

UNITED WAY OF SANTA CRUZ COUNTY

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

HARSHWAL 
& COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

UNITED WAY OF SANTA CRUZ COUNTY
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INDEPENDENT AUDITOR'S REPORT

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

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, 2019, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Way of Santa Cruz County as of June 30, 2019, 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.

Emphasis of Matter

As discussed in note 2(O) to the financial statements, United Way of Santa Cruz County, adopted new accounting guidance, Accounting Standards Update (ASU) No. 2016-14 - Not-for-profits (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. My opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements of United Way of Santa Cruz County as of June 30, 2018, were audited by other auditors whose report dated February 14, 2019, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the Table of Contents 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 Supplementary Information is fairly stated in all material respects, in relation to the financial statements as a whole.

Harshwal & Company LLP

Oakland, California
January 25, 2020

FINANCIAL STATEMENTS

UNITED WAY OF SANTA CRUZ COUNTY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019
(Summarized Totals for 2018)

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents (Note 3) | \$ 187,718 | \$ 220,793 |
| Grants and other receivables | 760,875 | 400,805 |
| Pledges receivable (net of allowance for doubtful accounts of \$96,787 and \$68,010) | 179,748 | 277,510 |
| Prepaid expenses (Note 4) | 7,779 | 4,399 |
| Property and equipment, Net (Note 5) | 1,576 | 3,124 |
| Beneficial interest with donor restriction net assets held by others | 41,503 | 38,746 |
| Deposits | <u>5,280</u> | <u>5,280</u> |
| Total assets | <u>1,184,479</u> | <u>950,657</u> |
| LIABILITIES | | |
| Accounts payable | 393,885 | 199,878 |
| Accrued expenses | 85,484 | 75,075 |
| Allocations payable | 110,551 | 116,450 |
| Designations payable - member and non-member | 178,266 | 176,508 |
| Deferred rent liability | <u>20,308</u> | <u>35,402</u> |
| Total liabilities | <u>788,494</u> | <u>603,313</u> |
| NET ASSETS | | |
| Without donor restrictions | 220,203 | 92,288 |
| With donor restrictions (Note 6) | <u>175,782</u> | <u>255,056</u> |
| Total net assets | <u>395,985</u> | <u>347,344</u> |
| Total liabilities and net assets | <u>\$ 1,184,479</u> | <u>\$ 950,657</u> |

The accompanying notes are an integral part of these financial statements

UNITED WAY OF SANTA CRUZ COUNTY
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(Summarized Totals for 2018)

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total 2019</u> | <u>Total 2018</u> |
|---|---|--|-------------------|-------------------|
| <i>SUPPORT AND REVENUES:</i> | | | | |
| Campaign support, net (Note 7) | \$ 402,913 | \$ - | \$ 402,913 | \$ 260,008 |
| Grants and contracts | 2,959,165 | 34,507 | 2,993,672 | 2,055,840 |
| Community projects and miscellaneous support | 72,616 | - | 72,616 | 218,899 |
| Foundation grants | 43,250 | 46,750 | 90,000 | 210,327 |
| Special fund raising events | 109,200 | - | 109,200 | 167,915 |
| Fees for service | 75 | - | 75 | 750 |
| Investment income | 2,574 | - | 2,574 | 102 |
| Other income | 28,380 | - | 28,380 | 69,021 |
| Net assets released from restrictions | <u>160,531</u> | <u>(160,531)</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | <u>3,778,704</u> | <u>(79,274)</u> | <u>3,699,430</u> | <u>2,982,862</u> |
| <i>EXPENSES:</i> | | | | |
| Program services | 3,132,371 | - | 3,132,371 | 2,497,203 |
| Supporting services | <u>518,418</u> | <u>-</u> | <u>518,418</u> | <u>637,089</u> |
| Total expenses | <u>3,650,789</u> | <u>-</u> | <u>3,650,789</u> | <u>3,134,292</u> |
| Change in net assets | <u>127,915</u> | <u>(79,274)</u> | <u>48,641</u> | <u>(151,430)</u> |
| Net assets, beginning of year | <u>92,288</u> | <u>255,056</u> | <u>347,344</u> | <u>498,774</u> |
| Net assets, end of year | <u>\$ 220,203</u> | <u>\$ 175,782</u> | <u>\$ 395,985</u> | <u>\$ 347,344</u> |

The accompanying notes are an integral part of these financial statements

**UNITED WAY OF SANTA CRUZ COUNTY
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(Summarized Totals for 2018)**

| | PROGRAMS SERVICES | | | SUPPORTING SERVICES | | | Total | Total | |
|---------------------------------------|---------------------|------------------------------------|------------------------------|---------------------|------------------------------------|--------------------------|---------------------------------|---------------------|---------------------|
| | Programs/ Grants | First 5 of Santa Cruz County | Total Program Services | Administration | First 5 of Santa Cruz County | Fundraising marketing | Total Supporting Services | 2019 | 2018 |
| Salaries | \$ 420,641 | \$ 629,274 | \$ 1,049,915 | \$ 104,269 | \$ 147,026 | \$ 87,408 | \$ 338,703 | \$ 1,388,618 | \$ 1,218,904 |
| Benefits/Payroll Taxes | 118,235 | 267,133 | 385,368 | 44,895 | 60,243 | 15,913 | 121,051 | 506,419 | 416,335 |
| Professional fees | 229,437 | 615,238 | 844,675 | 11,460 | 13,735 | 19,846 | 45,041 | 889,716 | 951,683 |
| Grant Making | 97,100 | - | 97,100 | - | - | 40,551 | 40,551 | 137,651 | 130,975 |
| Travel, conference and meetings | 16,447 | 32,876 | 49,323 | 1,836 | 1,988 | 3,377 | 7,201 | 56,524 | 70,827 |
| Community Engagements and Stipends | 7,801 | 319,013 | 326,814 | - | 6,695 | - | 6,695 | 333,509 | - |
| Program Supplies | 59,416 | 24,645 | 84,061 | 2,307 | 5,761 | 1,417 | 9,485 | 93,546 | 125,463 |
| Occupancy | 25,399 | 37,995 | 63,394 | 6,595 | 3,762 | 8,775 | 19,132 | 82,526 | 82,045 |
| Printing/Publications/ Marketing | 43,327 | 7,212 | 50,539 | 86 | 78 | 38,360 | 38,524 | 89,063 | 64,908 |
| Equipment rental and maintenance | 3,013 | 5,106 | 8,119 | 1,383 | 2,437 | 3,707 | 7,527 | 15,646 | 17,034 |
| Membership dues | 13,128 | 652 | 13,780 | 4,225 | 4,322 | 3,090 | 11,637 | 25,417 | 22,438 |
| Telephone | 5,596 | 7,137 | 12,733 | 1,083 | 1,246 | 1,597 | 3,926 | 16,659 | 19,145 |
| Postage and shipping | 649 | 809 | 1,458 | 386 | 872 | 1,787 | 3,045 | 4,503 | 4,428 |
| Property Fund: Depreciation | 851 | - | 851 | 325 | - | 372 | 697 | 1,548 | 2,838 |
| Administrative Offset | 140,753 | - | 140,753 | (140,753) | - | - | (140,753) | - | - |
| Miscellaneous | 54 | - | 54 | 794 | 794 | - | 1,588 | 1,642 | 1,172 |
| Insurance | 2,146 | 1,288 | 3,434 | 722 | 3,175 | 471 | 4,368 | 7,802 | 6,097 |
| Total functional expenses | \$ 1,183,993 | \$ 1,948,378 | \$ 3,132,371 | \$ 39,613 | \$ 252,134 | \$ 226,671 | \$ 518,418 | \$ 3,650,789 | \$ 3,134,292 |

The accompanying notes are an integral part of these financial statements

UNITED WAY OF SANTA CRUZ COUNTY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(Summarized Totals for 2018)

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 48,641 | \$ (151,430) |
| 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 | (2,757) | (4,724) |
| Depreciation | 1,548 | 2,838 |
| Bad debt/ pledge loss expense | 69,652 | 71,654 |
| Changes in assets and liabilities: | | |
| Pledges receivable | 28,110 | (73,164) |
| Grants and other receivables | (360,070) | 35,473 |
| Prepaid expenses | (3,380) | 207 |
| Accounts payable and accrued expenses | 204,416 | (21,349) |
| Allocations payable | (5,899) | (38,550) |
| Designations payable - member and non-members | 1,758 | (9,214) |
| Deferred rent liability | (15,094) | (12,896) |
| Deferred exchange transactions | <u>-</u> | <u>(2,500)</u> |
| Net cash used in operating activities | <u>(33,075)</u> | <u>(203,655)</u> |
| Net decrease in cash | (33,075) | (203,655) |
| Cash and cash equivalents, beginning of year | <u>220,793</u> | <u>424,448</u> |
| Cash and cash equivalents, end of year | <u>\$ 187,718</u> | <u>\$ 220,793</u> |

The accompanying notes are an integral part of these financial statements

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - NAME 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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").

B. Financial Statement Presentation

The financial statements of the Organization have been presented in accordance with U.S. generally accepted accounting principles ("US GAAP"). The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without Donor Restrictions: - 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. Net assets without donor restrictions currently include the operating fund and Board designated funds.

Net assets with Donor Restrictions: - 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. With donor restriction net assets are reclassified to without donor net assets and reported in the statement of activities as net assets released from restrictions when the restrictions expire.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. 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.

D. Annual Campaign, Pledges Receivable, Designations, and Allowance for Doubtful Accounts

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.

In December 2019, the World Health Organization has declared the outbreak of a novel coronavirus (COVID-19) as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets.

As a result of a downturn in the economy, the Organization changed to estimating the allowance based on an analysis of specific donors, taking into consideration the age of past due amounts and an assessment of the donor's ability to pay. This change resulted in a \$96,787 decrease in the change in net assets for the year ended June 30, 2019. The allowance for doubtful accounts for pledge receivable was \$96,787 and \$68,010 at June 30, 2019 and June 30, 2018, respectively.

E. Beneficial Interest

In connection with the 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.

F. 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, 2019, 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.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

F. Property and Equipment - Cont'd

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.

G. 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.

H. 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.

I. 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.

J. 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).

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.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

J. Fair Value Measurements - Cont'd

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, 2019:

| | <u>Assets at Fair Value as of June 30, 2019</u> | | | |
|--|---|----------------|------------------|------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Money market funds | \$ 24,080 | \$ - | \$ - | \$ 24,080 |
| Beneficial interest in assets held by others | <u>-</u> | <u>-</u> | <u>41,503</u> | <u>41,503</u> |
| Total | <u>\$ 24,080</u> | <u>\$ -</u> | <u>\$ 41,503</u> | <u>\$ 65,583</u> |

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

| | |
|--------------------------|------------------|
| Balance at June 30, 2018 | \$ 38,746 |
| Change in value | <u>2,757</u> |
| Balance at June 30, 2019 | <u>\$ 41,503</u> |

K. 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.

L. 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.

M. 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.

N. Summarized Financial Information for Fiscal Year 2018

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, 2018 financial statements of United Way of Santa Cruz County, from which the summarized information was derived.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

O. Recent Accounting Pronouncements

Adopted

For the year ended June 30, 2019, the organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - Not-for-profits (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This update addresses the complexity and understandability of net asset classification, deficiencies in formation about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied accordingly. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions.

Not yet adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for the Organization for the year ending June 30, 2020. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which provides that an entity should recognize revenue to depict the transfer of promised 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 by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfies a performance obligation.

In August 2015, the FASB issued ASU No. 2015-14, Deferral of the Effective Date ("ASU 2015-14"), which deferred the effective date of ASU 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing ("ASU 2016-10"), which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance in ASU 2014-09, while retaining the related principles for those areas.

In May 2016, the FASB issued ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"), which provides narrow-scope improvements and practical expedients to ASU 2014-09. ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 are effective for the Organization for the year ending June 30, 2020. Management is currently evaluating the impact of the provisions of ASU No. 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit-Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit-Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The adoption of ASU 2018-08 is effective for the Organization for the year ending June 30, 2020. Management is currently evaluating the impact of the provisions of ASU 2018-08 on the financial statements.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 - CASH AND CASH EQUIVALENTS

Credit Risk: Certain financial deposits potentially subject the Organization to concentrations of credit risk in that these deposits exceed federal deposit insurance limits. These financial deposits consist primarily of cash and cash equivalents. The Organization places its cash and cash equivalents with high credit, quality financial institutions.

At year-end, the carrying amount of the Organization cash deposits was \$187,718 and the bank balance was \$277,453. The difference between the bank balance and the carrying amount represents reconciling items of \$89,843 and petty cash of \$108.

Cash balances held in banks are insured up to \$250,000 by Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed insured limits. At June 30, 2019 the Organization was fully secured by FDIC as shown below.

| | <u>Comerica Bank</u> | <u>Rabo Bank</u> | <u>Santa Cruz County Bank</u> | <u>Total</u> |
|---------------------------|--------------------------|------------------|-----------------------------------|----------------|
| Total amounts of deposits | \$ 158,675 | \$ 105,126 | \$ 13,652 | \$ 277,453 |
| FDIC coverage | <u>158,675</u> | <u>105,126</u> | <u>13,652</u> | <u>277,453</u> |
| Total uninsured balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE 4 - PREPAID EXPENSES

Prepaid expenses consisted at June 30, were as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------|-----------------|-----------------|
| Employee benefits | \$ 7,470 | \$ 3,838 |
| Other | <u>308</u> | <u>561</u> |
| Total | <u>\$ 7,779</u> | <u>\$ 4,399</u> |

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted at June 30, were as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|------------------|------------------|
| Computer equipment | \$ 75,903 | \$ 75,903 |
| Office equipment | 40,641 | 40,641 |
| Leasehold improvements | <u>16,773</u> | <u>16,773</u> |
| | 133,317 | 133,317 |
| Accumulated depreciation | <u>(131,741)</u> | <u>(130,193)</u> |
| Property and equipment, net | <u>\$ 1,576</u> | <u>\$ 3,124</u> |

Depreciation expense was 1,548 and 2,838 for the year ended June 30, 2019 and 2018, respectively.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets are available for the following purposes as of June 30, 2019:

| | <u>June 30, 2018</u> | <u>Additions</u> | <u>Releases</u> | <u>June 30, 2019</u> |
|---------------------------------|--------------------------|------------------|-------------------|--------------------------|
| United Way of San Benito County | \$ 98,957 | \$ 34,507 | \$ 58,018 | \$ 75,446 |
| Immunization Coalition | 2,503 | - | - | 2,503 |
| Smart Path | 27,133 | - | 27,133 | - |
| Santa Cruz County | 2,100 | - | - | 2,100 |
| Community Organizing | 119,363 | 46,750 | 75,380 | 90,733 |
| Endowment | <u>5,000</u> | <u>-</u> | <u>-</u> | <u>5,000</u> |
| Total | <u>\$ 255,056</u> | <u>\$ 81,257</u> | <u>\$ 160,531</u> | <u>\$ 175,782</u> |

The donor restricted net assets shown above include an amount of \$46,503 which has been invested as part of endowment funds. The board of Organization decided to invest them as part of Board designated endowment funds.

NOTE 7 - NET CAMPAIGN SUPPORT

A summary of net campaign support following as of June 30:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Annual campaign | \$ 650,831 | \$ 671,618 |
| Less: | - | - |
| Donor designation to other organizations | (174,688) | (338,956) |
| Donor designations paid by others | (3,578) | (1,000) |
| Provision for uncollectible pledges | <u>(69,652)</u> | <u>(71,654)</u> |
| Net campaign support | <u>\$ 402,913</u> | <u>\$ 260,008</u> |

NOTE 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 \$79,856 and \$70,842 for the year ended June 30, 2019 and 2018, respectively were made by the Organization, in addition to elective deferrals made by employees.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 - CONCENTRATIONS

Concentration of Grants

The Organization collaborates with First 5 Santa Cruz County, who provides approximately 55% of the Organization's total support and revenue and represents approximately 57% of total grants receivable as of June 30, 2019. 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.

NOTE 10 - LEASE COMMITMENTS

In September 2010, the Organization entered into a ten years 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, 2019. 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 one other program facilities on a month-to-month basis. Monthly rent for the facility is \$350.

Rent expense for the year ended June 30, 2019 was \$79,978, including triple net charges. As of June 30, 2019, the Organization is committed to the following annual minimum lease payments, including triple net charges:

| Year ending June 30: | Minimum Payment | Amortization of Straight-Line Deferred Rent (Deferred Liability) | Straight- Line Expense |
|-------------------------|--------------------|---|------------------------------|
| 2020 | \$ 77,682 | \$ (17,352) | \$ 60,330 |
| 2021 | 13,010 | (2,956) | 10,054 |
| | <u>\$ 90,692</u> | <u>\$ (20,308)</u> | <u>\$ 70,384</u> |

NOTE 11 - ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expenses were \$10,878 and \$2,590 for the year ended June 30, 2019 and 2018, respectively.

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 - 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 with donor 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.

Interpretation of the relevant law:

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, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Underwater Endowment Funds:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the original and subsequent donor gift amounts. There were no fund deficiencies as of June 30, 2019.

Return objectives and Risk Parameters:

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real rate of return in excess of the spending policy.

Changes in Endowment Net Assets:

Changes in endowment net asset as of June 30, 2019 and 2018 consisted of the following:

| | |
|-------------------------------------|------------------------------------|
| | <u>With Donor Restrictions</u> |
| Endowment net assets, June 30, 2017 | \$ 39,022 |
| Investment income | <u>4,724</u> |
| Endowment net assets, June 30, 2018 | 43,746 |
| Investment income | <u>2,757</u> |
| Endowment net assets, June 30, 2019 | <u><u>\$ 46,503</u></u> |

From the above ending balance of endowment, \$41,503 is included in the investment (Note 2 (J)).

UNITED WAY OF SANTA CRUZ COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 - LIQUIDITY

The following represents the Organization's financial assets at June, 30:

| | <u>2019</u> | <u>2018</u> |
|------------------------------|---------------------|-------------------|
| Cash and cash equivalents | \$ 187,718 | \$ 220,793 |
| Grants and other receivables | 760,875 | 400,805 |
| Pledges receivable | <u>179,748</u> | <u>277,510</u> |
| Total financial assets | <u>\$ 1,128,341</u> | <u>\$ 899,108</u> |

The Organization's goal is to generally maintain financial assets to meet 90 days of operating expenses (approx. \$40,000). As part of its liquidity and investment plan, excess cash is invested in short-term investments - e.g. money market accounts, etc. - while longer term assets are invested in accordance with the Investment policy.

NOTE 14 - SUBSEQUENT EVENTS

In December 2019, COVID-19 emerged and has subsequently spread worldwide. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories and quarantining of people who may have been exposed to the virus. As of April 28, 2020, After close monitoring and responses and guidance from federal, state and local governments, in an effort to mitigate the spread of COVID- 19, the "Organization closed its operation for at least two weeks.

As the COVID-19 pandemic is complex and rapidly evolving. At this point, we cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on our business, results of operations, financial position and cash flows.

SUPPLEMENTARY INFORMATION

UNITED WAY OF SANTA CRUZ COUNTY
STATEMENT OF ACTIVITIES DETAIL
FOR THE YEAR ENDED JUNE 30, 2019

| <u>Allocations to partner programs</u> | <u>Approved Allocations</u> |
|---|---------------------------------|
| Women in Philanthropy | \$ 30,551 |
| 12 Days of Giving SB | 17,100 |
| Santa Cruz Community Ventures | 10,000 |
| CASA - San Benito | 6,500 |
| Hope Services | 6,500 |
| Emmaus House | 6,500 |
| Chamberlains Children's Center | 5,000 |
| Boy Scouts of America | 5,000 |
| YMCA | 5,000 |
| Community Food Bank - San Benito | 5,000 |
| Senior's Council | 4,500 |
| SBC Arts Council | 4,500 |
| Jovenes de Antano | 4,500 |
| San Benito County office of Education | 3,000 |
| Advocacy, Inc. | 3,000 |
| Girls, Inc. | 3,000 |
| Junior Achievement of Northern California, Inc. | 2,500 |
| Partnership for Children | 2,500 |
| Sun Street Centers | 2,500 |
| Suicide Prevention Services | 2,000 |
| Catholic Charities | 1,500 |
| Ag Against Hunger | 1,500 |
| Small Steps | 1,500 |
| CMAP TV | 1,000 |
| Friends of the SBC Free Library | 1,000 |
| BenitoLink.com | 1,000 |
| Salvation Army | 1,000 |
| | <u>\$ 137,651</u> |