

UNITED WAY OF SANTA CRUZ COUNTY
(a California nonprofit corporation)

AUDITED FINANCIAL STATEMENTS

For the year ended June 30, 2018
(with summarized comparative totals for June 30, 2017)



UNITED WAY OF SANTA CRUZ COUNTY
(a California nonprofit corporation)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
United Way of Santa Cruz County
Capitola, California

We have audited the accompanying financial statements of United Way of Santa Cruz County (the "Organization," a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 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 the Organization as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Activities Detail on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Emphasis of a Matter – Correction of Error

As discussed in Note 12 to the financial statements, the Organization restated and corrected the 2017 financial statements for certain errors resulting in an overstatement or understatement of accounts previously reported for assets, liabilities, net assets and expenses. Our opinion is not modified with respect to the matter and the summarized comparative information presented herein as of and for the year ended June 30, 2017 is otherwise consistent, in all material respects, with the audited financial statements for which it has been derived.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BPM 22P

Menlo Park, California
February 14, 2019

UNITED WAY OF SANTA CRUZ COUNTY

STATEMENT OF FINANCIAL POSITION

As of June 30, 2018

(with summarized comparative totals for June 30, 2017)

ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(For comparative purposes only)
					2017 Total
					<i>(Restated, Note 12)</i>
Current assets:					
Cash and cash equivalents	\$ 76,673	\$ 139,120	\$ 5,000	\$ 220,793	\$ 424,448
Grants and other receivables	20,814	379,991	-	400,805	436,278
Pledges receivable (net of allowance for uncollectible amounts of \$68,010)	252,129	25,381	-	277,510	276,000
Prepaid expenses	1,917	2,482	-	4,399	4,606
Total current assets	<u>351,533</u>	<u>546,974</u>	<u>5,000</u>	<u>903,507</u>	<u>1,141,332</u>
Long-term assets:					
Property and equipment, net	3,124	-	-	3,124	5,962
Beneficial interest in permanently restricted net assets held by others	-	-	38,746	38,746	34,022
Deposits	5,280	-	-	5,280	5,280
Total long-term assets	<u>8,404</u>	<u>-</u>	<u>38,746</u>	<u>47,150</u>	<u>45,264</u>
Total assets	<u>\$ 359,937</u>	<u>\$ 546,974</u>	<u>\$ 43,746</u>	<u>\$ 950,657</u>	<u>\$ 1,186,596</u>
 LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable	\$ 37,607	\$ 162,271	\$ -	\$ 199,878	\$ 33,395
Accrued expenses	10,863	64,212	-	75,075	262,907
Allocations payable	35,108	81,342	-	116,450	155,000
Designations payable - member and non-member	176,508	-	-	176,508	185,722
Deferred rent liability	7,563	27,839	-	35,402	48,298
Deferred exchange transactions	-	-	-	-	2,500
Total current liabilities	<u>267,649</u>	<u>335,664</u>	<u>-</u>	<u>603,313</u>	<u>687,822</u>
Net assets	<u>92,288</u>	<u>211,310</u>	<u>43,746</u>	<u>347,344</u>	<u>498,774</u>
Total liabilities and net assets	<u>\$ 359,937</u>	<u>\$ 546,974</u>	<u>\$ 43,746</u>	<u>\$ 950,657</u>	<u>\$ 1,186,596</u>

The accompanying notes are an integral part of these financial statements.

UNITED WAY OF SANTA CRUZ COUNTY

STATEMENT OF ACTIVITIES

For the year ended June 30, 2018
(with summarized comparative totals for June 30, 2017)

	2018			(For comparative purposes only) 2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Public support:					<i>(Restated, Note 12)</i>
Campaign support:					
Annual campaign	\$ 671,618	\$ -	\$ -	\$ 671,618	\$ 788,205
Less donor designations to other organizations	(338,956)	-	-	(338,956)	(198,281)
Less donor designations paid by others	(1,000)	-	-	(1,000)	(832)
Less provision for uncollectible pledges	(71,654)	-	-	(71,654)	(152,494)
Net campaign support	<u>260,008</u>	<u>-</u>	<u>-</u>	<u>260,008</u>	<u>436,598</u>
Other public support and revenue:					
Grants and contracts	1,943,340	112,500	-	2,055,840	2,038,930
Community projects and miscellaneous support	218,899	-	-	218,899	62,359
Foundation grants	125,786	84,541	-	210,327	482,806
Special fund raising events	167,915	-	-	167,915	356,512
Fees for service	750	-	-	750	15,150
Investment income	102	-	-	102	160
Other income	64,297	-	4,724	69,021	80,266
Total other public support and revenue	<u>2,521,089</u>	<u>197,041</u>	<u>4,724</u>	<u>2,722,854</u>	<u>3,036,183</u>
Total net assets released from restrictions	475,825	(475,825)	-	-	-
Total public support, revenue and net assets released from restrictions	<u>3,256,922</u>	<u>(278,784)</u>	<u>4,724</u>	<u>2,982,862</u>	<u>3,472,781</u>
Expenses:					
Program services	2,497,203	-	-	2,497,203	2,640,520
Supporting services	637,089	-	-	637,089	752,366
Total expenses	<u>3,134,292</u>	<u>-</u>	<u>-</u>	<u>3,134,292</u>	<u>3,392,886</u>
Change in net assets	122,630	(278,784)	4,724	(151,430)	79,895
Net assets:					
Net assets, beginning of year, as restated	(30,342)	490,094	39,022	498,774	418,879
Net assets, end of year	<u>\$ 92,288</u>	<u>\$ 211,310</u>	<u>\$ 43,746</u>	<u>\$ 347,344</u>	<u>\$ 498,774</u>

The accompanying notes are an integral part of these financial statements.

UNITED WAY OF SANTA CRUZ COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2018
(with summarized comparative totals for June 30, 2017)

	2018								(For comparative purposes only) 2017 Total <i>(Restated, Note 12)</i>
	Program Services			Supporting Services					
	Community Programs/ Grants	First 5 of Santa Cruz County	Total Program Services	Administration	First 5 of Santa Cruz County Administration	Fundraising	Total Supporting Services	Total	
Salaries	\$ 367,258	\$ 504,968	\$ 872,226	\$ 117,237	\$ 153,275	\$ 76,166	\$ 346,678	\$ 1,218,904	\$ 1,273,963
Benefits and payroll taxes	86,767	209,197	295,964	35,952	60,706	23,713	120,371	416,335	457,550
Total salaries and related expenses	454,025	714,165	1,168,190	153,189	213,981	99,879	467,049	1,635,239	1,731,513
Professional fees	493,118	409,833	902,951	10,672	24,591	13,469	48,732	951,683	885,666
Allocations to partner programs	130,975	-	130,975	-	-	-	-	130,975	195,777
Travel, conference and meetings	17,401	44,165	61,566	4,971	1,740	2,550	9,261	70,827	95,891
Supplies	79,866	33,059	112,925	3,247	7,233	2,058	12,538	125,463	164,210
Occupancy	33,758	16,919	50,677	7,762	18,058	5,548	31,368	82,045	92,490
Printing and publications	24,787	7,534	32,321	4,479	866	27,242	32,587	64,908	125,121
Family service association	-	-	-	-	-	-	-	-	18,017
Equipment rental and maintenance	3,288	6,754	10,042	3,896	1,323	1,773	6,992	17,034	12,081
Membership dues	7,370	2,902	10,272	3,326	6,327	2,513	12,166	22,438	15,164
United Way Worldwide dues	-	-	-	-	-	-	-	-	20,096
Telephone	6,776	4,927	11,703	1,782	3,697	1,963	7,442	19,145	13,836
Postage and shipping	741	1,678	2,419	592	607	810	2,009	4,428	5,522
Depreciation	-	-	-	2,796	-	42	2,838	2,838	4,634
Miscellaneous	945	-	945	128	99	-	227	1,172	7,191
Insurance	1,689	528	2,217	414	3,079	387	3,880	6,097	5,677
Total functional expenses	<u>\$ 1,254,739</u>	<u>\$ 1,242,464</u>	<u>\$ 2,497,203</u>	<u>\$ 197,254</u>	<u>\$ 281,601</u>	<u>\$ 158,234</u>	<u>\$ 637,089</u>	<u>\$ 3,134,292</u>	<u>\$ 3,392,886</u>

The accompanying notes are an integral part of these financial statements.

UNITED WAY OF SANTA CRUZ COUNTY

STATEMENT OF CASH FLOWS

For the years ended June 30, 2018 and 2017

	2018	2017 <i>(Restated, Note 12)</i>
Cash flows from operating activities:		
Change in net assets	\$ (151,430)	\$ 79,895
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Changes in beneficial interest in assets held by others	(4,724)	-
Depreciation	2,838	4,634
Bad debt/pledge loss expense	71,654	152,494
(Increase) decrease in:		
Pledges receivable	(73,164)	(113,615)
Grants and other receivables	35,473	222,721
Prepaid expenses	207	19,446
Increase (decrease) in:		
Accounts payable and accrued expenses	(21,349)	(19,122)
Allocations payable	(38,550)	(95,250)
Designations payable - member and non-members	(9,214)	(24,383)
Deferred rent liability	(12,896)	(6,903)
Deferred exchange transactions	(2,500)	2,500
Net cash (used in) provided by operating activities	(203,655)	222,417
Cash flows from investing activities:		
Redemptions of certificates of deposit	-	55,557
Net cash provided by investing activities	-	55,557
Net (decrease) increase in cash and cash equivalents	(203,655)	277,974
Cash and cash equivalents, beginning of year	424,448	146,474
Cash and cash equivalents, end of year	\$ 220,793	\$ 424,448

The accompanying notes are an integral part of these financial statements.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

1. Nature of Organization

The United Way of Santa Cruz County (the "Organization") is a nonprofit charitable relief organization that raises funds primarily from local individuals and businesses and distributes those funds to various social service agencies in Santa Cruz County. The Organization also convenes organizations and individuals to solve community problems and improve the quality of life for the residents of Santa Cruz County. The Organization also includes the operations of the United Way of San Benito County.

The Organization collaborates with First 5 Santa Cruz County under two separate service agreements. Under the direction and supervision of the First 5 Santa Cruz County Commission ("First 5"), the Organization will hire staff or consultants to perform all necessary administrative duties to fulfill the responsibilities of First 5 as outlined in the service agreements.

Community engagement, education and advocacy are the cornerstones of United Way's work. United Way engages with the community through in house programs that are funded through county contracts, private foundations and grants. These include critical areas of concern: homelessness, obesity, poverty, youth violence prevention, healthy eating, children's network – and others. As the lead organization for these initiatives, United Way plays a critical role in the community – promoting change at all levels of the community.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States ("U.S. GAAP").

Financial Statement Presentation

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. The provisions of these standards require the Organization to report its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based upon the existence or absence of donor-imposed restrictions.

Unrestricted net assets include those assets over which the Board of Directors (the "Board") has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes. Unrestricted net assets currently include the operating fund and Board designated funds.

Temporarily restricted net assets include those assets which are subject to donor restrictions and for which the applicable restriction was not met as of the year end of the current reporting period. Donor restrictions expire when stipulated time restriction ends or purpose restriction is accomplished. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions when the restrictions expire.

Permanently restricted net assets include those assets which are subject to non-expiring donor restriction, such as endowments.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

2. Summary of Significant Accounting Policies, continued

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, money market funds and all highly liquid debt instruments with original maturities of three months or less.

Annual Campaign, Pledges Receivable, Designations, and Provisions for Uncollectible Pledges

The Organization conducts an annual campaign to raise funds to support various social service agencies in Santa Cruz and San Benito Counties. Pledges received from local individuals and businesses are recorded as revenue and a receivable upon receipt of the pledge, and an allowance is provided for amounts estimated as uncollectible. Included in these pledges are contributions designated by donors for other nonprofit organizations, for which the Organization serves as the primary fiscal agent in the solicitation and distribution of such pledges, net of related administrative fees. These pledges are included in campaign support and are deducted as donor designations to other organizations in the statement of activities to arrive at net campaign support.

Also included in these pledges raised by the Organization are contributions designated for other nonprofit organizations by employee donors of certain companies. These companies distribute the designated funds directly to the other nonprofit organizations, net of related administrative fees. These pledges are also included in campaign support, and are deducted as donor designations paid by others in the Organization's statement of activities to arrive at net campaign support.

The provision for uncollectible pledges is computed based upon historical averages and management's consideration of current economic factors that could affect pledge collections. Using the criteria, the provision as of June 30, 2018 was determined to be 10% of gross campaign pledges. Bad debt recovery is netted against the gross provision for uncollectible pledges on the statements of activities. For the year ended June 30, 2018, there was no bad debt recovery.

Beneficial Interest

In connection with an establishment of the endowment fund at The Community Foundation for San Benito County ("CFSBC"), the Organization transferred the endowment fund assets to CFSBC to manage as investments and specified itself as the beneficiary. Thus, the Organization has a beneficial interest in such endowment fund assets.

A beneficial interest is defined as a future economic benefit of anticipated further cash flows. The Organization has a beneficial interest in the endowment fund assets of CFSBC. The CFSBC measures its beneficial interest at fair value on a recurring basis at each financial statement date; accordingly, the Organization reports its beneficial interest in the CFSBC endowment fund assets in the statement of financial position and reports a change in its beneficial interest in the statement of activities.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

2. **Summary of Significant Accounting Policies, continued**

Property and Equipment

All purchased equipment is stated at cost and donated equipment is stated, at fair value at the date of the donation for items exceeding \$1,000. During the year ended June 30, 2018, no equipment was donated to the Organization. Major improvements are charged to the property accounts, while repairs and maintenance, which do not extend the life of the asset, are expensed in the current year. Estimated useful lives are as follows:

Computer and office equipment	5-7 years
Leasehold improvements	5-10 years

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets.

Allocations Expenses and Allocations Payable

Allocations are contributions from the Organization to member agencies. Allocations are made from unrestricted support raised by the annual campaign. Member agencies are selected every three years by the governing board, with annual updated financial reports and annual site visits. Unconditional promises to give are reported as an expense upon notification of the promise.

The Organization mails out allocation letters prior to the close of its fiscal year. Accordingly, those allocations are reported as an expense and as allocations payable. The allocations are paid out over the following fiscal year.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Additionally, a substantial number of volunteers donated significant amounts of their time in the Organization's fund-raising campaigns.

Income Taxes

The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and from California franchise tax under Section 23701d of the Revenue and Taxation Code.

Fair Value Measurements

The carrying amount of cash and cash equivalents, pledges, grants and other receivables, and accounts payable approximate fair market value due to short-term maturities of these instruments.

The Organization defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

The three levels of the fair value hierarchy are described below:

- Level 1: quoted prices in active markets for identical investments.
- Level 2: pricing inputs, including broker quotes, are those other than exchange quoted prices in active markets, and are either directly or indirectly observable as of the reporting date in which the fair value is determined through the use of models or other valuation methodologies.
- Level 3: pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments and may require a high level of judgment to determine fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Level 1 assets are based on quoted market prices. Level 2 assets are based on estimated current market inputs for similar financial instruments with comparable terms and credit quality.

The following table presents the assets that are measured at fair value on a recurring basis as of June 30, 2018:

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 75,072	\$ -	\$ -	\$ 75,072
Beneficial interest in assets held by others	-	-	38,746	38,746
	\$ 75,072	\$ -	\$ 38,746	\$ 113,818

Assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

Balance at June 30, 2017	\$ 34,022
Change in value	4,724
Balance at June 30, 2018	\$ 38,746

Deferred Rent Liability

The Organization's lease of their main office space in Capitola, California, provides for a 3% increase in monthly lease payments and triple net charges. The Organization recognizes the related rent expense on a straight-line basis over the life of the lease and records the difference between the expense included in the accompanying statement of activities and the amount recorded as deferred rent liability.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

The majority of expenses can be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among program and supporting services classification based on the average number of full-time employees, the time study allocation method, and on a direct costs basis. This is consistent with the standards for allocation of functional expenses in accordance with United Way Worldwide.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Summarized Financial Information for Fiscal Year 2017

The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset class or functional category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the June 30, 2017 financial statements of United Way of Santa Cruz County, from which the summarized information was derived.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which converges the FASB and the International Accounting Standards Board standards on revenue recognition. The ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Organization is currently evaluating the impact of the adoption of this ASU on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (842). The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early application is permitted. The Organization is in the process of evaluating the impact of the new guidance on its financial statements.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The accounting for contributions has been modified to clarify distinguishing whether grants or contracts should be accounted for as non-reciprocal contributions, or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third-party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2018 for contributions received, and after December 15, 2019 for contributions made with early adoption permitted. The Organization is currently evaluating the impact of the adoption of this ASU on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (958). This statement includes updates that improve the usefulness of financial statements or reduce complexities for preparers. Some of the updates include requiring all nonprofits to present expenses by function and nature; replacing traditional three classes of net assets with only two classes (those with donor-imposed restrictions and those without); and reaffirmation of existing methods of presenting operating cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact of adoption on its financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of June 30, 2018:

Cash and checking accounts	\$	145,721
Money market and maximizer accounts		75,072
	\$	<u>220,793</u>

4. Prepaid Expenses

Prepaid expenses consisted of the following as of June 30, 2018:

Employee benefits	\$	3,838
Other		561
	\$	<u>4,399</u>

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

5. Property and Equipment, net

Property and equipment consisted of the following as of June 30, 2018:

	Donated	Purchased	Total
Computer equipment	\$ 28,164	\$ 47,739	\$ 75,903
Office equipment	-	40,641	40,641
Leasehold improvements	-	16,773	16,773
	\$ 28,164	\$ 105,153	133,317
Accumulated depreciation			(130,193)
Property and equipment, net			\$ 3,124

Depreciation expense was \$2,838 for the year ended June 30, 2018.

6. Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2018:

Restricted for use:

United Way of San Benito County	\$	60,211
Immunization Coalition		2,503
Smart Path		27,133
Santa Cruz County		2,100
Community Organizing		119,363
		\$ 211,310

Net Assets Released From Restrictions

Net assets were released from restrictions by incurring expenses that satisfied the restricted purpose during the year, by the passage of time, or by the direction of the donor for the year ended June 30, 2018, as follows:

Program services	\$	475,825
Time restricted		-
		\$ 475,825

Permanently Restricted Net Assets

Permanently restricted net assets are funds that are required by the gift instruments to be invested in perpetuity. The income from such investments is reflected in permanently restricted net assets. As of June 30, 2018, the Organization had \$43,746 in permanently restricted net assets.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

7. **Board Designation – Unrestricted Net Assets**

In fiscal year 2011-2012, the Board passed a motion to establish a goal of obtaining \$250,000 of unrestricted net assets for an operating reserve, which totaled \$92,288 as of June 30, 2018.

8. **Deferred Compensation Plan**

United Way sponsors a salary reduction contribution plan (the "Plan") pursuant to Section 403(b) of the Internal Revenue Code, covering substantially all employees. Under the Plan, employees contribute a specified percentage of their salary, or a fixed dollar amount, to the Plan. Participants are immediately vested in all contributions to the Plan.

The Organization contributes a percentage of each participant's salary, as approved by the Board. The percentage has historically been 3% to 8%. Contributions totaling \$70,842 for the year ended June 30, 2018 were made by the Organization, in addition to elective deferrals made by employees.

9. **Concentrations**

Concentration of Grants

The Organization collaborates with First 5 Santa Cruz County, who provides approximately 57% of the Organization's total support and revenue and represents approximately 42% of total grants receivable as of June 30, 2018. The contract with First 5 Santa Cruz County is renewable annually.

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of checking accounts, money market funds accounts, and accounts and pledges receivable.

Credit risk with respect to grants receivable is considered low because a substantial portion is from government agencies. Pledges receivable, which have been shown net of an allowance for uncollectible amounts, are due from corporations, foundations and individuals located primarily in Santa Cruz County.

Cash and Cash Equivalents

The Organization maintains balances in cash and interest-bearing deposit accounts in financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the FDIC. In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss.

10. **Lease Commitments**

In September 2010, the Organization entered into a ten year lease for its main office space in Capitola, California, ending August 2020. Monthly lease payments, including triple net charges, were \$5,780 for the year ended June 30, 2018. The agreement provides for a 3% increase in the monthly lease payment and triple net charges beginning in year six and continuing each subsequent year.

The Organization also rents two other program facilities on a month-to-month basis. Monthly rents for these facilities are \$450 and \$350.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

10. Lease Commitments, continued

Rent expense for the year ended June 30, 2018 was \$73,492, including triple net charges. As of June 30, 2018, the Organization is committed to the following annual minimum lease payments, including triple net charges:

<u>Year ending June 30:</u>	<u>Minimum Payment</u>	<u>Amortization of Straight-Line Deferred Rent (Deferred Liability)</u>	<u>Straight- Line Expense</u>
2019	\$ 75,424	\$ (15,094)	\$ 60,330
2020	77,682	(17,352)	60,330
2021	13,010	(2,956)	10,054
Thereafter	-	-	-
	<u>\$ 90,692</u>	<u>\$ (35,402)</u>	<u>\$ 70,384</u>

11. Advertising Costs

Advertising costs are expensed as incurred. For the year ended June 30, 2018, advertising expenses was \$2,590.

12. Adjustment to Prior Period Financial Statements

The Organization has adjusted its June 30, 2017 financial statements to record an endowment fund not previously recorded and to correct accounts payable for operating expenses from prior periods not previously recorded. As a result of these corrections, the June 30, 2017 financial statements were restated as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Beneficial interest in assets held by others	\$ -	\$ 34,022
Accounts payable	\$ 13,395	\$ 33,395
Net assets	\$ 484,752	\$ 498,774
Program service expense	\$ 2,620,520	\$ 2,640,520
Change in net assets	\$ 99,895	\$ 79,895

13. Endowment Fund

The Organization has established an endowment fund with CFSBC. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. The Endowment Fund is a permanently restricted net asset for which the principal value was stipulated by donors to be invested in perpetuity, with the earnings available to the Organization's action. Investment of these assets is at the discretion of the CFSBC.

UNITED WAY OF SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

13. **Endowment Fund**, continued

The Board has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act 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.

14. **Subsequent Events**

The Organization has evaluated events subsequent to June 30, 2018, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through February 14, 2019, which is the date these financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.