



**United Way of Santa Barbara County, Inc.
(A California Non-Profit Public Benefit Corporation)**

Financial Statements

(With Independent Auditors' Report Thereon)

June 30, 2017



Independent Auditors' Report

To the Board of Directors
United Way of Santa Barbara County, Inc.
Santa Barbara, California

We have audited the accompanying financial statements of United Way of Santa Barbara County, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 the United Way of Santa Barbara County, Inc. as of June 30, 2017 and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited United Way of Santa Barbara County's June 30, 2016 financial statements, and our report dated October 14, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stoltey & Associates

November 6, 2017
Orcutt, California

United Way of Santa Barbara County, Inc.
(A California Non-Profit Public Benefit Corporation)
Statement of Financial Position
June 30, 2017
(With Comparative Totals for June 30, 2016)

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 95,190	\$ 43,439
Investments (note 3)	848,653	924,645
Pledges receivable, net (note 4)	511,292	569,027
Prepaid expenses and other current assets	145,192	197,049
Total Current Assets	1,600,327	1,734,160
NON-CURRENT ASSETS		
Pledges receivable - long term (note 4)	9,300	52,850
Cash designated for long term use (note 7)	142,637	244,471
Cash restricted for long term use (note 7)	186,985	315,967
Cash held in donor advised funds	-	50,055
Property and equipment, net (notes 2 and 5)	373,177	385,018
Endowment cash (note 9)	370,920	626,133
Endowment investments (notes 3 and 9)	7,074,081	5,520,568
Assets held under charitable gift annuity agreements (notes 9 and 11)	822,800	874,144
Assets held under pooled income fund (notes 9 and 11)	335,290	323,077
Assets held under irrevocable split interest agreements (notes 9 and 11)	199,637	90,795
Interest in irrevocable split interest agreements (notes 9 and 11)	241,705	282,529
Assets held under deferred compensation plans (note 6)	1,906	192,982
Interest in perpetual trusts (notes 9 and 11)	707,871	678,383
Total Non-Current Assets	10,466,309	9,636,972
TOTAL ASSETS	\$ 12,066,636	\$ 11,371,132
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 141,625	\$ 201,875
Designations payable	134,171	163,600
Agency allocations payable	5,763	70,973
Total Current Liabilities	281,559	436,448
LONG-TERM LIABILITIES		
Obligations under deferred compensation plans (note 6)	1,906	192,982
Obligations under charitable gift annuity agreements (notes 9 and 11)	325,665	342,850
Obligations under pooled income fund (notes 9 and 11)	256,903	241,739
Obligations under irrevocable split interest agreements (notes 9 and 11)	125,959	79,274
Total Liabilities	991,992	1,293,293
NET ASSETS (notes 7 and 9)		
Unrestricted:		
Undesignated	1,180,654	1,429,670
Board designated non-endowment	142,637	244,471
Board designated endowment	4,580,233	3,957,103
Temporarily restricted:		
Donor restricted non-endowment	707,577	671,932
Donor restricted endowment	1,252,925	1,064,045
Permanently restricted	3,210,618	2,710,618
Total Net Assets	11,074,644	10,077,839
TOTAL LIABILITIES AND NET ASSETS	\$ 12,066,636	\$ 11,371,132

SEE AUDITOR'S REPORT AND NOTES TO FINANCIAL STATEMENTS

United Way of Santa Barbara County, Inc.
(A California Non-Profit Public Benefit Corporation)
Statement of Activities
For The Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017</u>	<u>2016</u>
PUBLIC SUPPORT AND REVENUE					
PUBLIC SUPPORT					
Contributions (note 2):					
Campaign	\$ 1,455,509	\$ -	\$ -	\$ 1,455,509	\$ 1,511,470
Bequests	427,716	-	500,000	927,716	18,844
Grants	-	157,281	-	157,281	10,000
Other contributions	121,479	-	-	121,479	242,964
	<u>2,004,704</u>	<u>157,281</u>	<u>500,000</u>	<u>2,661,985</u>	<u>1,783,278</u>
SPECIAL EVENT REVENUE					
Special events - revenue	245,755	-	-	245,755	239,030
Less costs of special events	(159,467)	-	-	(159,467)	(143,342)
	<u>86,288</u>	<u>-</u>	<u>-</u>	<u>86,288</u>	<u>95,688</u>
OTHER REVENUE					
Investment income (note 3)	469,505	425,191	-	894,696	(297,202)
Change in value of split interest agreements	(15,777)	-	-	(15,777)	(157,383)
Change in value of perpetual trust interests	29,488	-	-	29,488	(46,080)
Gain on sale of fixed assets	11,000	-	-	11,000	-
	<u>494,216</u>	<u>425,191</u>	<u>-</u>	<u>919,407</u>	<u>(500,665)</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>2,585,208</u>	<u>582,472</u>	<u>500,000</u>	<u>3,667,680</u>	<u>1,378,301</u>
ASSETS RELEASED FROM RESTRICTION	<u>357,947</u>	<u>(357,947)</u>		<u>-</u>	<u>-</u>
Expenses					
Program	1,865,362	-	-	1,865,362	1,776,390
Management & general	374,948	-	-	374,948	307,494
Fundraising	430,565	-	-	430,565	337,834
	<u>2,670,875</u>	<u>-</u>	<u>-</u>	<u>2,670,875</u>	<u>2,421,718</u>
CHANGES IN NET ASSETS	<u>272,280</u>	<u>224,525</u>	<u>500,000</u>	<u>996,805</u>	<u>(1,043,417)</u>
NET ASSETS, BEGINNING	<u>5,631,244</u>	<u>1,735,977</u>	<u>2,710,618</u>	<u>10,077,839</u>	<u>11,121,256</u>
NET ASSETS, ENDING	<u>\$ 5,903,524</u>	<u>\$ 1,960,502</u>	<u>\$ 3,210,618</u>	<u>\$ 11,074,644</u>	<u>\$ 10,077,839</u>

SEE AUDITOR'S REPORT AND NOTES TO FINANCIAL STATEMENTS

United Way of Santa Barbara County, Inc.
(A California Non-Profit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	<u>Program</u>					<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
	<u>Planning and Allocation</u>	<u>Education</u>	<u>Planning and Research</u>	<u>Community Impact</u>	<u>Total Program</u>			<u>2017</u>	<u>2016</u>
Salaries	\$ 49,609	\$ 231,432	\$ 92,951	\$ 471,521	\$ 845,513	\$ 166,277	\$ 141,904	\$ 1,153,694	\$ 1,122,412
Pension (note 6)	5,059	28,283	11,401	43,374	88,117	15,063	14,471	117,651	116,590
Benefits - other	5,332	35,226	10,821	40,847	92,226	16,529	15,253	124,008	132,068
Payroll taxes	4,802	21,430	8,473	47,541	82,246	15,701	13,737	111,684	104,030
Legal	-	-	-	-	-	-	-	-	11,654
Accounting	-	-	-	-	-	15,850	2,500	18,350	10,000
Professional fundraising	-	-	-	-	-	-	-	-	1,463
Investment management fees	-	-	-	-	-	68,581	-	68,581	51,557
Printing	315	441	56	5,547	6,359	1,018	14,289	21,666	
Professional fees	3,102	4,341	2,861	54,581	64,885	9,472	28,398	102,755	128,835
Advertising	1,379	-	581	26,189	28,149	10,312	37,349	75,810	109,356
Office expense	2,742	1,930	1,709	50,172	56,553	8,822	14,043	79,418	46,084
Information technology	602	307	791	11,495	13,195	8,371	9,605	31,171	61,735
Occupancy	1,132	1,138	2,661	21,508	26,439	7,573	12,937	46,949	33,060
Travel	1,048	1,467	279	18,444	21,238	12,037	6,211	39,486	27,056
Meetings and conferences	1,229	1,721	224	21,633	24,807	10,938	39,013	74,758	62,594
Interest expense	-	-	-	-	-	-	-	-	-
Dues	305	7,099	4,523	5,792	17,719	1,874	2,669	22,262	20,885
Insurance	81	115	-	1,442	1,638	3,020	-	4,658	19,764
Software licenses	-	265,386	-	-	265,386	-	-	265,386	115,987
TOTAL EXPENSES BEFORE ALLOWANCE FOR UNCOLLECTIBLE PLEDGES, ALLOCATIONS TO AGENCIES AND DEPRECIATION	76,737	600,316	137,331	820,086	1,634,470	371,438	352,379	2,358,287	2,175,130
Provision for uncollectible pledges (note 12)	-	-	-	-	-	-	74,264	74,264	29,016
Allocations to agencies	-	-	-	203,892	203,892	-	-	203,892	183,350
Depreciation	3,000	3,000	3,000	18,000	27,000	3,510	3,922	34,432	34,222
TOTAL EXPENSES	\$ 79,737	\$ 603,316	\$ 140,331	\$ 1,041,978	\$ 1,865,362	\$ 374,948	\$ 430,565	\$ 2,670,875	\$ 2,421,718

SEE AUDITORS' REPORT AND NOTES TO FINANCIAL STATEMENTS

United Way of Santa Barbara County, Inc.
(A California Non-Profit Public Benefit Corporation)
Statement of Cash Flows
For the Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 996,805	\$ (1,043,417)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	34,432	34,222
Unrealized and realized (gain) loss on investments	(756,805)	408,219
Gain on disposal of fixed assets	(11,000)	-
Decrease (increase) in pledges receivable	101,285	16,830
Decrease (increase) in bequests receivable	-	169,186
Decrease in other receivable	-	213,507
Decrease (increase) in prepaid expenses	51,857	(58,804)
(Increase) Decrease in split interest agreements and obligations	(13,711)	203,443
(Decrease) in accounts payable and other current liabilities	(154,889)	(471,409)
NET CASH FROM OPERATING ACTIVITIES	247,974	(528,223)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of securities	1,365,576	2,546,472
Purchase of securities	(2,086,292)	(1,938,779)
Change in cash held for long-term purposes	230,816	(560,438)
Change in cash held for endowment purposes	255,213	(43,001)
Change in donor advised funds cash	50,055	65,287
Purchase of property and equipment	(11,591)	(40,653)
NET CASH FROM INVESTING ACTIVITIES	(196,223)	28,888
NET CHANGE IN CASH AND CASH EQUIVALENTS	51,751	(499,335)
BEGINNING CASH AND CASH EQUIVALENTS	43,439	542,774
ENDING CASH AND CASH EQUIVALENTS	\$ 95,190	\$ 43,439

SEE AUDITOR'S REPORT AND NOTES TO FINANCIAL STATEMENTS

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

(1) Organization

United Way of Santa Barbara County Inc. (the “Organization”), is a California non-profit public benefit corporation that has served the local community since its founding in 1923. The organization solicits contributions from individuals, organizations and foundations during its annual fundraising campaign and through a variety of other fundraising activities.

The Organization innovates and works smarter to make life better for the children, families and seniors in the Santa Barbara County Community. The Organization researches best practices; plans, creates and manages strategic partnerships with hundreds of local nonprofits and organizations to connect strengths, multiply resources, and implement the best plans and programs to improve education, health, and financial empowerment throughout Santa Barbara County. Improvement of education, health, and financial empowerment represents the ten-year goals identified by thousands of community members.

Mission: “Right here, right now, with the Power of Partnership, United Way is improving the lives of children, families, seniors and you!

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Organization follows the accrual method of accounting. It is the Organization’s policy to recognize revenue when earned and to record expenses when incurred.

Financial Statement Presentation

The Organization reports its financial statements in accordance with ASC 958 (formerly Statement of Financial Accounting Standards Board (SFAS) No. 117, *Financial Statements of Non-Profit Organizations*). Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes based on the existence and nature of donor imposed restrictions on net assets:

Unrestricted net assets generally result from unrestricted contributions and investment income less expenses incurred in providing services, fund-raising and other administrative expenses.

Temporarily restricted net assets are classified as such based-on donor stipulations that they be used in a later period.

Permanently restricted net assets are classified as such based-on donor-imposed restrictions prohibiting the Organization from using the asset. Any interest, dividends and unrealized gains or losses recognized on such assets are either reported as an increase to permanently restricted net assets, temporarily restricted net assets or unrestricted net assets in conformance with any donor imposed restrictions.

Fair Value of Financial Instruments

The estimated fair values of the Organization’s short-term financial instruments, including cash, cash equivalents, and accounts payables arising in the ordinary course of business, approximate their

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the marketable securities is based on quoted market rates.

Investments

Under generally accepted accounting principles, investments in marketable securities with readily determinable fair values and alternative investments are valued at their estimated fair values in the statement of financial position. Unrealized gains and losses for the year ended June 30, 2017, are included in the change in net assets in the accompanying statement of activities.

Pledges Receivable

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Property and Equipment

Land, building and equipment are recorded at cost or, if donated, at the fair value at the time of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specified purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Building and equipment are depreciated using the straight-line method over the respective estimated useful lives, which range from three to twenty years. Long lived assets are capitalized if the cost is \$1,000 or greater and have an estimated useful life of 1 year or greater.

Donated Materials and Services

Various agencies, volunteers, business firms and others contribute substantial amounts of materials and services toward the fulfillment of projects initiated by the Organization. To the extent that contributions of materials are made under the control of the Organization, are objectively measurable, and represent program or support expenditures which would otherwise be incurred by the Organization's personnel, they are reflected in both contribution revenue and the appropriate expense category in the accompanying financial statements. For the year ended June 30, 2017, donated materials totaled \$31,963.

In addition, a substantial number of volunteers have donated significant amounts of time to the Organization's program services and to its fundraising campaigns. However, no value has been assigned and no amount has been recorded in the financial statements because no objective basis is available to measure the value of such services.

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Agency Allocations

Agency allocations are made and recorded in the year in which the related pledges for contributions are received and the grants approved.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated based on estimated direct labor hours. The Organization at times conducts its fundraising activities in conjunction with its other activities. In these cases joint costs have been allocated between fundraising and management and general expenses or program expense in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates made by management include establishment of a reserve for doubtful contributions receivable, allocation of functional expenses and estimated useful lives of fixed assets.

Income Tax Status

The Organization is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and California Revenue and Taxation Code Section 23701(d), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The tax years ending 2014, 2015, and 2016 are still open to audit for both federal and state purposes. Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

(3) Investments

The Organization's investments at June 30, 2017 consist of the following:

	<u>Market</u>	<u>Cost</u>	<u>Unrealized</u>
Common stocks	\$ 2,832,426	\$ 2,541,911	\$ 290,515
Fixed income ETP	653,430	651,777	1,653
Corporate bonds	387,931	389,412	(1,481)
U.S. Treasury & Agencies	230,258	233,250	(2,992)
Mutual funds – equity	2,029,252	1,838,698	190,554
Mutual funds – fixed income	497,242	493,432	3,810
Other investments	23,036	23,036	-
Exchange traded funds – equity	<u>1,269,159</u>	<u>1,180,805</u>	<u>88,354</u>
Totals	<u>\$ 7,922,734</u>	<u>\$ 7,352,321</u>	570,413
Unrealized gain at June 30, 2016			<u>(33,551)</u>
Change in unrealized gain			<u>\$ 536,862</u>

The composition of the investment income reported in the statement of activities is as follows:

Interest and dividend income	\$ 137,891
Realized gains	219,943
Unrealized gains	<u>536,862</u>
Total investment gains	<u>\$ 894,696</u>

(4) Pledges Receivable

Pledges receivable at June 30, 2017 are expected be collected as follows:

	<u>Current</u>	<u>Long-Term</u>
Less than 1 year	\$ 601,919	\$ -
1 year to 5 years	-	12,000
More than 5 years	<u>-</u>	<u>-</u>
	601,919	12,000
Less:		
Allowance for uncollectible Pledges receivable	(90,627)	-
Unamortized discount, at rate of 5%	<u>-</u>	<u>(2,700)</u>
	<u>\$ 511,292</u>	<u>\$ 9,300</u>

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

(5) Property and Equipment

A summary of land, building and equipment is as follows:

Land	\$ 218,000
Building	1,371,694
Furniture and equipment	216,467
Vehicles	<u>48,267</u>
	1,854,428
Less accumulated depreciation	<u>(1,481,251)</u>
Net property and equipment	<u>\$ 373,177</u>

Depreciation expense for the year ended June 30, 2017 was \$34,432.

(6) Pension Plan

The Organization has both a 403(b) plan and a qualified employer defined contribution pension plan for its employees. Eligibility is as follows:

403(b)

Eligibility: All eligible employees may participate and make salary reduction. There is no minimum age or service requirement for participant contributions, however, to receive the employer match, employees must be at least 21 years of age and complete at least one year of service. One year of service, for purposes of the Plan, is credited at the end of the participants first twelve months of service in which they satisfy at least 700 hours of service from their hire date until their anniversary date. Prior service with any other organizations does not count towards a participant’s service requirement towards eligibility.

Contribution: United Way of Santa Barbara makes a matching contribution on the participant’s behalf equal to 50% of their salary reduction amount, not to exceed 9% of compensation for the year.

Defined Contribution Plan

Eligibility: All eligible employees are may participate. The age requirement is 21 years of age and participants must complete one year of service. One year of service, for purposes of the Plan, is credited at the end of the participants first twelve months of service in which they satisfy at least 700 hours of service from their hire date until their anniversary date. Prior service with any other organizations does not count towards a participant’s service requirement towards eligibility.

Contribution: United Way of Santa Barbara makes a contribution on the participants behalf based on service as follows:

Years of Service	Percentage of Compensation
Less than 30 completed years of service	8%
30 completed years of service or more	15%

The Organization has a non-qualified 457(b) Eligible Deferred Compensation Plan. Three employees have participated in this plan since its establishment in 2002; two have retired as of June 30, 2017.

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

Pension expense for the year ended June 30, 2017 and 2016 was \$117,651 and \$116,590, respectively.

(7) Board Designations and Restrictions of Net Assets

Designated net assets consist of assets that have been designated by the board of directors for use either for a specific purpose or time period. At June 30, 2017 designated net assets consist of the following:

Strategic reserve	\$ 70,978
Capital needs reserve	<u>71,659</u>
Total designated net assets non-endowment	142,637
Designated net assets endowment	<u>4,580,233</u>
Total board designated net assets	<u>\$ 4,722,870</u>

Temporarily restricted net assets consist of assets subject to donor restrictions for use in future periods and for variety of programs. At June 30, 2017, temporarily restricted net assets were restricted for the following:

Fun in the Sun	\$ 121,094
Literacy programs	49,291
Sponsorship of future red feather ball	16,600
Passage of time	<u>520,592</u>
Subtotal – temporarily restricted net assets non-endowment	707,577
Various programs subject to endowment spending policy	<u>1,252,925</u>
Total temporary restricted net assets	<u>\$ 1,960,502</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely based on donor restrictions. The income from the endowment fund assets can be used to support the Organization’s various programs and general operations.

(8) Summarized Financial Information for 2016

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2016, from which the summarized information was derived. Certain comparative 2016 amounts have been reclassified to conform to 2017 presentation.

(9) Endowment

The Organization’s endowment has been established for a variety of program purposes. Its endowment consists of board designated and donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

Composition of Endowment Assets

At June 30, 2017 the endowment fund held the following assets:

Cash held at investment brokers	\$ 370,920
Investments	7,074,080
Assets held under charitable gift annuity agreements	822,800
Assets held under pooled income fund	335,290
Assets held under irrevocable split interest agreements	199,637
Interest in irrevocable split interest agreements	241,705
Interest in perpetual trusts	707,871
Less obligations under charitable gift annuity agreements	(325,665)
Less obligations under pooled income fund	(256,903)
Less obligations under irrevocable split interest agreements	<u>(125,959)</u>
Total assets held in endowment fund	<u>\$ 9,043,776</u>

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 4,580,233	\$ -	\$ -	\$ 4,580,233
Donor restricted endowment funds	<u>-</u>	<u>1,252,925</u>	<u>3,210,618</u>	<u>4,463,543</u>
Total	<u>\$ 4,580,233</u>	<u>\$ 1,252,925</u>	<u>\$ 3,210,618</u>	<u>\$ 9,043,776</u>

United Way of Santa Barbara County, Inc.
Notes to Financial Statements
June 30, 2017

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,957,103	\$ 1,064,045	\$ 2,710,618	\$ 7,731,766
Investment income	365,349	425,191	-	790,540
Change in value of split interest Agreements	13,711	-	-	13,711
Contributions	244,070	-	500,000	744,070
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(236,311)</u>	<u>-</u>	<u>(236,311)</u>
Endowment net assets, ending of year	<u>\$ 4,580,233</u>	<u>\$ 1,252,925</u>	<u>\$ 3,210,618</u>	<u>\$ 9,043,776</u>

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

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Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. At June 30, 2017, there were no funds with deficiencies.

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.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on common stocks and equity mutual fund investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's investment committee has established a spending rate equal to a target of up to 5% of the endowment's average three-year portfolio value at the Organization's fiscal year end.

(10) Assets Valued at Fair Value

The Financial Accounting Standard Board's authoritative guidance on fair value measurements establishes a framework for measuring fair value, and expands disclosure about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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Fair Value Measurements at June 30, 2017 are summarized as follows:

	Quoted Prices In Active Markets For Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Common stocks	\$ 2,832,426	\$ -	\$ -
Fixed income ETP	653,430	-	-
Corporate bonds	387,931	-	-
U.S. Treasuries and agencies	230,258	-	-
Mutual funds - equity	2,029,252	-	-
Mutual funds – fixed income	497,242	-	-
Exchange traded funds – equity	1,269,159	-	-
Interest in split interest Agreements	-	-	890,905
Interest in perpetual trusts	-	-	707,871
Other investments	<u>-</u>	<u>23,036</u>	<u>-</u>
Totals	<u>\$ 7,899,698</u>	<u>\$ 23,036</u>	<u>\$ 1,598,776</u>

Changes in fair value measurement using significant observable inputs are summarized as follows:

	Alternative Investments
Beginning balance, market value	\$ 1,477,294
Purchases	-
Dispositions	<u>(1,454,258)</u>
Ending balance, market value	<u>\$ 23,036</u>

Changes in fair value measurement using significant unobservable inputs are summarized as follows:

	Interest in Split Interest Agreements	Interest in Perpetual Trusts
Beginning balance, market value	\$ 906,682	\$ 678,383
Total gains (losses) included in changes in net assets	<u>(15,777)</u>	<u>29,488</u>
Ending balance, market value	<u>\$ 890,905</u>	<u>\$ 707,871</u>

(11) Split-Interest Agreements and Deferred Funds

A split-interest agreement is a contribution that results in the sharing of legal rights to certain assets by the nonprofit and the donor. The Organization records such split-interest agreements held in charitable remainder trusts, charitable gifts annuities, and pooled income funds as follows:

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Charitable Gift Annuities

Charitable gift annuity donors have contributed assets to the Organization in exchange for a promise by the Organization to pay a fixed benefit for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of the agreements, no trust exists, as the assets received are held by the Organization, and the liability is an obligation of the Organization. The Organization records new gifts at the fair market value of the assets, less the present value of the estimated future payments to the named beneficiaries. The present value of the estimated payments is calculated using an IRS discount rate in effect at the time of the contract. Subsequent changes in the value from prior year are recorded using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. A discount rate of 5% is used to determine the change in value. The change in value is recorded in the Statement of Activities under changes in value of charitable remainder trusts. The total fair market value of the 6 charitable gift annuities was \$822,800 with a corresponding liability of \$325,665 at June 30, 2017.

Pooled Income Funds

Pooled Income Fund donors have contributed assets to the Organization in exchange for a net income payout for a specified period of time. Under the terms of the agreements, no trust exists, as the assets are held by the Organization. The fair market value of the assets is recorded in the Organization's Statement of Financial Position and a corresponding liability is recorded for the present value of the future payments to the named beneficiaries. Subsequent changes in the value from prior year are recorded using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The change in value is recorded in the Statement of Activities under changes in value of charitable remainder trusts. The fair market value of the pooled income funds at June 30, 2017, was \$335,290 with a corresponding liability of \$256,903

Charitable Remainder Trusts

The Organization is named as an irrevocable remainder beneficiary of charitable trusts, which have been established by donors to provide income, generally for life, to designated beneficiaries. The Organization is also the irrevocable remainder beneficiary of seven life insurance policies. At the end of the term, or upon death of the income beneficiaries, assets remaining in the trust will be transferred to the Organization. Each year, beneficiaries receive a percentage of the trust's fair market value, generally limited to net income or net income with make-up provisions.

If the Organization is the trustee, the fair market value of the trust is recorded in the Organization's statement of financial position. A corresponding liability is recorded for the present value of the future payments as specified in the trust agreement using a discounted rate of 5%. A contribution is recorded for the difference between the two amounts. The fair market value of the one trust in which the Organization was named the trustee was \$241,705 with a corresponding payment liability for future payments of \$125,959 at June 30, 2017.

If the Organization is not the named trustee and does not exercise control over the assets, contribution revenue and assets are recognized using the fair value of the assets less the present value of the liabilities of the trust. Changes in the fair value of the assets less the present value of the liabilities are recognized in the Statement of Activities under changes in value of charitable remainder trust. At June 30, 2017 the present value of these trusts where the Organization is not the trustee was \$241,705.

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Perpetual Income Trusts Interest

The Organization is named as an income beneficiary of two perpetual trusts, the corpus of which is not controlled by the management of the Organization. Under these arrangements, the Organization has the irrevocable right to receive income earned on the underlying assets held in perpetuity.

Since the Organization is a beneficiary of this stream of income in perpetuity, the Organization's share of the fair market value of the trusts' investments is recorded as an asset, with a fair market value of \$707,871 at June 30, 2017. Any change in subsequent years in the fair market value of the Organization's shares of the trust investments is recorded in the Statements of Activities as a change in value of interests in perpetual trusts.

(12) Subsequent Events

Management has evaluated subsequent events through November 6, 2017, which is the date the financial statements were available to be issued. Management has determined that no subsequent event requiring disclosure or significantly impacting disclosure occurred.