# United Way of Greater Houston

Financial Statements
and Independent Auditors' Report
for the years ended March 31, 2020 and 2019

# United Way of Greater Houston

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2020 and 2019 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, 2020 and 2019 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.

Blazek & Vetterling

October 1, 2020

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## United Way of Greater Houston

Statements of Financial Position as of March 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents *(Note 4)* | $ 8,679,702 | $ 11,614,965 |
| Government contracts and other receivables | 582,749 | 625,250 |
| Short-term investments restricted for Hurricane Relief *(Note 6)* | 4,607,397 | 11,893,388 |
| Prepaid expenses and other assets | 557,997 | 520,786 |
| Contributions receivable, net *(Note 5)* | 35,423,874 | 36,648,316 |
| Investments *(Note 6)* | 18,268,334 | 19,792,688 |
| Property and equipment, net *(Note 7)* | 30,961,354 | 31,683,768 |
| TOTAL ASSETS | $ 99,081,407 | $ 112,779,161 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities: | | |
| Accounts payable | $ 937,929 | $ 912,267 |
| Payroll and other accrued liabilities | 1,372,774 | 1,322,356 |
| Amounts committed to community program services | 29,552,045 | 31,750,293 |
| Amounts donor-designated for other United Way campaigns | 860,462 | 1,296,941 |
| Total liabilities | 32,723,210 | 35,281,857 |
| Commitments and contingencies *(Note 13)* | | |
| Net assets: | | |
| Without donor restrictions *(Note 8)* | 54,983,119 | 61,824,835 |
| With donor restrictions *(Note 9)* | 11,375,078 | 15,672,469 |
| Total net assets | 66,358,197 | 77,497,304 |
| TOTAL LIABILITIES AND NET ASSETS | $ 99,081,407 | $ 112,779,161 |

*See accompanying notes to financial statements.*

## United Way of Greater Houston

Statement of Activities for the year ended March 31, 2020

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|
| REVENUE: | | | |
| Annual campaign contributions *(Note 10)* | $ 65,272,000 | $ 779,431 | $ 66,051,431 |
| Less: Donor-designated gifts to other campaigns | (796,158) | | (796,158) |
| Less: Provision for estimated uncollectible contributions receivable on current year campaign | (4,613,274) | | (4,613,274) |
| Contributions from previous annual campaign | 1,861,122 | | 1,861,122 |
| Other contributions *(Note 11)* | 370,829 | 5,422,883 | 5,793,712 |
| Fees and program revenue: | | | |
| Government contract income | 3,016,282 | | 3,016,282 |
| Facility usage fees | 146,726 | | 146,726 |
| Workshop and training fees | 130,844 | | 130,844 |
| Net investment return | (1,203,449) | | (1,203,449) |
| Other income *(Note 10)* | 1,177,086 | | 1,177,086 |
| Total revenue | 65,362,008 | 6,202,314 | 71,564,322 |
| Net assets released from restrictions: | | | |
| Disaster response expenditures | 8,757,001 | (8,757,001) | |
| Program expenditures | 1,742,704 | (1,742,704) | |
| Total | 75,861,713 | (4,297,391) | 71,564,322 |
| EXPENSES: | | | |
| Program services: | | | |
| Community investments in program services *(Note 10)* | 47,871,642 | | 47,871,642 |
| Community impact program services | 13,734,916 | | 13,734,916 |
| Disaster response *(Note 11)* | 8,189,144 | | 8,189,144 |
| In-kind community support *(Note 10)* | 1,103,658 | | 1,103,658 |
| Total program services | 70,899,360 | | 70,899,360 |
| Fundraising | 7,931,710 | | 7,931,710 |
| Management and general | 3,872,359 | | 3,872,359 |
| Total expenses | 82,703,429 | | 82,703,429 |
| CHANGES IN NET ASSETS | (6,841,716) | (4,297,391) | (11,139,107) |
| Net assets, beginning of year | 61,824,835 | 15,672,469 | 77,497,304 |
| Net assets, end of year | $ 54,983,119 | $ 11,375,078 | $ 66,358,197 |

*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 *(Note 10)* | $ 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 |
| Other contributions *(Note 11)* | 441,147 | 3,086,217 | 3,527,364 |
| Fees and program revenue: | | | |
| Government contract income | 2,952,477 | | 2,952,477 |
| Facility usage fees | 140,056 | | 140,056 |
| Workshop and training fees | 131,607 | | 131,607 |
| Net investment return | 1,345,809 | | 1,345,809 |
| Other income | 1,481,275 | | 1,481,275 |
| 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 | 3,510,329 | (3,510,329) | |
| Total | 101,307,035 | (27,567,326) | 73,739,709 |
| EXPENSES: | | | |
| Program services: | | | |
| Community investments in program services *(Note 10)* | 49,156,335 | | 49,156,335 |
| Community impact program services | 13,607,868 | | 13,607,868 |
| Disaster response *(Note 11)* | 28,751,774 | | 28,751,774 |
| In-kind community support *(Note 10)* | 1,108,930 | | 1,108,930 |
| Total program services | 92,624,907 | | 92,624,907 |
| Fundraising | 7,455,974 | | 7,455,974 |
| Management and general | 3,825,967 | | 3,825,967 |
| Total expenses | 103,906,848 | | 103,906,848 |
| CHANGES IN NET ASSETS | (2,599,813) | (27,567,326) | (30,167,139) |
| Net assets, beginning of year | 64,424,648 | 43,239,795 | 107,664,443 |
| Net assets, end of year | $ 61,824,835 | $ 15,672,469 | $ 77,497,304 |

*See accompanying notes to financial statements.*

## United Way of Greater Houston

Statements of Functional Expenses for the years ended March 31, 2020 and 2019

| EXPENSES | PROGRAM SERVICES | FUNDRAISING | MANAGEMENT AND GENERAL | 2020 TOTAL |
|---|---|---|---|---|
| Community investments (grants for program services) | $ 48,975,300 | | | $ 48,975,300 |
| Disaster response grants | 8,189,144 | | | 8,189,144 |
| Salaries and related expenses | 9,135,145 | $ 4,660,892 | $ 2,658,927 | 16,454,964 |
| Professional and contract services | 700,105 | 1,419,423 | 530,428 | 2,649,956 |
| Occupancy | 2,007,393 | 345,471 | 163,299 | 2,516,163 |
| Depreciation | 765,560 | 261,544 | 157,423 | 1,184,527 |
| Printing and supplies | 317,378 | 340,635 | 86,644 | 744,657 |
| Dues to national organization | 370,858 | 162,448 | 118,645 | 651,951 |
| Conferences and meetings | 75,663 | 449,747 | 23,029 | 548,439 |
| Advertising | 205,158 | 205,159 | | 410,317 |
| Professional development and travel | 118,701 | 67,850 | 94,491 | 281,042 |
| Other | 38,955 | 18,541 | 39,473 | 96,969 |
| Total expenses | $ 70,899,360 | $ 7,931,710 | $ 3,872,359 | $ 82,703,429 |

| EXPENSES | PROGRAM SERVICES | FUNDRAISING | MANAGEMENT AND GENERAL | 2019 TOTAL |
|---|---|---|---|---|
| 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 |
| Professional and contract services | 729,645 | 1,059,438 | 588,212 | 2,377,295 |
| Occupancy | 2,018,162 | 378,217 | 187,829 | 2,584,208 |
| Depreciation | 712,177 | 243,306 | 146,446 | 1,101,929 |
| Printing and supplies | 396,934 | 398,635 | 67,080 | 862,649 |
| Dues to national organization | 366,737 | 168,450 | 152,133 | 687,320 |
| Conferences and meetings | 84,122 | 647,792 | 43,497 | 775,411 |
| Advertising | 129,628 | 129,628 | | 259,256 |
| Professional development and travel | 141,515 | 67,813 | 18,523 | 227,851 |
| Other | 38,143 | 90,486 | 33,628 | 162,257 |
| Total expenses | $ 92,624,907 | $ 7,455,974 | $ 3,825,967 | $ 103,906,848 |

*See accompanying notes to financial statements.*

## United Way of Greater Houston

Statements of Cash Flows for the years ended March 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | $ (11,139,107) | $ (30,167,139) |
| Adjustments to reconcile changes in net assets to net cash used by operating activities: | | |
| Depreciation | 1,184,527 | 1,101,929 |
| Net realized and unrealized (gain) loss on investments | 2,022,205 | (85,156) |
| Changes in operating assets and liabilities: | | |
| Government contracts and other receivables | 42,501 | 284,642 |
| Prepaid expenses and other assets | (37,211) | 39,590 |
| Contributions receivable | 1,224,442 | (739,131) |
| Accounts payable | 25,662 | (422,998) |
| Payroll and other accrued liabilities | 50,418 | 72,715 |
| Amounts committed to community program services | (2,198,248) | 508,318 |
| Amounts donor-designated for other campaigns | (436,479) | 116,220 |
| Deferred revenue | | (7,865) |
| Net cash used by operating activities | (9,261,290) | (29,298,875) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales and maturities of investments | 40,632 | 33,395,569 |
| Purchase of investments | (538,483) | (2,128,888) |
| Net change in money market mutual funds held as investments | 7,285,991 | (7,867,329) |
| Purchases of property and equipment | (462,113) | (756,403) |
| Net cash provided by investing activities | 6,326,027 | 22,642,949 |
| NET CHANGE IN CASH EQUIVALENTS | (2,935,263) | (6,655,926) |
| Cash and cash equivalents, beginning of year | 11,614,965 | 18,270,891 |
| Cash and cash equivalents, end of year | $ 8,679,702 | $ 11,614,965 |

*See accompanying notes to financial statements.*

## 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.

Government contracts and other receivables represent the United Way's right to consideration that is conditioned only on the passage of time for performance obligations already satisfied. An allowance for accounts receivable is established by recognizing bad debt expense when changed circumstances indicate the transaction price may no longer be collected in full. Accounts are written off after collection efforts have been exhausted and an account is deemed uncollectible.

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 estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances.

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. Contributions received with donor stipulations that limit their use are classified as *net assets with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when conditions have been met. Funding received before conditions are met is reported as refundable advances, if any.

Donated materials, use of facilities and services – 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.

Fees and program revenue are derived primarily from government contracts for the 2-1-1 Helpline program, facility usage fees, and workshop and training programs. Revenue is recognized when the services are provided in an amount that reflects the consideration that United Way expects to be entitled to in exchange for those services. The nature of these services does not give rise to contract costs, refunds, warranties or other related obligations.

*Government contract income* – United Way has agreements with the Texas Health and Human Services Commission (HHSC) to provide 2-1-1 Texas information and referral services. Revenue is recognized over time as performance obligations are met using the input method based on the labor hours expended and third-party costs incurred. Payment is due upon submission of reimbursement to HHSC.

*Facility usage fees* – United Way offers space for private events, conferences and meetings. Reservation deposits for future private events and programs are due upon execution of a contract with the remaining balance due prior to the event. Deposits are applicable to future fees, but may be refunded at the discretion of United Way if a contract is cancelled. Revenue is recognized at a point in time when the meeting occurs or the service is provided.

*Workshop and training fees* – United Way offers workshops and training classes through its financial stability, childcare and other programs. Revenue from workshops and training classes is recognized at a point in time when the workshop or class occurs, and the performance obligation is met.

At March 31, 2020, 2019 and 2018, accounts receivable for government contract income were $504,082, $527,529 and $847,869, respectively. United Way has no contract assets or liabilities at March 31, 2020, 2019 or 2018.

<u>Community investments in program services</u> 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 met by the recipient. 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, 2020, these commitments are due to be paid within one year.

<u>Advertising costs</u> are expensed as incurred.

<u>Functional allocation of expenses</u> – Expenses are reported by their functional classification. 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 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 the number of computer units utilized by each department. Advertising costs are allocated based on management estimates of costs utilized by each department.

<u>Estimates</u> – 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.

<u>Recent financial accounting pronouncement</u> – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (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, 2021. United Way plans to adopt this ASU for fiscal year ending March 31, 2023. Upon adoption, management expects to recognize base commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

## NOTE 2 – ADOPTION OF NEW ACCOUNTING STANDARDS

Effective April 1, 2019, United Way adopted ASU 2014-19, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services using a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Simultaneously, United Way adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. These ASU's have been applied on a retrospective basis to the financial statements for the year ended March 31, 2019. Adoption of these standards had no impact on 2019 net assets or changes in net assets.

## 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 comprise the following:

| | 2020 | 2019 |
|---|---|---|
| Financial assets: | | |
| Cash equivalents | $ 8,679,702 | $ 11,614,965 |
| Government contracts and other receivables | 582,749 | 625,250 |
| Short-term investments restricted for Hurricane Relief | 4,607,397 | 11,893,388 |
| Contributions receivable, net | 35,423,874 | 36,648,316 |
| Investments | 18,268,334 | 19,792,688 |
| Total financial assets | 67,562,056 | 80,574,607 |
| Less financial assets not available for general expenditure: | | |
| Restricted by donors for building maintenance | (1,573,052) | (1,573,052) |
| Restricted by donors for program initiatives and other | (408,859) | (803,277) |
| Contributions receivable due in more than one year | | (230,653) |
| Amounts donor-designated for other United Way campaigns | (860,462) | (1,296,941) |
| Board-designated operating reserve | (10,349,000) | (11,120,000) |
| Board-designated disaster response reserve | (500,000) | (500,000) |
| Board-designated capital maintenance reserve | (313,013) | (313,013) |
| Total financial assets available for general expenditure | $ 53,557,670 | $ 64,737,671 |

As part of its liquidity management, United Way has a policy to structure its 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 described 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 consistent throughout the fiscal year. To manage liquidity, United Way optimizes usage of short-term investments included in its total investment 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 AND CASH EQUIVALENTS

Cash equivalents consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Money market mutual funds | $ 8,614,271 | $ 11,564,449 |
| Certificate of deposit | 51,265 | 50,516 |
| Demand deposits | 14,166 | |
| Total cash equivalents | $ 8,679,702 | $ 11,614,965 |

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:

| | 2020 | 2019 |
|---|---|---|
| Contributions receivable – annual campaign | $ 36,166,357 | $ 37,691,545 |
| Contributions receivable – other | 3,942,995 | 3,233,492 |
| Allowance for uncollectible contributions receivable | (4,637,977) | (4,220,431) |
| Discount to net present value at 1.5% | (47,501) | (56,290) |
| Contributions receivable, net | $ 35,423,874 | $ 36,648,316 |

Contributions receivable at March 31, 2020 are expected to be collected as follows:

| | |
|---|---|
| 2021 | $ 38,909,352 |
| 2022 | 600,000 |
| 2023 | 600,000 |
| Total contributions receivable | $ 40,109,352 |

*Conditional contribution* – In 2020, United Way received a $1 million conditional matching contribution from a foundation for the COVID-19 Recovery Fund. At March 31, 2020, $769,394 has not been recognized as contribution revenue as the conditions have not been satisfied. In April 2020, the condition was met and contribution revenue of $769,394 will be recognized in fiscal year 2021.

## 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, 2020 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investments: | | | | |
| Equity mutual funds: | | | | |
| Large-cap | $ 6,587,074 | | | $ 6,587,074 |
| International | 3,904,042 | | | 3,904,042 |
| Real estate | 738,078 | | | 738,078 |
| Small-cap | 521,164 | | | 521,164 |
| Fixed-income mutual funds: | | | | |
| Short and intermediate bond | 5,164,665 | | | 5,164,665 |
| International aggregate index | 1,353,311 | | | 1,353,311 |
| Money market mutual funds | 4,607,397 | | | 4,607,397 |
| Total investments | 22,875,731 | | | 22,875,731 |
| Money market mutual funds held as cash equivalents | 8,614,271 | | | 8,614,271 |
| Total assets measured at fair value | $ 31,490,002 | $ 0 | $ 0 | $ 31,490,002 |

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

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| 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 |
| Fixed-income mutual funds: | | | | |
| Short and intermediate bond | 5,458,832 | | | 5,458,832 |
| International aggregate index | 1,429,500 | | | 1,429,500 |
| Money market mutual funds | 11,893,388 | | | 11,893,388 |
| Total investments | 31,686,076 | | | 31,686,076 |
| Money market mutual funds held as cash equivalents | 11,564,449 | | | 11,564,449 |
| Total assets measured at fair value | $ 43,250,525 | $ 0 | $ 0 | $ 43,250,525 |

*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:

| | 2020 | 2019 |
|---|---|---|
| Land | $ 6,840,220 | $ 6,840,220 |
| Buildings and improvements | 30,826,950 | 30,770,173 |
| Furniture, fixtures, and equipment | 9,001,586 | 8,596,250 |
| Vehicles | 35,434 | 35,434 |
| Total property and equipment, at cost | 46,704,190 | 46,242,077 |
| Accumulated depreciation | (15,742,836) | (14,558,309) |
| Property and equipment, net | $ 30,961,354 | $ 31,683,768 |

## NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

| | 2020 | 2019 |
|---|---|---|
| Undesignated | $ 28,145,622 | $ 35,534,924 |
| Designated by the Board: | | |
| Community initiatives | 13,365,039 | 12,767,692 |
| Operating reserve | 10,349,000 | 11,120,000 |
| Community impact and response | 2,310,445 | 1,589,206 |
| Disaster response | 500,000 | 500,000 |
| Capital maintenance | 313,013 | 313,013 |
| Total net assets without donor restrictions | $ 54,983,119 | $ 61,824,835 |

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.

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:

| | 2020 | 2019 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Disaster response – Hurricane Relief | $ 4,912,286 | $ 11,141,085 |
| Disaster response – COVID-19 Relief | 2,579,160 | |
| Building maintenance | 1,573,052 | 1,573,052 |
| Education Initiative | 478,650 | 210,769 |
| Montgomery County | 408,859 | 402,939 |
| Disaster response – disaster recovery | 314,514 | 927,334 |
| Out of School Time | 297,641 | 931,023 |
| Sponsorships to support future events | 244,537 | 153,128 |
| United Way THRIVE | 215,412 | 305,197 |
| United Way Bright Beginnings | 200,000 | |
| Second Century Vison – strategic planning | 110,000 | |
| Other | 40,967 | 27,942 |
| Total net assets with donor restrictions | $ 11,375,078 | $ 15,672,469 |

## 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 2020 and 2019 commitments to programs and agencies are based on the results of the fall and winter 2019 and 2018 campaigns, and are reflected as community investment expense in the statement of activities for the years ended March 31, 2020 and 2019, respectively. Amounts received in 2020 for donor-designated gifts to other United Ways campaigns total approximately $796,000. Amounts received in 2019 for donor-designated gifts to other United Ways campaigns total approximately $1.2 million.

Contributions designated by donors to be paid to specific United Way Agencies (Agencies) of approximately $4.1 million and $4.9 million are included in unrestricted revenue and community investment expense at March 31, 2020 and 2019, 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.

<u>In-kind community support</u> – United Way provides community support and reports in-kind rental income included in other income through in-kind grants of facilities, supplies, and services at area centers totaling approximately $1,104,000 in 2020 and $1,109,000 in 2019.

## 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 $50 million. 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, 2020, approximately $46 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 2020, United Way's contribution was approximately $963,000, which included a matching contribution of $635,000 and a discretionary contribution of $328,000. 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.

***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, 2020 and 2019 were approximately $1,612,000 and $1,481,000, 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, 2020 and 2019 were approximately $739,000 and $741,000, respectively.

As of March 31, 2020, the future minimum annual lease payments under these noncancelable operating leases are as follows:

| | |
|---|---|
| 2021 | $ 727,253 |
| 2022 | 726,494 |
| 2023 | 575,949 |
| 2024 | 584,676 |
| 2025 | 593,402 |
| Thereafter | 602,128 |
| Total | $ 3,809,902 |

United Way subleased office space with rental income totaling approximately $315,000 in 2020 and $275,000 in 2019.

*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

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States.

Financial markets have been severely impacted by fears that the COVID-19 pandemic will push the global economy into recession in addition to the decline in the price of oil. The U. S. stock market experienced a significant decline and remains volatile, which may negatively affect the performance of investments.

United Way has pursued and received financial relief of approximately $3 million under the Small Business Administration's Paycheck Protection Program, which is legislation passed by the Federal government. The loan accrues interest at 1% and is payable over two years. The loan is subject to be forgiven if conditions are met, including the use of the funds being used to meet payroll and other specific expenses.

The extent of the impact of COVID-19 on United Way's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on visitors, donors, employees, and vendors all of which are uncertain and cannot be predicted. Therefore, while United Way expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through October 1, 2020, which is the date that the financial statements were available for issuance. No other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.