 36,649,437
Contributions receivable – Hurricane Relief	56,160	988,187
Contributions receivable – other	3,177,332	3,710,000
Allowance for uncollectible contributions receivable	(4,220,431)	(5,382,250)
Discount to net present value at 1.5%	<u>(56,290)</u>	<u>(56,189)</u>
Contributions receivable, net	<u>\$ 36,648,316</u>	<u>\$ 35,909,185</u>

Contributions receivable at March 31, 2019 are expected to be collected as follows:

2020	\$ 38,988,871
2021	736,166
2022	600,000
2023	<u>600,000</u>
Total contributions receivable	<u>\$ 40,925,037</u>

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at March 31, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap	\$ 7,396,722			\$ 7,396,722
International	3,917,449			3,917,449
Real estate	970,317			970,317
Small-cap	619,868			619,868
Money market mutual funds	11,893,388			11,893,388
Fixed-income mutual funds:				
Short and intermediate bond	5,458,832			5,458,832
International aggregate index	<u>1,429,500</u>			<u>1,429,500</u>
Total investments	31,686,076			31,686,076
Money market mutual funds held as cash equivalents	<u>11,564,449</u>			<u>11,564,449</u>
Total assets measured at fair value	<u>\$ 43,250,525</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 43,250,525</u>

Assets measured at fair value at March 31, 2018 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap	\$ 6,829,459			\$ 6,829,459
International	4,181,323			4,181,323
Real estate	808,298			808,298
Small-cap	610,098			610,098
Money market mutual funds	4,026,059			4,026,059
Fixed-income mutual funds:				
Short and intermediate bond	37,185,578			37,185,578
International aggregate index	<u>1,359,457</u>			<u>1,359,457</u>
Total investments	55,000,272			55,000,272
Money market mutual funds held as cash equivalents	<u>18,220,375</u>			<u>18,220,375</u>
Total assets measured at fair value	<u>\$ 73,220,647</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,220,647</u>

Mutual funds are valued at the published net asset value of shares held. This valuation method may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while United Way believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 6,840,220	\$ 6,840,220
Buildings and improvements	30,770,173	30,553,823
Furniture, fixtures, and equipment	8,596,250	8,056,196
Vehicles	<u>35,434</u>	<u>35,434</u>
Total property and equipment, at cost	46,242,077	45,485,673
Accumulated depreciation	<u>(14,558,309)</u>	<u>(13,456,379)</u>
Property and equipment, net	<u>\$ 31,683,768</u>	<u>\$ 32,029,294</u>

NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2019</u>	<u>2018</u>
Invested in property and equipment	\$ 31,683,768	\$ 32,029,294
Designated by the Board:		
Community initiatives	12,767,692	13,297,320
Operating reserve	11,120,000	11,123,000
Community impact and response	1,589,206	2,811,740
Disaster response	500,000	500,000
Capital maintenance	313,013	313,013
Montgomery County		1,089,169
Undesignated	<u>3,851,156</u>	<u>3,261,112</u>
Total net assets without donor restrictions	<u>\$ 61,824,835</u>	<u>\$ 64,424,648</u>

The Board has designated net assets without donor restrictions as follows:

- *Community initiatives* – This reserve is for investments in strategic initiatives that create long lasting change, as determined by the Board. Examples of Board initiatives include United Way Bright Beginnings, United Way THRIVE, and United Way Education Initiative.
- *Operating reserve* – This reserve is to provide for operations and community investments in the event of an unforeseen event or severe economic downturn. The reserve is to be approximately three months of operating expenses and two months of community investments in program services and is adjusted annually.
- *Community impact and response* – This reserve is for the discretion of the Community Impact Committee to use for immediate response to emerging needs and extend presence throughout United Way’s four county service area.
- *Disaster response* – This reserve is to enable United Way to respond quickly to the community in the aftermath of a disaster before any fundraising efforts commence. Funds raised for the Hurricane Harvey Relief Fund are included in net assets with donor restrictions.
- *Capital maintenance* – This reserve is for planned and unanticipated building construction, repairs and maintenance, and for purchases of capital equipment. Additions to the reserve are approved by the Board in conjunction with the annual operating budget.

- *Montgomery County* – This reserve is the net balance of resources remaining and secured in Montgomery County for use in Montgomery County for community investment and operations.

Use of board-designated reserves must be approved by the Board.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Disaster response – Hurricane Relief	\$ 11,141,085	\$ 36,891,370
Building maintenance	1,573,052	1,604,531
Out of School Time	931,023	1,306,656
Disaster response – disaster recovery	927,334	1,748,859
Montgomery County	402,939	304,128
United Way THRIVE	305,197	351,180
Education Initiative	210,769	581,033
Sponsorships to support future events	153,128	416,237
Other	<u>27,942</u>	<u>35,801</u>
Total net assets with donor restrictions	<u>\$ 15,672,469</u>	<u>\$ 43,239,795</u>

NOTE 10 – ANNUAL CAMPAIGN

The annual fundraising campaign is conducted to raise support to invest in community program services and strategic initiatives. Each year by the end of March, United Way reports to the public the total estimated annual campaign funds raised. Actual results may differ from estimated amounts publicly reported due to timing differences on multi-year pledges and receipts for future campaigns, among other things. The calendar year 2019 and 2018 commitments to programs and agencies are based on the results of the fall and winter 2018 and 2017 campaigns, and are reflected as community investment expense in the statement of activities for the years ended March 31, 2019 and 2018, respectively. In 2019, donor-designated gifts to other campaigns total approximately \$1.2 million in contributions to other United Ways. In 2018, donor-designated gifts to other campaigns total approximately \$963,000 in contributions to other United Ways.

Contributions designated by donors to be paid to specific United Way Agencies (Agencies) of approximately \$4.9 million and \$5.2 million are included in unrestricted revenue and community investment expense at March 31, 2019 and 2018, respectively. United Way maintains a policy of “first dollars in” with respect to designation to Agencies. If total designations to an Agency are less than the total committed investment, the Agency receives only the approved commitment. If total designations exceed the commitment, the Agency receives the greater amount. Any amount designated by donors to Agencies in excess of the approved commitments is excluded from United Way’s revenue and expenses.

United Way’s community program service allocations were distributed in four major goal areas, as follows:

	2019		2018	
	<u>AMOUNTS</u>	<u>PERCENTAGE</u>	<u>AMOUNTS</u>	<u>PERCENTAGE</u>
Goal areas:				
Developing children and youth to their full potential	\$ 18,467,671	37%	\$ 18,980,153	36%
Supporting people rebuilding their lives	11,971,106	25%	15,233,119	29%
Creating strong families and safe neighborhoods	14,281,548	29%	12,474,186	24%
Sustaining senior independence	<u>4,436,010</u>	<u>9%</u>	<u>5,450,406</u>	<u>11%</u>
Total community investments in program services	<u>\$ 49,156,335</u>	<u>100%</u>	<u>\$ 52,137,864</u>	<u>100%</u>

In-kind community support – United Way provides community support through in-kind grants of facilities, supplies, and services at area centers totaling approximately \$1,109,000 in 2019 and \$903,000 in 2018.

NOTE 11 – HURRICANE RELIEF FUNDS

Hurricane Harvey made landfall on the Texas Gulf Coast in late August 2017 and impacted the lives of many southeast Texas residents. Helping individuals and families recover from the devastation of Hurricane Harvey is a key focus of United Way. Thanks to generous donors, United Way raised approximately \$49.9 million as of March 31, 2019. These funds were restricted by donors for use in Hurricane Harvey recovery. Given United Way’s experience with previous disasters, the expectation is for these funds to be expended over the next two to three years. The categories of expenditures are provision of basic needs of food and shelter, case management to guide individuals through recovery, funding for minor home repair and assistance with behavioral health and unmet needs. These funds are not considered campaign revenue and were accounted for separately. As of March 31, 2019, approximately \$38.8 million was spent or committed to be spent for Hurricane Harvey recovery.

NOTE 12 – EMPLOYEE BENEFIT PLANS

401(k) savings and investment plan – United Way adopted a savings and investment plan (the Plan) in accordance with §401(k) of the Code, effective January 1, 1998. Each qualified employee of United Way is eligible to participate in the Plan on the first day of the month following the completion of at least one hour of service. Participants may contribute, with certain limitations, a percentage of their compensation, as defined, on a tax-deferred basis. Participants are immediately vested in their tax-deferred contributions plus actual earnings thereon. United Way may, at its sole discretion, make a contribution not to exceed 100% of the first 6% of compensation contributed by the participants. In addition, United Way may, at its sole discretion, elect to make additional discretionary contributions. Participants become 50% vested in United Way’s matching contribution after two years of service and fully vested after three years of service.

In 2019, United Way’s contribution was approximately \$946,000, which included a matching contribution of \$633,000 and a discretionary contribution of \$313,000. In 2018, United Way’s contribution was approximately \$906,000, which included a matching contribution of \$585,000 and a discretionary contribution of \$321,000.

Health plan – United Way obtains health and welfare benefits for employees as a single employer, in accordance with §501(c)(9) of the Code. United Way provides group health, life, short-term and long-term disability, and dental insurance programs for employees working in excess of 30 hours per week. Costs are shared by the employer and employee depending upon the benefits selected by the employee. Welfare benefit plan contributions expensed by United Way for the years ended March 31, 2019 and 2018 were approximately \$1,481,000 and \$1,372,000, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Leases

United Way leases certain office space and office equipment at community centers located in the Bay Area of Harris County and Waller County, as well as office equipment used in its operations. Operating lease payments for the years ended March 31, 2019 and 2018 were approximately \$741,000 and \$736,000, respectively.

As of March 31, 2019, the future minimum annual lease payments under these noncancelable operating leases are as follows:

2020	\$ 709,707
2021	712,722
2022	721,449
2023	658,399
2024	669,326
Thereafter	<u>678,054</u>
Total	<u>\$ 4,149,657</u>

United Way subleased office space with rental income totaling approximately \$275,000 in 2019 and \$265,000 in 2018.

Government contracts

United Way has entered into contracts with federal, state, and local governmental funding sources that require fulfillment of certain conditions as set forth in the related agreements and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by United Way with the terms of the contracts. Management believes such disallowances, if any, would not be material to United Way’s financial position or changes in net assets. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 20, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.