

**United Way  
of Kern County**



**United Way of Kern County, Inc.**

**FINANCIAL REPORT**

**JUNE 30, 2017**

**UNITED WAY OF KERN COUNTY, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2017**

## CONTENTS

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INDEPENDENT AUDITOR'S REPORT	1-2
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FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5 - 6
Statements of cash flows	7
Notes to financial statements	8 - 14

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## INDEPENDENT AUDITOR'S REPORT

To the Governing Board of Directors  
**United Way of Kern County, Inc.**  
Bakersfield, California

### Report on the Financial Statements

We have audited the accompanying financial statements of **United Way of Kern County, Inc.** which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials 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 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 Kern County, Inc.** as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Daniells Phillips Vaughan & Bock*

Bakersfield, California  
October 13, 2017

**UNITED WAY OF KERN COUNTY, INC.**

**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 252,087	\$ 277,954
Unconditional promises to give, net of allowance for uncollectible promises 2017 \$196,245; 2016 \$213,576	247,868	401,094
Grant receivable	47,196	-
Other receivable	-	4,926
Investments (Notes 2 and 3)	363,471	394,622
Inventory	15,281	15,281
Prepaid expenses	16,479	12,503
<b>Total current assets</b>	<b>942,382</b>	<b>1,106,380</b>
Property and Equipment		
Building and improvements	4,931	4,931
Equipment	180,221	180,221
	<b>185,152</b>	<b>185,152</b>
Less accumulated depreciation	175,031	171,935
	<b>10,121</b>	<b>13,217</b>
<b>Total assets</b>	<b>\$ 952,503</b>	<b>\$ 1,119,597</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Designations payable	\$ 28,390	\$ 55,779
Grants payable	-	115,000
Accounts payable	25,159	7,305
Accrued expenses	44,601	64,507
Deferred revenue	5,730	5,230
<b>Total current liabilities</b>	<b>103,880</b>	<b>247,821</b>
Commitments (Note 4)		
Net Assets		
Unrestricted	848,623	871,776
<b>Total liabilities and net assets</b>	<b>\$ 952,503</b>	<b>\$ 1,119,597</b>

See Notes to Financial Statements.

**UNITED WAY OF KERN COUNTY, INC.**

**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Changes in unrestricted net assets:		
Revenues and public support:		
Gross campaign results	\$ 1,057,821	\$ 1,317,925
(Less donor designations)	(236,386)	(269,658)
(Less provision for uncollectible)	(63,188)	(79,810)
Net campaign revenue	<u>758,247</u>	968,457
Grants and awards	320,573	123,980
Miscellaneous income	59,783	62,452
Realized and unrealized gain (loss) on investments (Note 2)	23,360	(2,126)
Special events	16,260	19,699
Service fees	4,523	8,450
<b>Total unrestricted revenues and public support</b>	<u><b>1,182,746</b></u>	<u>1,180,912</u>
Expenses:		
Program services		
Gross funds awarded / distributed	411,929	536,113
(Less donor designations)	(236,386)	(269,658)
Net funds awarded / distributed	<u>175,543</u>	266,455
Other program services	741,242	756,693
Total program services	<u><b>916,785</b></u>	<u>1,023,148</u>
Supporting services		
Management and general	154,095	247,565
Fundraising	135,019	173,469
Total supporting services	<u>289,114</u>	421,034
<b>Total expenses</b>	<u><b>1,205,899</b></u>	<u>1,444,182</u>
<b>(Decrease) in unrestricted net assets</b>	<u><b>(23,153)</b></u>	<u>(263,270)</u>
Net assets, beginning	871,776	1,135,046
Net assets, ending	<u><b>\$ 848,623</b></u>	<u>\$ 871,776</u>

See Notes to Financial Statements.

**UNITED WAY OF KERN COUNTY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2017**

	Program Services		Total
	Allocation services	All other programs	
Salaries and benefits	\$ 49,594	\$ 396,224	\$ 445,818
Equipment and building rent	7,319	55,414	62,733
Other contract services	4,360	55,546	59,906
Special events	-	42,358	42,358
Specific assistance to individuals	-	30,697	30,697
Advertising and public relations	583	15,203	15,786
Professional fees	1,195	9,045	10,240
United Way Worldwide dues	1,110	8,406	9,516
Miscellaneous	362	9,729	10,091
Repairs and maintenance	914	6,918	7,832
Dues and subscriptions	743	5,622	6,365
Telephone	703	5,322	6,025
Supplies	254	4,328	4,582
Printing and publications	363	6,539	6,902
Insurance	534	4,046	4,580
Transportation	103	5,724	5,827
Postage and shipping	122	5,661	5,783
Conferences and training	169	3,839	4,008
Bank fees	-	67	67
Subtotal	68,428	670,688	739,116
Depreciation	170	1,956	2,126
Total operations	68,598	672,644	741,242
Allocations/awards	411,929	-	411,929
(Less donor designations)	(236,386)	-	(236,386)
Total expenses	\$ 244,141	\$ 672,644	\$ 916,785

See Notes to Financial Statements.



Supporting Services

Management and general	Fundraising	Total	Total
\$ 75,045	\$ 92,710	\$ 167,755	\$ 613,573
30,321	11,501	41,822	104,555
16,722	13,885	30,607	90,513
-	-	-	42,358
-	-	-	30,697
2,417	917	3,334	19,120
4,949	1,877	6,826	17,066
4,600	1,745	6,345	15,861
1,499	1,752	3,251	13,342
3,785	1,436	5,221	13,053
3,076	1,167	4,243	10,608
2,912	1,105	4,017	10,042
1,054	3,465	4,519	9,101
1,504	571	2,075	8,977
2,214	840	3,054	7,634
400	1,324	1,724	7,551
506	192	698	6,481
699	265	964	4,972
1,689	-	1,689	1,756
153,392	134,752	288,144	1,027,260
703	267	970	3,096
154,095	135,019	289,114	1,030,356
-	-	-	411,929
-	-	-	(236,386)
\$ 154,095	\$ 135,019	\$ 289,114	\$ 1,205,899

**UNITED WAY OF KERN COUNTY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2016**

	Program Services		
	Allocation services	All other programs	Total
Contract personnel services	\$ 54,631	\$ 393,360	\$ 447,991
Other contract services	2,750	109,397	112,147
Equipment and building rent	5,078	44,687	49,765
Special events	-	48,343	48,343
Miscellaneous	1,778	15,998	17,776
United Way Worldwide dues	858	7,553	8,411
Professional fees	834	7,342	8,176
Repairs and maintenance	831	7,312	8,143
Advertising and public relations	332	11,038	11,370
Conferences and training	450	7,157	7,607
Printing and publications	371	6,479	6,850
Telephone	462	4,937	5,399
Supplies	175	5,084	5,259
Transportation	351	5,680	6,031
Insurance	382	3,357	3,739
Specific assistance to individuals	-	3,688	3,688
Dues and subscriptions	160	1,405	1,565
Postage and shipping	126	1,468	1,594
Bank fees	-	-	-
Subtotal	69,569	684,285	753,854
Depreciation	221	2,618	2,839
Total operations	69,790	686,903	756,693
Allocations/awards	536,113	-	536,113
(Less donor designations)	(269,658)	-	(269,658)
Total expenses	\$ 336,245	\$ 686,903	\$ 1,023,148

See Notes to Financial Statements.

Supporting Services

Management and general	Fundraising	Total	Total
\$ 146,067	\$ 122,434	\$ 268,501	\$ 716,492
20,354	15,618	35,972	148,119
37,578	14,219	51,797	101,562
-	-	-	48,343
2,961	1,821	4,782	22,558
6,352	2,403	8,755	17,166
6,174	2,336	8,510	16,686
6,148	2,326	8,474	16,617
2,454	929	3,383	14,753
3,326	1,259	4,585	12,192
2,746	1,039	3,785	10,635
3,455	1,307	4,762	10,161
1,296	3,375	4,671	9,930
1,015	1,916	2,931	8,962
2,823	1,068	3,891	7,630
-	-	-	3,688
1,182	447	1,629	3,194
930	352	1,282	2,876
1,065	-	1,065	1,065
245,926	172,849	418,775	1,172,629
1,639	620	2,259	5,098
247,565	173,469	421,034	1,177,727
-	-	-	536,113
-	-	-	(269,658)
\$ 247,565	\$ 173,469	\$ 421,034	\$ 1,444,182

**UNITED WAY OF KERN COUNTY, INC.**

**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	\$ (23,153)	\$ (263,270)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	3,096	5,098
Net realized and unrealized (gain) loss on investments	(23,360)	2,126
Allowance for uncollectible promises to give	(17,331)	(40,409)
Changes in assets and liabilities:		
(Increase) decrease in:		
Prepaid expenses	(3,976)	2,792
Other receivables	(42,270)	(1,130)
Unconditional promises to give	170,557	86,788
Increase (decrease) in:		
Accounts payable and accrued expenses	(2,052)	(3,917)
Deferred revenue	500	4,820
Grants and designations payable	(142,389)	(7,629)
<b>Net cash (used in) operating activities</b>	<b>(80,378)</b>	<b>(214,731)</b>
Cash Flows From Investing Activities		
Proceeds from sale of investments	204,511	219,701
Purchase of investments	(150,000)	(156,835)
<b>Net cash provided by investing activities</b>	<b>54,511</b>	<b>62,866</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(25,867)</b>	<b>(151,865)</b>
Cash and cash equivalents:		
Beginning	277,954	429,819
Ending	<b>\$ 252,087</b>	<b>\$ 277,954</b>

See Notes to Financial Statements.

# UNITED WAY OF KERN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Nature of Organization and Significant Accounting Policies**

*Nature of activities:* United Way of Kern County, Inc. (the Organization) was incorporated May 6, 1949 under the laws of the State of California as a not-for-profit corporation. The Organization's mission is to mobilize donors, advocates and volunteers to improve lives in Kern County. The Organization is supported primarily through contributions from individuals and companies within Kern County.

The Organization is governed by a local Board of Directors made up of volunteer Kern County residents.

The Organization's program activities include the following:

**Financial Stability Initiatives:** The Organization acts as the lead organization for collaborative initiatives focused on improving the financial stability of low income community residents. The Organization leads efforts to seek and administer grants and other resources on behalf of its partners. Services provided to the community include free income tax assistance through the VITA (Volunteer Income Tax Assistance) program; financial literacy education; credit counseling; incentivized savings programs; and personal asset-building.

**Homelessness Initiative:** The Organization is the lead agency and fiscal sponsor for the Kern County Homeless Collaborative, a group of 26 public, private and nonprofit organizations working to reduce homelessness in Kern County. As the federally-recognized Collaborative Applicant for the Homeless Collaborative, the Organization facilitates submission of an annual application for federal funding, which brings more than \$5 million to local agencies serving the homeless. The Organization also supports collaborative efforts to conduct an annual point-in-time count of the homeless; conduct homeless outreach events; and educate the community on the issue of homelessness.

**Hunger and Food Insecurity:** The Organization also is the leader of the Kern Food Policy Council, which strives to address hunger and food insecurity in Kern County. In FY 2017, the Council completed a county-wide food system assessment, which will inform community planning around food access, emergency food relief, and economic development within the local food system.

**Early Childhood Literacy and Development:** The Organization works to improve health and school readiness among pre-school children by empowering parents and caregivers to be their children's first teachers. Programs include Raising A Reader, which provides book distributions to low-income preschools; BornLearning®, which provides parent education materials, books and resources to families of newborns and young children; and a Book-of-the-Month Club, which provides free children's books to more than 350 families each month. BornLearning® Trails have been installed in six local parks, providing educational activities for parents to engage in with their children as they enjoy time together at play.

**Emergency Food and Shelter:** The Organization serves as the administrative arm of the federal Emergency Food and Shelter Program, which is funded by the Federal Emergency Management Agency (FEMA). In this role, the Organization supports the local EFSP Board in allocating more than \$700,000 in funding and oversees 13 Local Recipient Organizations providing food, shelter, and assistance with rent/mortgage and utility payments.

**Community Investment Grants:** With the assistance of volunteers, the Organization conducted grant-making activities focused on reinvesting donor dollars to programs addressing priority needs within Kern County. Grants were targeted to programs that align with the Organization's focus on hunger and homelessness.

## UNITED WAY OF KERN COUNTY, INC.

### NOTES TO FINANCIAL STATEMENTS

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Professional Development Conference for Nonprofits: For 27 years, the Organization has presented an annual conference for nonprofit organizations targeted toward development of staff and organizational capacity building. Workshops and speakers provide education around such business functions as fund development, board and staff development, media relations, strategic planning, and managing risk.

The Organization acts as a federation representing a select group of agencies that are eligible to receive monies from the Combined Federal Campaign. The Organization distributes designated donations to those eligible agencies by distributing a proportionate share of receipts based on designations to each donor.

The Organization also acts as the administrative arm for the California State Employee Charitable Campaign (CSECC) in Kern County. Responsibilities include distribution of campaign materials and communication with donors both in writing and in person. A portion of the CSECC funds are received as unrestricted gifts to the Organization. Disbursement of designated payments to eligible not-for-profit organizations is accomplished through a contract with United Way of the California Capital Region.

A summary of significant accounting policies follows:

*Basis of Accounting:* The financial statements of the Organization are prepared under the accrual method of accounting.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly sensitive to significant change relate to the pledge losses on unconditional promises to give. This estimate is based on historical averages. It is reasonably possible that the pledge losses related to unconditional promises to give may change materially in the near term.

*Support and expenses:* Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization 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 as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

*Donated Services, Goods and Facilities:* A substantial number of volunteers have donated significant hours to the Organization's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

## UNITED WAY OF KERN COUNTY, INC.

### NOTES TO FINANCIAL STATEMENTS

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*Cash and Cash Equivalents:* For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Organization maintains its cash in bank deposit accounts, which, at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

*Provision for Uncollectible Promises:* The provision for uncollectible accounts is computed based on a three year historical average, applied to gross campaign, including donor designations. The provision for uncollectible accounts is reviewed and approved by the Organization's Finance Committee and Governing Board as part of the annual budgeting process.

*Investments Valuation and Income Recognition:* Financial statement presentation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Not-for-Profit Entities topic which states investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

*Property and Equipment:* Property and equipment is stated at cost with a capitalization policy of \$500 or greater. Depreciation of property and equipment is computed on the straight-line method over their estimated useful lives of 7-10 years.

*Deferred Revenue:* Cash received for grant projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received for specific projects and programs exceeds qualified expenditures.

*Cost Allocations:* Indirect and payroll costs are charged to functional expenses based upon time studies. Direct costs are charged to the appropriate functional area.

*Cost Deductions:* The Organization conforms to the United Way Worldwide Cost Deduction Standards. The Organization charges only actual expenses against a donor's pledge and does not deduct fundraising or processing fees from designated gifts originated by or from another United Way organization.

*Income Taxes:* The Organization is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and related California Franchise Tax Board codes. As a non-profit organization, the Organization is subject to unrelated business income tax (UBIT), if applicable. For the tax years ended June 30, 2017 and 2016, the Organization did not owe any UBIT.

The Organization adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

## UNITED WAY OF KERN COUNTY, INC.

### NOTES TO FINANCIAL STATEMENTS

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Management evaluated the Organization's tax positions and concluded that they had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

*Advertising:* The Organization expenses advertising costs as they are incurred. Advertising expense totaled \$19,120 and \$14,753 for the years ended June 30, 2017 and 2016, respectively.

*Subsequent Events:* The Organization has evaluated subsequent events through October 13, 2017, the date on which the financial statements were available to be issued. No events were identified by management which would require disclosure in the financial statements.

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Organization for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of the adoption of this standard will have on its financial statements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of the pending adoption of the new standard on the Organization's financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The ASU provides guidance on how certain cash receipts and cash payments should be presented and classified in the statements of cash flows with the objective of reducing existing diversity in practice with respect to these items. The new standard is effective for fiscal years beginning after December 15, 2017. The Organization is currently evaluating the impact the adoption of this guidance will have on its statements of cash flows.



# UNITED WAY OF KERN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### Note 2. Investments

Investments consist of the following as of June 30, 2017 and 2016:

	2017	2016
Mutual funds - equity portfolio	\$ 43,153	\$ 43,319
Exchange traded funds	150,199	131,049
Certificates of deposit	170,119	220,254
	<u>\$ 363,471</u>	<u>\$ 394,622</u>

Realized and unrealized gain (loss) on investments for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Realized (loss)	\$ -	\$ (40,177)
Unrealized gain	23,360	38,051
	<u>\$ 23,360</u>	<u>\$ (2,126)</u>

### Note 3. Fair Value Measurements

The Fair Value Measurements topic of the Financial Accounting Standards Board Codification establishes a framework for measuring fair value. That framework provides 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 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# UNITED WAY OF KERN COUNTY, INC.

## NOTES TO FINANCIAL STATEMENTS

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Following is a description of the valuation methodologies used for assets measured at fair value.

*Mutual funds and exchange traded funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual and exchange traded funds held by the Organization are deemed to be actively traded.

*Certificates of deposit:* Valued based on amortized cost or original cost plus accrued interest.

All investments held by the Organization at June 30, 2017 and 2016 are considered to be level 1 assets.

### Note 4. Commitments

The Organization leases its office under a noncancelable agreement which expires in December 2021, and requires monthly lease payments of approximately \$8,000 with annual increases.

The total minimum rental commitment as of June 30, 2017 is due in future years as follows:

Years ending June 30,	
2018	\$ 106,440
2019	109,632
2020	112,921
2021	116,308
2022	59,014
	<u>\$ 504,315</u>

Lease expense for the years ended June 30, 2017 and 2016 was \$103,340 and \$100,330, respectively.

### Note 5. Major Contributor

Revenues for the year ended June 30, 2016, included \$244,050 from one major donor.

### Note 6. Employee Contract Services

The Organization had outsourced all of its personnel services to a professional employer organization. Under the contract, all employees of the Organization were employees of the outsourced company which provided personnel services for a fee and covered wages and related costs as well as employee benefits. For the year ended June 30, 2016, all personnel services were contracted and reported in the accompanying financial statement under contract personnel services. The co-employer relationship was terminated effective July 1, 2016 and the Organization is responsible for all wages and benefits for the employees.

## **UNITED WAY OF KERN COUNTY, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 7. Unrelated Business Income Tax Matters**

The Internal Revenue Service ("IRS") and certain state taxing authorities are currently revisiting what, if any, products and services provided by the Organization are subject to unrelated business income tax ("UBIT"). There is currently very little guidance in the IRS Code on what activities should be subject to UBIT. The IRS has indicated that they are studying the issue and may issue additional guidance. As a result, at this time there is uncertainty regarding whether the Organization should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which the Organization was granted non-taxable status. The Organization has not filed any tax returns in the past for potential taxable activities. The taxing authorities have the ability to assess taxes, penalties and interest for any years for which no tax return was filed. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to the Organization's non-taxable status is not expected to have a material effect on the Organization's financial position or results of operations.