

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
UNITED WAY OF ERIE COUNTY
December 31, 2018 and 2017**

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Independent Auditor's Report

Board of Directors
United Way of Erie County

We have audited the accompanying financial statements of the United Way of Erie County, which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgement, 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 United Way of Erie County as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note N to the financial statements, the United Way of Erie County adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14. Our opinion is not modified with respect to this matter.

Root, Spitznagel and Smiley, Inc.

ERIE, PENNSYLVANIA
March 29, 2019

FINANCIAL STATEMENTS

United Way of Erie County

STATEMENTS OF FINANCIAL POSITION

December 31,

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,277,467	\$ 1,515,030
Pledges receivable		
Without donor restriction		
Current year less allowance for uncollectibles of \$109,366 and \$131,022	196,955	193,481
Prior year less allowance for uncollectibles of \$0 and \$0	-	-
With donor restriction		
Subsequent year less allowance for uncollectibles of \$63,233 and \$74,042	780,504	910,047
Other receivables		
Sponsorships	620,000	596,250
Miscellaneous	36,298	25,293
Prepaid expenses	49,852	65,191
Long-term investments	46,841	281,173
Beneficial interest in funds held by others		
Endowment	16,413,233	18,856,773
Dolly Parton imagination library	306,458	313,552
Land, building and equipment, net of accumulated depreciation	<u>800,291</u>	<u>834,492</u>
Total assets	<u>\$ 21,527,899</u>	<u>\$ 23,591,282</u>
LIABILITIES		
Allocations and designations payable	\$ 146,561	\$ 130,882
Accounts payable and accruals	85,684	53,264
Deferred revenue	1,454,624	764,409
Accrued disaster relief	23,053	13,053
Mortgage payable	<u>360,719</u>	<u>395,515</u>
Total liabilities	<u>2,070,641</u>	<u>1,357,123</u>
NET ASSETS		
Without donor restrictions		
Designated by the Board for:		
Agency Stability	46,841	281,173
Endowment	16,413,233	18,856,773
Allocations and Other Initiatives	484,242	379,112
Undesignated	<u>996,222</u>	<u>860,901</u>
	<u>17,940,538</u>	<u>20,377,959</u>
With donor restrictions		
Temporarily restricted	1,462,239	1,801,922
Permanently restricted	<u>54,481</u>	<u>54,278</u>
	<u>1,516,720</u>	<u>1,856,200</u>
Total net assets	<u>19,457,258</u>	<u>22,234,159</u>
Total liabilities and net assets	<u>\$ 21,527,899</u>	<u>\$ 23,591,282</u>

The accompanying notes are an integral part of these statements.

United Way of Erie County

STATEMENTS OF ACTIVITIES

Year ended December 31,

	2018			Total
	Without Donor Restrictions	With Donor Restrictions		
		Temporarily Restricted	Permanently Restricted	
Public support and revenue				
Campaign revenue				
Direct contributions	\$ 2,073,388	\$ 1,636,418	\$ -	\$ 3,709,806
Net assets released from restrictions				
Expiration of time restrictions	1,725,501	(1,725,501)	-	-
Restriction satisfied by payments	195,258	(195,258)	-	-
Collection of prior year pledges, net	19,201	-	-	19,201
Less: donor designations	(558,100)	(55,342)	-	(613,442)
Less: estimated uncollectible pledges	(114,610)	-	-	(114,610)
Net campaign revenue	3,340,638	(339,683)	-	3,000,955
Revenue				
Grants	159,106	-	-	159,106
Other gifts and bequests	27,065	-	-	27,065
Interest and dividends	66,978	-	203	67,181
Net gains/(losses) on investments reported at fair value	(1,156,431)	-	-	(1,156,431)
Service fees	2,530	-	-	2,530
Other income - signature sponsorships	822,408	-	-	822,408
Other income	1,949	-	-	1,949
Total revenue, net	(76,395)	-	203	(76,192)
Total public support and revenue	3,264,243	(339,683)	203	2,924,763
Expenses				
Program services				
Gross funds awarded/distributed				
Direct allocations to agencies	2,092,679	55,342	-	2,148,021
Other allocations, projects and grants	1,355,949	-	-	1,355,949
Less: donor designations	(558,100)	(55,342)	-	(613,442)
Net funds awarded/distributed	2,890,528	-	-	2,890,528
Community impact	436,894	-	-	436,894
Labor services division	78,113	-	-	78,113
Erie free taxes	195,493	-	-	195,493
Erie together	-	-	-	-
Community schools	784,642	-	-	784,642
Dolly Parton imagination library	279,016	-	-	279,016
Total program services	4,664,686	-	-	4,664,686
Supporting services				
Fund raising	717,961	-	-	717,961
Administration	319,017	-	-	319,017
Total supporting services	1,036,978	-	-	1,036,978
Total expenses	5,701,664	-	-	5,701,664
CHANGE IN NET ASSETS	(2,437,421)	(339,683)	203	(2,776,901)
Net assets at beginning of year	20,377,959	1,801,922	54,278	22,234,159
Net assets at end of year	\$ 17,940,538	\$ 1,462,239	\$ 54,481	\$ 19,457,258

The accompanying notes are an integral part of these statements.

2017

Without Donor Restrictions	With Donor Restrictions		Total
	Temporarily Restricted	Permanently Restricted	
\$ 2,045,607	\$ 1,986,122	\$ -	\$ 4,031,729
1,923,037	(1,923,037)	-	-
262,047	(262,047)	-	-
8,132	-	-	8,132
(534,296)	(51,504)	-	(585,800)
(146,500)	-	-	(146,500)
3,558,027	(250,466)	-	3,307,561
313,612	-	-	313,612
20,798	-	-	20,798
101,889	-	169	102,058
2,533,022	-	-	2,533,022
3,874	-	-	3,874
693,652	-	-	693,652
1,945	-	-	1,945
3,668,792	-	169	3,668,961
7,226,819	(250,466)	169	6,976,522
2,657,508	51,504	-	2,709,012
1,452,383	-	-	1,452,383
(534,296)	(51,504)	-	(585,800)
3,575,595	-	-	3,575,595
409,281	-	-	409,281
78,781	-	-	78,781
195,310	-	-	195,310
89,691	-	-	89,691
643,085	-	-	643,085
262,047	-	-	262,047
5,253,790	-	-	5,253,790
652,922	-	-	652,922
303,757	-	-	303,757
956,679	-	-	956,679
6,210,469	-	-	6,210,469
1,016,350	(250,466)	169	766,053
19,361,609	2,052,388	54,109	21,468,106
\$ 20,377,959	\$ 1,801,922	\$ 54,278	\$ 22,234,159

United Way of Erie County
STATEMENTS OF CASH FLOWS

Year ended December 31,

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (2,776,901)	\$ 766,053
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	39,271	37,741
Loss on sale of fixed assets	-	92
Realized gain on sale of investments	(774,241)	(811,104)
Unrealized loss (gain) on investments	1,930,672	(1,721,918)
Changes in operating assets and liabilities:		
Decrease in pledges receivable	126,069	286,783
Increase in other receivables-sponsorships	(23,750)	(596,250)
(Increase) decrease in other receivables-miscellaneous	(11,005)	46,851
Decrease in prepaid expenses	15,339	4,980
Increase (decrease) in accounts payables and accruals	48,099	(25,259)
Increase in deferred revenue	690,215	525,605
Increase (decrease) in accrued disaster relief	10,000	(12,310)
Net cash used in operating activities	(726,232)	(1,498,736)
Cash flows from investing activities:		
Capital expenditures	(5,070)	(20,238)
Proceeds from sale of fixed assets	-	560
Net decrease in beneficial interest - endowment	1,284,184	1,124,197
Net decrease in beneficial interest - dpil	7,094	96,363
Net decrease in investments	237,257	109,081
Net cash provided by investing activities	1,523,465	1,309,963
Cash flows from financing activities:		
Repayments of debt	(34,796)	(32,987)
Net cash used in financing activities	(34,796)	(32,987)
Net increase (decrease) in cash and cash equivalents	762,437	(221,760)
Cash and cash equivalents at beginning of year	1,515,030	1,736,790
Cash and cash equivalents at end of year	\$ 2,277,467	\$ 1,515,030
<u>Cash paid during the year for:</u>		
Interest	\$ 20,326	\$ 22,136
Income taxes	\$ -	\$ -

The accompanying notes are an integral part of these statements.

United Way of Erie County

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended December 31,

	2018		
	Program Services		
	Allocations and Community Impact	Labor Services Division	Erie Free Taxes
Direct allocations to United Way agencies	\$ 2,092,679	\$ -	\$ -
Other allocations, projects and grants	1,355,949	-	-
Less: Donor designations	(558,100)	-	-
	<u>2,890,528</u>	-	-
Salaries	273,082	49,409	123,848
Employee benefits	38,102	7,603	9,218
Payroll taxes and unemployment benefits	21,403	4,094	5,278
	<u>332,587</u>	<u>61,106</u>	<u>138,344</u>
Professional fees and contract services	9,312	-	23,269
Supplies	2,309	984	1,903
Telephone	915	183	1,839
Postage and shipping	77	133	763
Occupancy	23,335	3,867	6,489
Equipment rentals and maintenance	16,591	1,867	338
Outside printing and marketing	1,433	270	13,730
Local transportation	1,773	1,605	247
Receptions, training and luncheon meetings	1,952	619	1,184
Conferences, meetings and major trips	1,409	2,159	-
Insurance	-	-	-
Loaned rep expense	-	-	-
Membership dues	-	648	-
Campaign incentives	-	-	-
Bank and processing fees	-	-	-
Miscellaneous	5,312	153	1,038
Payments to affiliated organizations	15,750	-	-
DPIL book purchases	-	-	-
DPIL reading buddies and reading nook	-	-	-
DPIL fundraising	-	-	-
Depreciation	12,424	2,059	3,455
	<u>92,592</u>	<u>14,547</u>	<u>54,255</u>
United Way Worldwide dues	11,715	2,460	2,894
Total expenses	<u><u>\$ 3,327,422</u></u>	<u><u>\$ 78,113</u></u>	<u><u>\$ 195,493</u></u>

The accompanying notes are an integral part of these statements.

2018					
Erie Together	Community Schools	Dolly Parton Imagination Library	Supporting Services		
			Fund Raising	Administration	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,092,679
-	678,813	-	-	-	2,034,762
-	-	-	-	-	(558,100)
-	678,813	-	-	-	3,569,341
-	81,923	-	367,555	168,356	1,064,173
-	6,887	-	47,845	34,590	144,245
-	8,212	-	29,396	13,381	81,764
-	97,022	-	444,796	216,327	1,290,182
-	1,000	8,111	7,641	13,726	63,059
-	281	1,006	6,777	2,162	15,422
-	-	-	1,187	727	4,851
-	-	11,644	7,707	2,383	22,707
-	-	-	24,735	15,334	73,760
-	-	-	15,387	12,601	46,784
-	1,898	7,211	120,392	794	145,728
-	361	89	2,908	8,392	15,375
-	126	31	29,268	2,948	36,128
-	2,718	-	3,825	2,002	12,113
-	-	-	-	10,251	10,251
-	-	-	-	-	-
-	-	-	5,396	3,824	9,868
-	-	-	10,535	-	10,535
-	-	-	3,315	3,766	7,081
-	2,423	-	4,582	5,636	19,144
-	-	-	-	-	15,750
-	-	237,213	-	-	237,213
-	-	139	-	-	139
-	-	13,572	-	-	13,572
-	-	-	13,169	8,164	39,271
-	8,807	279,016	256,824	92,710	798,751
-	-	-	16,341	9,980	43,390
<u>\$ -</u>	<u>\$ 784,642</u>	<u>\$ 279,016</u>	<u>\$ 717,961</u>	<u>\$ 319,017</u>	<u>\$ 5,701,664</u>

United Way of Erie County

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended December 31,

	2017		
	Program Services		
	Allocations and Community Impact	Labor Services Division	Erie Free Taxes
Direct allocations to United Way agencies	\$ 2,657,508	\$ -	\$ -
Other allocations, projects and grants	1,452,383	-	-
Less: Donor designations	(534,296)	-	-
	<u>3,575,595</u>	<u>-</u>	<u>-</u>
Salaries	260,932	48,193	127,870
Employee benefits	33,066	8,128	8,255
Payroll taxes and unemployment benefits	20,523	3,976	4,261
	<u>314,521</u>	<u>60,297</u>	<u>140,386</u>
Professional fees and contract services	3,500	-	21,355
Supplies	2,128	1,011	1,053
Telephone	750	185	1,981
Postage and shipping	46	217	603
Occupancy	22,467	3,996	6,754
Equipment rentals and maintenance	15,416	1,894	229
Outside printing and marketing	2,683	130	14,536
Local transportation	1,022	1,130	754
Receptions, training and luncheon meetings	1,202	448	1,311
Conferences, meetings and major trips	3,801	2,991	-
Insurance	-	-	-
Loaned rep expense	-	-	-
Membership dues	383	866	-
Campaign incentives	-	-	-
Bank and processing fees	-	-	-
Miscellaneous	2,599	135	715
Payments to affiliated organizations	15,750	-	-
DPIL book purchases	-	-	-
DPIL reading buddies and reading nook	-	-	-
DPIL fundraising	-	-	-
Depreciation	9,167	2,291	2,695
	<u>80,914</u>	<u>15,294</u>	<u>51,986</u>
United Way Worldwide dues	13,846	3,190	2,938
Total expenses	<u>\$ 3,984,876</u>	<u>\$ 78,781</u>	<u>\$ 195,310</u>

The accompanying notes are an integral part of these statements.

2017

			Supporting Services		
Erie Together	Community Schools	Dolly Parton Imagination Library	Fund Raising	Administration	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,657,508
-	505,385	-	-	-	1,957,768
-	-	-	-	-	(534,296)
-	505,385	-	-	-	4,080,980
59,501	94,385	-	375,099	166,537	1,132,517
7,847	17,693	-	52,216	26,988	154,193
4,696	7,439	-	29,867	13,302	84,064
72,044	119,517	-	457,182	206,827	1,370,774
-	10,905	-	3,085	12,348	51,193
1,005	824	854	8,285	3,239	18,399
218	-	-	1,175	718	5,027
5	-	9,954	7,174	2,332	20,331
4,394	-	-	25,468	14,906	77,985
692	-	-	14,621	11,753	44,605
607	1,241	3,294	38,823	343	61,657
314	614	53	2,887	7,104	13,878
2,663	3,571	-	29,024	5,656	43,875
3,377	949	-	5,844	(513)	16,449
-	-	-	-	9,738	9,738
-	-	-	-	-	-
833	-	-	6,772	3,422	12,276
-	-	-	11,138	-	11,138
-	-	-	3,405	3,279	6,684
844	79	-	3,544	5,831	13,747
-	-	-	-	-	15,750
-	-	245,408	-	-	245,408
-	-	584	-	-	584
-	-	1,900	-	-	1,900
2,695	-	-	14,692	6,201	37,741
17,647	18,183	262,047	175,937	86,357	708,365
-	-	-	19,803	10,573	50,350
<u>\$ 89,691</u>	<u>\$ 643,085</u>	<u>\$ 262,047</u>	<u>\$ 652,922</u>	<u>\$ 303,757</u>	<u>\$ 6,210,469</u>

United Way of Erie County
NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Organization and Purpose

The United Way of Erie County is a nonprofit organization governed locally by a volunteer board of directors. The Agency is affiliated with the United Way Worldwide and is permitted to solicit contributions in Erie County, Pennsylvania. The Agency's mission is to mobilize resources to break the cycle of poverty and improve our community. The Agency conducts an annual campaign starting in the fall to seek pledges for the following year which are then allocated to its funded partners. In addition, the Agency uses the following program service categories for reporting purposes:

Community Impact - Involves bringing people and resources together to tackle the issues that matter most in an effort to improve lives and shape a caring community.

Labor Services - Involves a working relationship through which the Agency and the local AFL-CIO provide services to members of organized labor, their families and their communities.

Erie Free Taxes - Program established to help eligible low to moderate wage earners claim the Federal Earned Income Tax Credit, a cash refund, by providing them with free tax preparation and filing services at volunteer tax sites.

Erie Together - A community-wide, cross-sector effort to address the high rates of poverty in the Erie region. In 2018, this program was run by another non-profit agency and funded by the United Way through allocations and grants.

Dolly Parton Imagination Library (DPIL) - Provides a high-quality, age-appropriate book to any child in Erie County under the age of five. Also recruits and trains volunteer Reading Buddies who help parents and caregivers better understand how to read and interact with young children.

Community Schools - The community schools model is a strategy (not a program) for organizing school and community resources around student success. A community school is both a place and set of partnerships that help address health, wellness and the social needs of its students, families and the surrounding neighborhood. Schools become centers of the community, open to everyone, all day, every day, evenings and weekends.

United Way of Erie County

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Estimates in Financial Statements

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and cash equivalents

Cash and cash equivalents consist of cash held in checking, savings and money market accounts and certificates of deposit with initial maturities of less than 90 days.

4. Pledges and Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated for support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as without donor restriction. The Agency reports gifts of goods and equipment as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Substantially all of United Way's public support is derived from contributions from individuals and businesses located in the County of Erie, Pennsylvania.

Pledges for contributions are recorded as received and allowances are provided for amounts estimated to be uncollectible. The provision for uncollectible pledges is based on management estimates of current economic factors, applied to gross campaign, including donor designations. Direct contributions represent pledges to be paid directly to the United Way and are available for unrestricted use unless specifically restricted by the donor.

5. Direct Allocations to Agencies

Direct allocations to agencies represent the cash payments made directly to agencies by the United Way.

United Way of Erie County
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Donated Services

A substantial number of volunteers have donated approximately 5,792 hours to the Agency's program services and fund-raising campaign during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services are reflected in the statement of activities at their fair value. Materials and other assets received as donations are recorded in the accompanying financial statements at their fair values at the date of receipt.

7. Land, Building and Equipment and Related Depreciation

Land, building and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred, while major renewals and betterments are capitalized. The cost and related allowance for depreciation of assets sold or otherwise disposed of are removed from the related property accounts and resulting gains or losses are reflected in revenues or expenses. Depreciation of the building and equipment has been provided on a straight-line basis over the estimated useful lives of the respective assets.

8. Investments

All of the United Way's investments consist primarily of marketable debt and equity securities and are stated at fair value based on quoted market prices.

9. Measure of Operations

The Agency's operating revenues in excess of expenses includes all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions and transfers from Board designated funds to support current operating activities. The amounts transferred from Board designated funds to support operations for the year ended December 31, 2018 and 2017 are detailed in Note H.

10. Tax Status

The United Way of Erie County has received a determination letter from the Internal Revenue Service (IRS) that grants an exemption from income taxes under section 501(c)(3) of the U.S. Internal Revenue Code. The Agency files annual informational returns with the IRS and Commonwealth of Pennsylvania. The Agency has adopted the provisions of FASB ASC 740, *Income Taxes*. FASB ASC 740 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken in a tax return.

United Way of Erie County

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Agency records any related interest expense and penalties, if any, as a tax expense. For the years ended December 31, 2018 and 2017, there were no unrecognized tax benefits or interest and penalty expense incurred. Tax years that remain subject to examination are years 2015 and forward.

11. Date of Management's Review

Management has evaluated subsequent events through March 29, 2019, the date the financial statements were available to be issued.

12. Concentration of Credit Risk

The Agency's financial instruments that are exposed to concentrations of credit risk consist primarily of cash (Note B), long-term investments (Note C) and pledges receivable. The Agency's cash is primarily in one bank account and is FDIC insured up to \$250,000. The long-term investments are maintained by a trust department at a local bank. The individual investments, whose market value may fluctuate, are not insured or collateralized. The Agency's pledge receivables result from its annual pledge drive and are due from businesses and individuals located in northwestern Pennsylvania. Approximately 51% of its annual pledge drive is generated from the contributions of seven businesses and their employees and one individual within this geographic area; with the largest single employer accounting for approximately 35.1%.

13. Fair Value Measurement

Fair value, as defined in FASB ASC 820, *Fair Value Measurements and Disclosures*, is based on 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. In order to increase consistency and comparability in fair value measurements, FASB ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. Level 1 consists of quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 2 consists of observable prices that are based on inputs not quoted on active markets, but corroborated by market data. Level 3 consists of unobservable inputs which are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs. In determining fair value, the Agency utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

United Way of Erie County

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The fair market value of a financial instrument is defined in FASB ASC 825 as "the amount at which the instrument could be exchanged in a current transaction between willing parties." The carrying amount reported in the accompanying Statement of Financial Position for other receivables-miscellaneous, prepaids, allocations and designations payable, accounts payable, deferred revenue and accruals, approximate fair value given the short-term nature of the financial instruments or conversely are based on a non-recurring assessment of fair value.

Fair value for Investments is measured using Level 1 inputs. Fair value of Beneficial interest in funds held by others-Endowment is reported as Level 3 measurements as they represent an interest in investments pooled with other organizations' funds at the Erie Community Foundation. Such interest is not publicly traded nor can it be valued on observable direct or indirect inputs. However, a substantial portion of the underlying assets is measured at fair value using Level 1 and 2 inputs by the Erie Community Foundation. (See Note H for a further description of the agreement with the Erie Community Foundation and a detail of the changes in Level 3 investments measured at fair value on a recurring basis.)

NOTE B - CASH AND CASH EQUIVALENTS

At December 31, 2018 and 2017, cash and cash equivalents consist of the following:

	<u>2018</u>	<u>2017</u>
Demand deposits with banks	\$2,277,137	\$1,514,700
On hand	<u>330</u>	<u>330</u>
	<u>\$2,277,467</u>	<u>\$1,515,030</u>

NOTE C - LONG-TERM INVESTMENTS

Long-term investments at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Cash equivalents	\$ 2,692	\$ 2,692	\$ 17,879	\$ 17,879
Fixed income funds	22,695	23,362	109,248	109,180
Other funds	<u>21,454</u>	<u>21,042</u>	<u>154,046</u>	<u>116,585</u>
	<u>\$ 46,841</u>	<u>\$ 47,096</u>	<u>\$ 281,173</u>	<u>\$ 243,644</u>

United Way of Erie County
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE C - LONG-TERM INVESTMENTS - Continued

Net gains (losses) on investments, reported at fair value using Level 1 inputs, as reflected in the statements of activities, represent both realized and unrealized gains (losses) on investments as well as on the Endowment Fund (Note H). Included in net gains (losses) for the years ended December 31, 2018 and 2017 are the following:

	2018		
	<u>Investments</u>	<u>Endowment</u>	<u>Total</u>
Realized gain	\$ 41,727	\$ 732,514	\$ 774,241
Unrealized loss	(<u>38,802</u>)	(<u>1,891,870</u>)	(<u>1,930,672</u>)
	<u>\$ 2,925</u>	<u>(\$ 1,159,356)</u>	<u>(\$ 1,156,431)</u>
	2017		
	<u>Investments</u>	<u>Endowment</u>	<u>Total</u>
Realized gain	\$ 17,925	\$ 793,179	\$ 811,104
Unrealized gain	<u>11,488</u>	<u>1,710,430</u>	<u>1,721,918</u>
	<u>\$ 29,413</u>	<u>\$ 2,503,609</u>	<u>\$ 2,533,022</u>

NOTE D - SPONSORSHIP RECEIVABLES

Sponsorship receivables consist of \$620,000 and \$596,250 for the year ended December 31, 2018 and 2017, respectively. The receivables were related to funding for the Community Schools program.

NOTE E - PENSION PLAN

Effective July 1, 1996, the Agency adopted a defined contribution plan covering substantially all of its employees. Contributions are at the discretion of the Board and were approved at six percent of eligible compensation. Pension expense relating to this plan for the years ended December 31, 2018 and 2017, amounted to \$49,110 and \$60,608, respectively.

NOTE F - LAND, BUILDING AND EQUIPMENT

Land, building and equipment at December 31, 2018 and 2017 consist of the following:

United Way of Erie County
NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE F - LAND, BUILDING AND EQUIPMENT - Continued

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Life</u>
Land	\$ 103,645	\$ 103,645	-
Land improvements	26,408	26,408	10 Years
Building	929,870	929,870	40 Years
Building improvements	63,856	63,856	18-28 Years
Building equipment	48,765	48,765	10 Years
Office furniture and equipment	84,172	81,700	10 Years
Computer equipment	116,685	119,982	5-8 Years
Vehicles	<u>3,213</u>	<u>3,213</u>	5 Years
	1,376,614	1,377,439	
Less accumulated depreciation	<u>576,323</u>	<u>542,947</u>	
	<u>\$ 800,291</u>	<u>\$ 834,492</u>	

Depreciation expense of \$39,271 and \$37,741 was incurred during the years ended December 31, 2018 and 2017, respectively.

NOTE G - DEBT

During 2005, the Agency borrowed \$541,875 in the form of a promissory note bearing interest at 0.25 percent under the prime rate, due April 15, 2006, with monthly payments of interest only, secured by a building. Upon completion of renovations to the Agency's new building, the Agency re-financed this note with a fixed rate mortgage using tax exempt bonds, issued through a local government authority, with a term of 20 years. The mortgage bears interest at 5.28 percent unless a Determination of Loss of Bank Qualification occurs, at which time the note shall bear interest at 5.99 percent. If a Determination of Taxability occurs, the note shall bear interest at 7.86 percent. No such determination has been made as of December 31, 2018. The maturities of long-term debt in each of the five years subsequent to December 31, 2018 are as follows:

<u>Year</u>	<u>Total</u>
2019	\$ 37,380
2020	39,402
2021	41,533
2022	43,780
2023	46,149
Thereafter	<u>152,475</u>
	<u>\$ 360,719</u>

United Way of Erie County
NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE H - NET ASSETS WITHOUT DONOR RESTRICTIONS

DESIGNATED BY THE BOARD FOR AGENCY STABILITY

A Board Designated Stability Fund (Stability Fund) was created in 1981 to segregate the assets held in trust accounts and the related investment income into a separate fund. In light of the Endowment (see below) that has been created since that time, effective December, 2017, the Board reduced the target balance in the Stability Fund to \$50,000. The Board approved transfers to operations of \$238,962 and \$116,000, respectively for the years ended December 31, 2018 and 2017.

DESIGNATED BY THE BOARD FOR ENDOWMENT

In January, 1986, the United Way entered into an agreement with the Erie Community Foundation ("the Foundation"), a non-profit corporation, that established a fund on the books of the Foundation for the purpose of supporting the charitable and educational purposes of the United Way and its affiliated agencies. In May, 1996, the United Way amended and restated their agreement with the Foundation to include an additional contribution for endowment of \$995,367. In October, 2007, the United Way was notified of an additional contribution to the Endowment. That additional contribution, which totaled \$12,488,232, was distributed to the United Way and placed in the Foundation over a three year period ending December 31, 2010.

In accordance with FASB ASC 958-650 *Not-For-Profit Entities Revenue Recognition*, those amounts are recorded on the books of the United Way and included in beneficial interest in funds held by others-endowment on the Statements of Financial Position. Furthermore, any future bequests received by the United Way are designated for endowment and transferred to the Foundation.

The fund is the property of the Foundation held by it as a component fund in its corporate capacity and is not deemed a trust fund held by it in a trustee capacity. The Foundation has the ultimate authority and control over all property in the fund, even though it was not granted variance power.

As of December 31, 2018 and 2017, the fair market value was \$16,413,233 and \$18,856,773, respectively, which has been recorded and included as beneficial interest in funds held by others-endowment on the Statement of Financial Position. The underlying investments of the fund at December 31, 2018, consist of 48.5% global equities, 15.8% diversifying assets, 11.7% fixed income, 2.5% cash and equivalents, 11.5% real assets and 10.0% private equity. From December 31, 2018 through February 28, 2019, the fair market value increased 7.2%.

United Way of Erie County
 NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE H - NET ASSETS WITHOUT DONOR RESTRICTIONS - Continued

In accordance with the agreement, the Foundation shall pay and distribute the net income of the Fund to the United Way at least annually. This amount is used to reduce the beneficial interest. The receivable is also adjusted annually based on the earnings and change in fair market value of the fund. For the years ended December 31, 2018 and 2017, \$1,345,200 and \$1,220,100 was distributed to the United Way. Although these distributions are not shown as revenue on the Statements of Activities, it is the United Way's intention to utilize these amounts towards each year's campaign.

Also in accordance with the agreement, the United Way may request a distribution of up to 10% annually of the principal of the Fund. Distributions of principal in excess of the 10% may be made if the United Way demonstrates to the satisfaction of the Foundation that the additional distribution is required for emergency purposes or to offset a shortfall in the United Way's annual campaign. Principal distributions in excess of \$500,000 require the approval of two-thirds of the United Way's Board of Directors.

The Financial Accounting Standards Board (FASB) issued FASB ASC 958-205 (formerly FSP 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for all Endowment Funds"). The standard provides guidance on classifying net assets of donor restricted and board-designated endowment funds held by organizations and whether or not they are subject to an enacted version of UPMIFA. The State of Pennsylvania has not yet enacted UPMIFA.

The United Way's endowment fund activity consisted of the following:

Net assets, beginning of year	\$18,856,773
Investment income, net of fees	58,001
Realized gains	732,514
Unrealized loss	(1,891,870)
Contributions	6,015
Grants	(3,000)
Transfers to United Way	(<u>1,345,200</u>)
Net assets, end of year	<u>\$16,413,233</u>

DESIGNATED BY THE BOARD FOR ALLOCATIONS AND OTHER INITIATIVES

In current and prior years, the Board designated amounts for the purpose of providing additional allocations to its funded partners and other initiatives. The balance of these designations at December 31, 2018 and 2017 was \$484,242 and \$379,112.

United Way of Erie County
 NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE H - NET ASSETS WITHOUT DONOR RESTRICTIONS - Continued

During the year ended December 31, 2018, the Agency released \$544,870 from its previously designated amount towards operating expenses for other allocations and initiatives. However, an additional \$650,000 was designated for future use. During the year ended December 31, 2017, the Agency released \$898,131 from its previously designated amount towards operating expenses for other allocations and initiatives. However, an additional \$400,000 was designated for future use.

The following is a summary of all designated net assets:

Designated for Stability	\$ 46,841
Designated for Endowment	16,413,233
Designated for Allocations and Other Initiatives	<u>484,242</u>
	<u>\$16,944,316</u>

NOTE I - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 and 2017 consist of the following:

TEMPORARILY RESTRICTED

Subject to passage of time

	2018	2017
Subsequent year's campaign:		
Pledges receivable	\$ 722,194	\$ 867,196
Contributions received	737,077	866,958
Designations payable	(55,342)	(51,504)
	<u>1,403,929</u>	<u>1,682,650</u>

Subject to expenditure for specific purpose

Dolly Parton Imagination Library:

Pledges receivable	58,310	42,851
Contributions received	-	76,421
	<u>58,310</u>	<u>119,272</u>
	<u>\$1,462,239</u>	<u>\$1,801,922</u>

The subsequent year's campaign pledges receivable and contributions received represent public support resulting from the Agency's annual campaign conducted in the fall of each year for the purpose of providing the Agency the funds to operate in the subsequent year. The designations payable represents amounts included in the pledges receivable and contributions received, which are to be paid to non-United Way funded partners in accordance with the donors' requests.

United Way of Erie County
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE I - NET ASSETS WITH DONOR RESTRICTIONS - Continued

The DPIL pledges receivable and contributions received represent public support and sponsorships which are restricted by the donors for DPIL program expenses. A fund (DPIL Operating Fund) has been established at the Erie Community Foundation to maintain the activity of the DPIL program. At December 31, 2018 and 2017 the portion of net assets that was on hand, in the form of cash, in that fund was \$306,458 and \$313,552, respectively. Those amounts have been reported as beneficial interest in funds held by others-Dolly Parton imagination library on the Statements of Financial Position.

PERMANENTLY RESTRICTED

Emergency loan fund

	<u>2018</u>	<u>2017</u>
Cash	\$ 39,181	\$ 54,278
Loans receivable	<u>15,300</u>	<u>-</u>
	<u>\$ 54,481</u>	<u>\$ 54,278</u>

During the year ended December 31, 2007, the Agency received an anonymous donation in the amount of \$49,041 to set up an Emergency Loan Fund. This donation was included as other gifts and bequests on the Statement of Activities. The purpose of the fund is to make interest free loans to funded partners. In accordance with the agreement with the donor, all income of the fund will remain in the fund. For the years ended December 31, 2018 and 2017, loans were made from the fund in the amounts of \$15,300 and \$0, respectively.

NOTE J - OTHER GIFTS AND BEQUESTS

During the years ended December 31, 2018 and 2017, the United Way received \$27,065 and \$20,798, respectively, in other gifts and bequests. Included in those amounts were donated goods and services of \$25,800 and \$19,458 for the years ended December 31, 2018 and 2017, respectively. The corresponding charges are included in the Statements of Functional Expenses as follows:

	<u>2018</u>	<u>2017</u>
Professional fees and contracted services	<u>\$ 25,800</u>	<u>\$ 19,458</u>

United Way of Erie County
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE K - GRANT REVENUE AND DEFERRED REVENUE

Grant revenue for the years ended December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Erie Community Foundation-DPIL	\$ -	\$ 50,000
Erie Community Foundation - Erie Together	-	25,000
VITA	54,313	52,389
Berks Co. IU - Early Childhood Education Community Education Zone	-	118,902
Erie Community Foundation - Erie Free Taxes	30,000	40,000
ECGRA - Block by Block	-	10,919
PA - 211 Grant	54,106	-
Miscellaneous	356	3,352
Erie Free Taxes - Miscellaneous	<u>20,331</u>	<u>13,050</u>
	<u>\$159,106</u>	<u>\$313,612</u>

Deferred revenue at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Highmark - Community Schools	\$ 60,000	\$120,000
Erie Insurance - Community Schools	60,000	120,000
UPMC/Hamot - Community Schools	161,250	255,000
Lord Corporation - Community Schools	61,154	120,000
GE/Wabtec - Community Schools	60,000	120,000
Eriez Magnetics - Community Schools	360,000	-
Erie School District/Susan Hirt Hagen Fund for Transformational Philanthropy - Community Schools	278,438	-
Various - Community Schools	217,500	-
Erie Community Foundation - Truancy	164,644	-
Annual Meeting	13,150	-
GradNation Summitt	-	4,774
Various - Erie Free Taxes	6,982	22,906
PA 211	-	-
2019 Imagination Golf	7,500	-
Other	<u>4,006</u>	<u>1,729</u>
	<u>\$1,454,624</u>	<u>\$764,409</u>

United Way of Erie County
NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE L - LIQUIDITY

As part of the Agency's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In an effort to support this policy, the Board has established designated funds for Stability and Endowment (See Note H) with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical cycle of converting financial assets to cash or settling financial liabilities. Although the Agency does not intend to spend from its Endowment other than the allowable distribution from its annual income, amounts could be made available if necessary. However those amounts are subject to the limitations and approvals discussed in Note H.

Financial assets were \$20,677,756 as of December 31, 2018. Subsequent year receivables are subject to time restrictions, but will be collected within one year thus relieving the restriction. Certain other receivables - sponsorships will be collected in more than one year. The following represents the Agency's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor imposed restrictions within one year of the balance sheet date.

Financial assets at year end	\$20,677,756
Less those unavailable for general expenditures within one year due to:	
Sponsorship a/r due > 1 year	(197,500)
Designation for Stability	(46,841)
Designation for Endowment	(<u>16,413,233</u>)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,020,182</u>

NOTE M - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs, fund-raising and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Expenses that can be directly identified to a program are charged to that program. Certain salaries and related taxes and benefits have been allocated among the programs and supporting services on the basis of estimates of time and effort. Those estimates are evaluated on an annual basis. Other expenses such as maintenance, occupancy and depreciation are allocated based on the salaries allocation. The Agency believes that the basis is reasonable and is consistently applied.

United Way of Erie County
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE N - CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2018, the Agency adopted the provisions Financial Accounting Standards Board Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The change had no impact on net assets for any period presented.