



GREATER TWIN CITIES UNITED WAY

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

GREATER TWIN CITIES UNITED WAY

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Greater Twin Cities United Way:

We have audited the accompanying financial statements of Greater Twin Cities United Way, which comprise the balance sheets as of December 31, 2017 and 2016, and 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Twin Cities United Way as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018 on our consideration of Greater Twin Cities United Way's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Greater Twin Cities United Way's internal control over financial reporting and compliance.

KPMG LLP

Minneapolis, Minnesota
June 20, 2018

GREATER TWIN CITIES UNITED WAY

Balance Sheets

December 31, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 21,896,469	16,170,916
Annual campaign pledges receivable, less allowance for uncollectible pledges of \$3,657,964 and \$4,019,787, respectively	32,530,900	40,896,796
Other assets	450,954	525,991
Grants and other receivables	905,732	1,178,100
Legacy campaign receivable, net of discount	3,056,829	3,460,979
Community capital fund receivables	3,102,739	7,005,599
Investments	21,630,130	26,609,397
Legacy investments	88,180	184,299
Investment in closely held stock	6,000,150	5,665,140
Investments held at The Saint Paul Foundation	35,144,986	30,583,360
Investments held at The Minneapolis Foundation	11,001,974	9,995,100
Beneficial interests in charitable trusts	2,479,934	2,213,092
Endowment/Planned Giving receivables	4,274,347	4,910,521
Property and equipment, net of accumulated depreciation of \$7,363,886 and \$7,000,913, respectively	<u>3,273,542</u>	<u>3,868,410</u>
Total assets	<u>\$ 145,836,866</u>	<u>153,267,700</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,773,812	2,186,150
Allocations payable	2,311,172	2,996,559
Donor designations, less allowance for uncollectible pledges of \$78,130 and \$88,579, respectively	5,749,624	6,284,781
Pension liability	<u>—</u>	<u>219,799</u>
Total liabilities	<u>9,834,608</u>	<u>11,687,289</u>
Net assets:		
Unrestricted:		
Board-designated endowments	18,515,534	14,944,262
Board-designated other	7,466,135	7,281,366
Land, building, and equipment	3,273,542	4,047,807
Unfunded minimum pension obligation	—	(1,883,059)
Undesignated	<u>9,940,620</u>	<u>12,139,742</u>
Total unrestricted net assets	<u>39,195,831</u>	<u>36,530,118</u>
Temporarily restricted:		
Annual campaign	39,830,347	46,568,241
Beneficial interest in charitable trust	655,342	600,515
Donor-restricted endowments	8,325,822	5,620,267
Legacy campaign	2,780,944	3,495,278
Community capital fund	7,071,696	9,199,050
Other	<u>4,551,161</u>	<u>6,817,722</u>
Total temporarily restricted net assets	<u>63,215,312</u>	<u>72,301,073</u>
Permanently restricted:		
Beneficial interest in charitable trust	1,824,592	1,612,577
Donor-restricted endowments	<u>31,766,523</u>	<u>31,136,643</u>
Total permanently restricted net assets	<u>33,591,115</u>	<u>32,749,220</u>
Total net assets	<u>136,002,258</u>	<u>141,580,411</u>
Total liabilities and net assets	<u>\$ 145,836,866</u>	<u>153,267,700</u>

See accompanying notes to financial statements.

GREATER TWIN CITIES UNITED WAY

Statement of Activities

Year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue:				
Annual campaign received in prior period and now released from restriction	\$ 74,914,800	(74,914,800)	—	—
Less:				
Legacy gifts	(1,183,750)	1,183,750	—	—
Donor designations – now released from restriction	(25,758,006)	25,758,006	—	—
Provision for uncollectible pledges – now released from restriction	(1,872,870)	1,872,870	—	—
Provision for third party processing fees	46,552	(46,552)	—	—
Actual designations under estimated	72,917	—	—	72,917
Net campaign revenue for current period	<u>46,219,643</u>	<u>(46,146,726)</u>	<u>—</u>	<u>72,917</u>
Campaign revenue received for future allocation period	—	67,027,298	—	67,027,298
Less:				
Legacy gifts	—	(983,608)	—	(983,608)
Donor designations	—	(24,695,909)	—	(24,695,909)
Provision for uncollectible pledges	—	(1,675,683)	—	(1,675,683)
Provision for third party processing fees	—	(216,534)	—	(216,534)
Net campaign revenue for future periods	<u>—</u>	<u>39,455,564</u>	<u>—</u>	<u>39,455,564</u>
Total campaign revenue	46,219,643	(6,691,162)	—	39,528,481
Grants and other revenues	2,727,952	5,247,880	294,870	8,270,702
Legacy revenue, net	—	55,394	—	55,394
Legacy investment income	—	(1,569)	—	(1,569)
Investment income and realized gains	3,373,471	—	—	3,373,471
Net unrealized gains (losses) on investments	3,253,995	5,449	—	3,259,444
Net unrealized gain on investment in closely held stock	—	—	335,010	335,010
Change in fair value of beneficial interests in charitable trusts	—	54,827	212,015	266,842
Donor designation cost recovery	607,118	—	—	607,118
Designations from other United Ways	119,140	—	—	119,140
Recovery/(loss) of uncollectible pledges	(297,948)	—	—	(297,948)
Miscellaneous income	69,220	—	—	69,220
Net assets released from restriction	7,756,580	(7,756,580)	—	—
Total support and revenue	<u>63,829,171</u>	<u>(9,085,761)</u>	<u>841,895</u>	<u>55,585,305</u>
Grants and program services:				
Grants awarded/distributed to agencies for programs	64,015,979	—	—	64,015,979
Less donor designations	(25,758,006)	—	—	(25,758,006)
Net funds awarded/distributed	<u>38,257,973</u>	<u>—</u>	<u>—</u>	<u>38,257,973</u>
Community and program services provided directly by Greater Twin Cities United Way	<u>10,618,523</u>	<u>—</u>	<u>—</u>	<u>10,618,523</u>
Total grants and program services	<u>48,876,496</u>	<u>—</u>	<u>—</u>	<u>48,876,496</u>
Supporting services:				
Fund raising	9,362,586	—	—	9,362,586
Organizational administration	2,853,741	—	—	2,853,741
Total supporting services	<u>12,216,327</u>	<u>—</u>	<u>—</u>	<u>12,216,327</u>
Total grants, program, and supporting services	<u>61,092,823</u>	<u>—</u>	<u>—</u>	<u>61,092,823</u>
Change in net assets before pension adjustments and loss on disposal of property	2,736,348	(9,085,761)	841,895	(5,507,518)
Loss/gain on pension settlement	(1,948,372)	—	—	(1,948,372)
Pension-related changes other than net periodic pension cost	1,883,059	—	—	1,883,059
Loss on disposal of property	(5,322)	—	—	(5,322)
Change in net assets	2,665,713	(9,085,761)	841,895	(5,578,153)
Net assets, beginning of year	36,530,118	72,301,073	32,749,220	141,580,411
Net assets, end of year	\$ <u>39,195,831</u>	<u>63,215,312</u>	<u>33,591,115</u>	<u>136,002,258</u>

See accompanying notes to financial statements.

GREATER TWIN CITIES UNITED WAY

Statement of Activities

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support and revenue:				
Annual campaign received in prior period and now released from restriction	\$ 82,369,289	(82,369,289)	—	—
Less:				
Legacy gifts	(999,953)	999,953	—	—
Donor designations – now released from restriction	(24,109,313)	24,109,313	—	—
Provision for uncollectible pledges – now released from restriction	(2,059,232)	2,059,232	—	—
Provision for third party processing fees	(69,746)	69,746	—	—
Actual designations under estimated	<u>463,797</u>	<u>—</u>	<u>—</u>	<u>463,797</u>
Net campaign revenue for current period	<u>55,594,842</u>	<u>(55,131,045)</u>	<u>—</u>	<u>463,797</u>
Campaign revenue received for future allocation period		74,914,800		74,914,800
Less:				
Legacy gifts	—	(1,183,750)	—	(1,183,750)
Donor designations	—	(25,758,006)	—	(25,758,006)
Provision for uncollectible pledges	—	(1,872,870)	—	(1,872,870)
Provision for third party processing fees	—	46,552	—	46,552
Net campaign revenue for future periods	<u>—</u>	<u>46,146,726</u>	<u>—</u>	<u>46,146,726</u>
Total campaign revenue	55,594,842	(8,984,319)	—	46,610,523
Grants and other revenues	739,721	9,382,336	2,348,742	12,470,799
Legacy revenue, net	—	378,234	—	378,234
Legacy investment income	—	(1,294)	—	(1,294)
Investment income and realized gains	1,843,009	—	(1,496)	1,841,513
Net unrealized gains (losses) on investments	1,282,418	8,835	—	1,291,253
Net unrealized gain on investment in closely held stock	—	—	1,018,160	1,018,160
Change in fair value of beneficial interests in charitable trusts	—	(4,585)	38,540	33,955
Donor designation cost recovery	751,809	—	—	751,809
Designations from other United Ways	116,571	—	—	116,571
Miscellaneous income	51,735	—	—	51,735
Net assets released from restriction	<u>10,347,432</u>	<u>(10,347,432)</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>70,727,537</u>	<u>(9,568,225)</u>	<u>3,403,946</u>	<u>64,563,258</u>
Grants and program services:				
Grants awarded/distributed to agencies for programs	68,522,215	—	—	68,522,215
Less donor designations	<u>(24,109,313)</u>	<u>—</u>	<u>—</u>	<u>(24,109,313)</u>
Net funds awarded/distributed	44,412,902	—	—	44,412,902
Community and program services provided directly by Greater Twin Cities United Way	<u>11,095,912</u>	<u>—</u>	<u>—</u>	<u>11,095,912</u>
Total grants and program services	<u>55,508,814</u>	<u>—</u>	<u>—</u>	<u>55,508,814</u>
Supporting services:				
Fund raising	9,729,889	—	—	9,729,889
Organizational administration	<u>3,338,474</u>	<u>—</u>	<u>—</u>	<u>3,338,474</u>
Total supporting services	<u>13,068,363</u>	<u>—</u>	<u>—</u>	<u>13,068,363</u>
Total grants, program, and supporting services	<u>68,577,177</u>	<u>—</u>	<u>—</u>	<u>68,577,177</u>
Change in net assets before pension adjustments and loss on disposal of property	2,150,360	(9,568,225)	3,403,946	(4,013,919)
Pension-related changes other than net periodic pension cost	667,594	—	—	667,594
Loss on disposal of property	<u>(33,836)</u>	<u>—</u>	<u>—</u>	<u>(33,836)</u>
Change in net assets	2,784,118	(9,568,225)	3,403,946	(3,380,161)
Net assets, beginning of year	<u>33,746,000</u>	<u>81,869,298</u>	<u>29,345,274</u>	<u>144,960,572</u>
Net assets, end of year	\$ <u>36,530,118</u>	<u>72,301,073</u>	<u>32,749,220</u>	<u>141,580,411</u>

See accompanying notes to financial statements.

GREATER TWIN CITIES UNITED WAY

Statement of Functional Expenses

Year ended December 31, 2017

	Grants to agencies for programs	Services provided by Greater Twin Cities United Way	Supporting services		Total supporting services	Total
			Fund raising	Organizational administration		
Salaries	\$ —	3,384,598	5,425,026	1,596,985	7,022,011	10,406,609
Other employee benefits	—	500,011	736,102	219,481	955,583	1,455,594
Payroll taxes	—	271,578	490,664	102,656	593,320	864,898
Total employee expenses	—	4,156,187	6,651,792	1,919,122	8,570,914	12,727,101
Professional fees	—	2,559,643	601,997	167,795	769,792	3,329,435
Contract services	—	2,374,229	19,305	156,075	175,380	2,549,609
Supplies	—	12,194	20,680	11,634	32,314	44,508
Telephone	—	22,883	37,941	9,086	47,027	69,910
Postage	—	3,897	32,384	8,649	41,033	44,930
Building occupancy	—	107,003	167,790	96,763	264,553	371,556
Equipment rental and expense	—	67,636	62,977	40,427	103,404	171,040
Publications and brochures	—	20,128	231,837	17,165	249,002	269,130
Films, displays, and media	—	330,665	448,920	16,535	465,455	796,120
Transportation	—	16,185	23,606	555	24,161	40,346
Conferences, meetings, and memberships	—	269,178	163,090	34,624	197,714	466,892
Miscellaneous	—	265,997	273,489	13,438	286,927	552,924
Total nonemployee expenses	—	6,049,638	2,084,016	572,746	2,656,762	8,706,400
Depreciation	—	244,872	371,894	214,715	586,609	831,481
Total operations	—	10,450,697	9,107,702	2,706,583	11,814,285	22,264,982
United Way Worldwide dues	—	167,826	254,884	147,158	402,042	569,868
Grants awarded/distributed	64,015,979	—	—	—	—	64,015,979
Less donor designations	(25,758,006)	—	—	—	—	(25,758,006)
Total expenses	\$ 38,257,973	10,618,523	9,362,586	2,853,741	12,216,327	61,092,823

See accompanying notes to financial statements.

GREATER TWIN CITIES UNITED WAY

Statement of Functional Expenses

Year ended December 31, 2016

	Grants to agencies for programs	Services provided by Greater Twin Cities United Way	Supporting services		Total supporting services	Total
			Fund raising	Organizational administration		
Salaries	\$ —	3,288,577	5,448,829	1,853,777	7,302,606	10,591,183
Other employee benefits	—	498,856	815,827	256,828	1,072,655	1,571,511
Payroll taxes	—	234,463	396,962	107,006	503,968	738,431
Total employee expenses	—	4,021,896	6,661,618	2,217,611	8,879,229	12,901,125
Professional fees	—	2,941,254	444,974	280,020	724,994	3,666,248
Contract services	—	2,528,004	19,657	212,131	231,788	2,759,792
Supplies	—	21,369	31,929	14,327	46,256	67,625
Telephone	—	23,438	40,581	6,216	46,797	70,235
Postage	—	1,899	36,499	10,277	46,776	48,675
Building occupancy	—	100,810	162,644	97,026	259,670	360,480
Equipment rental and expense	—	82,176	78,428	51,854	130,282	212,458
Publications and brochures	—	7,898	314,404	38,394	352,798	360,696
Films, displays, and media	—	264,349	931,185	20,178	951,363	1,215,712
Transportation	—	18,051	28,854	1,188	30,042	48,093
Conferences, meetings, and memberships	—	370,633	144,170	55,145	199,315	569,948
Miscellaneous	—	366,573	267,391	14,323	281,714	648,287
Total nonemployee expenses	—	6,726,454	2,500,716	801,079	3,301,795	10,028,249
Depreciation	—	187,153	305,615	172,196	477,811	664,964
Total operations	—	10,935,503	9,467,949	3,190,886	12,658,835	23,594,338
United Way Worldwide dues	—	160,409	261,940	147,588	409,528	569,937
Grants awarded/distributed	68,522,215	—	—	—	—	68,522,215
Less donor designations	(24,109,313)	—	—	—	—	(24,109,313)
Total expenses	\$ 44,412,902	11,095,912	9,729,889	3,338,474	13,068,363	68,577,177

See accompanying notes to financial statements.

GREATER TWIN CITIES UNITED WAY

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (5,578,153)	(3,380,161)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	831,481	664,964
Loss on disposal of equipment	5,322	33,836
Net realized (gains) on investments	(2,563,659)	(1,025,733)
Net unrealized (gains) on investments	(3,259,444)	(1,291,253)
Net unrealized (gains) on investment in closely held stock	(335,010)	(1,018,160)
Change in fair value of beneficial interests in charitable trusts	(266,842)	(33,956)
Changes in assets and liabilities:		
Annual campaign pledges receivable, net	8,365,896	4,704,264
Legacy campaign receivable, net	404,150	424,716
Community capital fund receivables	3,902,860	760,546
Other assets	75,037	(247,309)
Grants and other receivables	272,368	403,601
Endowment/planned giving receivables	636,174	(455,857)
Accounts payable and accrued expenses	(412,338)	586,683
Allocations payable	(685,387)	89,295
Pension liability	(219,799)	(777,366)
Donor designations, net	(535,157)	(1,917,387)
Net cash provided by (used in) operating activities	637,499	(2,479,277)
Cash flows from investing activities:		
Sale of investments	7,510,669	1,666,498
Purchase of investments	(2,166,725)	(7,862,556)
Purchase of equipment	(255,890)	(1,864,448)
Net cash provided by (used in) investing activities	5,088,054	(8,060,506)
Net change in cash and cash equivalents	5,725,553	(10,539,783)
Cash and cash equivalents, beginning of year	16,170,916	26,710,699
Cash and cash equivalents, end of year	\$ 21,896,469	16,170,916

See accompanying notes to financial statements.

GREATER TWIN CITIES UNITED WAY

Notes to Financial Statements

December 31, 2017 and 2016

(1) Organization

For 103 years, Greater Twin Cities United Way (United Way), a not-for-profit organization, has continually evolved to respond to the most pressing challenges facing our community. With one in four people living in poverty today in the nine-county region, United Way fights to end poverty and support long-term wellbeing by providing access to food, shelter and healthcare; education; and jobs. United Way aims to deliver on a core mission of: *galvanizing our community to build pathways toward prosperity and equity for all.*

As the largest nongovernmental investor in health and human services in the state, we support more than 200 programs across the Twin Cities. Over the past century, United Way has invested in more than \$2 billion to support human services in the Twin Cities nine-county region of Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, and western Washington counties.

United Way surrounds the issues of poverty in a way that meets immediate needs, and develops long-term solutions for the future. We do this by bringing together the public, private and nonprofit sectors to solve the community's most pressing needs. Because poverty is multi-faceted, our support is holistic, helping the whole person and the whole family. Through partnerships, public policy work, volunteer programs, our 2-1-1 resource hotline, grant making and nonprofit leadership support, we take a holistic, long-term approach to help people meet their potential. That's because we know when more of us reach our potential, our whole community benefits.

(2) Summary of Significant Accounting Policies

The accounting policies of United Way conform to U.S. generally accepted accounting principles (GAAP). The following is a summary of the more significant accounting policies.

(a) Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting.

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

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Unrestricted net assets represent funds that are fully available, at the discretion of management and the Board of Directors, for United Way to utilize in any of its programs or supporting services.
- Temporarily restricted net assets are comprised of funds that are restricted by donors for specific purposes or time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as support and revenue.
- Permanently restricted net assets consist of contributions that have been restricted by the donor, which stipulate the resources must be maintained in perpetuity. The related income may be expended for such purpose as determined by United Way.

GREATER TWIN CITIES UNITED WAY

Notes to Financial Statements

December 31, 2017 and 2016

(b) Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributed materials, fixed assets, or investments are recorded at fair value when received.

Contributions are available for unrestricted use unless specifically restricted by the donor. Contributions with donor-imposed conditions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When donor-imposed time conditions expire, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as annual campaign released from restriction or other net assets released from restriction on the statements of activities.

(c) Annual Campaign Revenue and Expenses

United Way's annual campaign drive begins in the spring of each year, is substantially complete at December 31, and is officially complete the last day of the following March.

The donor-designated cash and pledges represent gifts that donors have directed to specific nonprofit organizations. The undesignated cash and pledges received by December 31 are for program funding, allocations, and services to the community provided in the following year as determined by United Way's program review process. These cash and pledges have a donor-imposed time restriction and are reported as temporarily restricted assets until the following year.

The funds are used for:

- Program funding to agencies through grants and allocations;
- Designations to specific agencies;
- Designations to other United Ways;
- Payments to United Way Worldwide;
- Community and program services provided directly by United Way; and
- Fund raising, management, and general expenses.

Campaign expenses are recorded when incurred.

An allowance for uncollectible annual campaign pledges is provided based upon management's judgment including such factors as prior collection history.

(d) Contributed Services

A number of volunteers have made significant contributions of time to United Way's programs and fund raising campaign. The value of this contributed time does not meet the criteria for recognition as contributed service revenue/expense and, accordingly, is not reflected in the accompanying financial statements.

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(e) Property and Equipment

Land is recorded at cost. Buildings, building improvements, and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed by use of the straight-line method based on the estimated useful lives of the various classes of assets. The cost of maintenance and repairs is recorded as expense as incurred. United Way assesses for impairment losses when conditions warrant.

(f) Cash and Cash Equivalents

Cash and cash equivalents on the statements of cash flows consist of cash held in checking and temporary investments with original maturities of less than three months.

(g) Investments

Investments consist of fixed income securities, other equity investments, closely held stock, beneficial interests and investments held at The Saint Paul Foundation and The Minneapolis Foundation. Fixed income securities are reported at fair value based on direct and indirect market-based prices. Investment in closely held stock consists of shares of common stock of a privately held corporation and is carried at estimated fair value as determined by an independent appraisal. Investments held at The Saint Paul Foundation and The Minneapolis Foundation are pooled with other organizations' funds and invested in a diversified portfolio of marketable equity and fixed income securities, as well as limited marketability investments, including private equities, absolute return investments, and real estate. Investments held at The Saint Paul Foundation and The Minneapolis Foundation are reported at fair value as reported to United Way by The Saint Paul Foundation and The Minneapolis Foundation. Refer to note 4 for additional information on fair value measurement of investments.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

(h) Functional Allocation of Expenses

The majority of expenses generally can be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of full-time equivalent employees, salaries, and other bases determined by the management of United Way. This is consistent with the standards for allocation of functional expenses adopted by United Way Worldwide to promote consistency in reporting among the United Ways.

(i) Fair Value of Financial Instruments

The carrying amount of United Way's cash and cash equivalents, other assets, accounts payable and accrued expenses, allocations payable, and donor designations approximates fair value primarily because of the short maturity of these instruments. The fair values of annual campaign pledges receivables, legacy receivables, grant receivables, community capital fund receivables and endowment receivables are determined as the present value of expected future cash flows using a discount rate based on when the gift/grant was made.

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(j) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. GAAP 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.

(k) Reclassifications

Certain prior period amounts have been reclassified to conform with the current year presentation.

(l) Subsequent Events

United Way has evaluated subsequent events through June 20, 2018, the date on which the financial statements were available to be issued, and determined there were no additional items to disclose.

(3) Investments

United Way invests funds needed for current operations in short-term instruments, including a cash management fund and commercial paper. Funds not immediately needed for operations are generally invested in fixed-income obligations with longer term investment strategies. At December 31, 2017 and 2016, United Way's investments were reported in five categories as follows:

(a) Investments

Investments are comprised of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Fixed income:		
U.S. government and federal agency	\$ 3,995,850	4,212,490
Corporate and other	<u>17,634,280</u>	<u>22,396,907</u>
Total investments	<u>\$ 21,630,130</u>	<u>26,609,397</u>

(b) Legacy Investments

The Century Legacy program is for individuals in the Twin Cities community who wish to perpetuate their annual giving to United Way through an outright donation of \$1,000,000 or more. The funds are invested in a vehicle that is mutually agreed upon by both the donor and United Way. Each year, an amount per donor will be withdrawn from investments and included in the annual campaign. The fair value of Legacy investments held by The Minneapolis Foundation is \$88,180 and \$184,299 as of December 31, 2017 and 2016, respectively.

(c) Investment in Closely Held Stock

United Way received shares of common stock of a privately held corporation for its endowment fund. There is no active market for the privately held stock. United Way received dividends of \$65,000 and \$71,500 in each of the years ended December 31, 2017 and 2016. The value of these shares, as determined by an independent appraiser, was \$6,000,150 and \$5,665,140 at December 31, 2017 and 2016, respectively, and is included in permanently restricted net assets.

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(d) Investments Held by Others

United Way receives bequests independent of the annual campaign, some of which are specified by the donors as permanent endowments, while others are undesignated and carry no stipulations. In 1988, the Board of Directors approved Planned Giving and Endowment policies whereby the principal portion of undesignated bequests will be included as board-designated endowments. Board-designated and donor-restricted endowments are invested with The Saint Paul Foundation and The Minneapolis Foundation pursuant to fund agreements with each organization. The composition of investments held by others at December 31, 2017 and 2016 is summarized as follows:

	2017	2016
Investments held by The Saint Paul Foundation:		
Board-designated	\$ 11,051,307	9,627,224
Donor-restricted	24,093,679	20,956,136
	\$ 35,144,986	30,583,360
Investments held by The Minneapolis Foundation:		
Board-designated	\$ 5,547,890	5,040,161
Donor-restricted	5,454,084	4,954,939
	\$ 11,001,974	9,995,100

(e) Beneficial Interests in Charitable Trusts

United Way is the sole beneficiary of an irrevocable trust whose fair value is \$655,342 and \$600,515 at December 31, 2017 and 2016, respectively. United Way receives investment income earned and 5% of the fair value of the trust. Approximately \$6,297 and \$38,305 was received by United Way in 2017 and 2016, respectively. The 5% distribution for 2017 was received in 2018. The fair value of the trust has been included in beneficial interests in charitable trusts and temporarily restricted net assets.

United Way is also a 5% beneficiary of an irrevocable trust whose fair value is \$36,491,843 and \$32,251,540 at December 31, 2017 and 2016, respectively. United Way receives its proportionate share of net income earned by the trust each year. Approximately \$75,000 and \$76,350 was received by United Way in 2017 and 2016, respectively. United Way's share of the fair value of \$1,824,592 and \$1,612,577 at December 31, 2017 and 2016, respectively, has been included in beneficial interests in charitable trusts and permanently restricted net assets.

(4) Fair Value Measurements of Investments

Fair value measurements of investments are determined within a framework that has established a fair value hierarchy based upon the various data inputs utilized in determining the value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

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The three levels of inputs of the fair value hierarchy are:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table summarizes United Way's investments that were accounted for at fair value within the fair value hierarchy, as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. government and federal agency	\$ —	3,995,850	—	3,995,850
Corporate and other securities	—	17,634,280	—	17,634,280
Legacy investments:				
Investments at The Minneapolis Foundation	—	—	88,180	88,180
Investment in closely held stock	—	—	6,000,150	6,000,150
Investments at The Saint Paul Foundation	—	—	35,144,986	35,144,986
Investments at The Minneapolis Foundation	—	—	11,001,974	11,001,974
Beneficial interests in charitable trusts	—	655,342	1,824,592	2,479,934
Total investments	\$ —	22,285,472	54,059,882	76,345,354
Cash equivalents	\$ 122,126	5,933,117	—	6,055,243

Cash equivalents primarily include bonds with original maturities of less than three months.

United Way did not have any transfers between Levels 1, 2, and 3 during the year ended December 31, 2017.

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The following table summarizes United Way's investments that were accounted for at fair value within the fair value hierarchy, as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. government and federal agency	\$ —	4,212,490	—	4,212,490
Corporate and other securities	—	22,396,906	—	22,396,906
Legacy investments:				
Investments at The Minneapolis Foundation	—	—	184,299	184,299
Investment in closely held stock	—	—	5,665,140	5,665,140
Investments at The Saint Paul Foundation	—	—	30,583,360	30,583,360
Investments at The Minneapolis Foundation	—	—	9,995,100	9,995,100
Beneficial interests in charitable trusts	—	600,515	1,612,577	2,213,092
Total investments	\$ —	27,209,911	48,040,476	75,250,387
Cash equivalents	\$ 922,330	5,617,601	—	6,539,931

Cash equivalents primarily include bonds with original maturities of less than three months.

United Way did not have any transfers between Levels 1, 2, and 3 during the year ended December 31, 2016.

As previously noted, investments held at The Saint Paul Foundation and The Minneapolis Foundation are pooled with other organizations' funds and invested in a diversified portfolio of marketable equity and fixed income securities, as well as limited marketability investments, including private equities, absolute return investments, and real estate. A substantial portion of the underlying assets at the foundations are measured at fair value using Level 1 and Level 2 inputs. United Way's ownership in such investments is represented by an undivided interest in investment portfolios managed by each respective foundation, not in the underlying assets themselves. The undivided interests in these portfolios are not themselves publicly traded nor can they be valued based on observable direct or indirect inputs. Accordingly, they are reported as Level 3 measurements.

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Level 3 assets were 71% and 64% of total investment assets at fair value at December 31, 2017 and 2016, respectively. The changes in Level 3 investments measured at fair value on a recurring basis are summarized as follows:

	Legacy investments	Investment in closely held stock	Investments at The Saint Paul Foundation	Investments at The Minneapolis Foundation	Beneficial interests in charitable trusts	Total
Ending balance at December 31, 2015	\$ 276,758	4,646,980	28,085,602	9,535,686	1,574,037	44,119,063
Interest earnings	5,657	—	421,168	184,420	—	611,245
Realized gains (losses)	(4,539)	—	959,947	96,143	—	1,051,551
Unrealized gains (losses)	8,835	1,018,160	731,394	540,620	38,540	2,337,549
Contributions	—	—	1,914,250	—	—	1,914,250
Commissions and fees	(2,412)	—	(214,973)	(109,300)	—	(326,685)
Distributions	(100,000)	—	(1,314,028)	(252,469)	—	(1,666,497)
Ending balance at December 31, 2016	184,299	5,665,140	30,583,360	9,995,100	1,612,577	48,040,476
Interest earnings	3,067	—	520,241	166,259	—	689,567
Realized gains (losses)	(2,689)	—	2,094,148	477,665	—	2,569,124
Unrealized gains (losses)	5,449	335,010	2,336,184	976,715	212,015	3,865,373
Contributions	—	—	1,208,009	—	—	1,208,009
Commissions and fees	(1,946)	—	(237,414)	(112,640)	—	(352,000)
Distributions	(100,000)	—	(1,359,542)	(501,125)	—	(1,960,667)
Ending balance at December 31, 2017	\$ 88,180	6,000,150	35,144,986	11,001,974	1,824,592	54,059,882
Net change in unrealized gains (losses) included in change in net assets for period relating to investments held at December 31, 2017	\$ 5,449	335,010	2,336,184	976,715	212,015	3,865,373

Quantitative information about Level 3 fair value measurements

	Fair value at December 31, 2017	Valuation technique	Unobservable input	Range (weighted average)
Legacy investments	\$ 88,180	**	n/a	n/a
Investment in closely held stock	6,000,150	Stock price *	n/a	n/a
Investments at TSPF	35,144,986	**	n/a	n/a
Investments at TMF	11,001,974	**	n/a	n/a
Beneficial interests in charitable trusts	1,824,592	**	n/a	n/a
	\$ 54,059,882			

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Quantitative information about Level 3 fair value measurements

	Fair value at December 31, 2016	Valuation technique	Unobservable input	Range (weighted average)
Legacy investments	\$ 184,299	**	n/a	n/a
Investment in closely held stock	5,665,140	Stock price *	n/a	n/a
Investments at TSPF	30,583,360	**	n/a	n/a
Investments at TMF	9,995,100	**	n/a	n/a
Beneficial interests in charitable trusts	1,612,577	**	n/a	n/a
	<u>\$ 48,040,476</u>			

Stock price * – United Way values this investment at the underlying stock price as provided by an external valuation service provider. The fair value is determined utilizing various valuation methodologies including a discounted cash flow approach with inputs such as capitalization of earnings, cash flows, and net book value of the underlying company, all of which represent amounts that market participants would take into account in determining the fair value of this type of investment.

** – United Way values these investments based upon their undivided interests in these portfolios held by either the respective foundation, charitable trust, or investment manager. A substantial portion of the underlying assets at the foundations are measured at fair value using Level 1 and Level 2 inputs.

(5) Annual Campaign Pledges

A summary of annual campaign pledges, annual campaign pledges receivable, and allowance for uncollectible pledges at December 31, 2017 and 2016 is as follows:

	Original amounts of pledges	Pledges receivable	Allowance for uncollectible pledges	Net pledges receivable
Pledges from the:				
2017 campaign	\$ 67,027,298	31,031,140	(1,554,856)	29,476,284
Prior campaigns		5,157,724	(2,103,108)	3,054,616
		<u>\$ 36,188,864</u>	<u>(3,657,964)</u>	<u>32,530,900</u>
Pledges from the:				
2016 campaign	\$ 74,914,800	37,775,096	(1,522,680)	36,252,416
Prior campaigns		7,141,487	(2,497,107)	4,644,380
		<u>\$ 44,916,583</u>	<u>(4,019,787)</u>	<u>40,896,796</u>

United Way expects to collect the majority of pledges receivable in less than one year from the balance sheet date.

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Notes to Financial Statements

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(6) Legacy Campaign Receivables

United Way has recorded as a receivable the following unconditional promises to give to its Legacy Campaign program as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 960,456	800,000
More than one year	<u>2,590,000</u>	<u>3,210,000</u>
Unconditional promises to give	3,550,456	4,010,000
Less unamortized discount at 0.73% to 3.31%	<u>(493,627)</u>	<u>(549,021)</u>
Legacy campaign receivables	<u><u>\$ 3,056,829</u></u>	<u><u>3,460,979</u></u>

(7) Community Capital Fund Receivables

As of December 31, 2017 and 2016, United Way has recorded receivables of temporarily restricted unconditional promises to give as a result of its Community Capital Fund campaign:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 2,566,666	5,252,789
More than one year	<u>546,001</u>	<u>1,785,000</u>
Unconditional promises to give	3,112,667	7,037,789
Less unamortized discount at 1.65% to 2.52%	<u>(9,928)</u>	<u>(32,190)</u>
Community Capital Fund receivables	<u><u>\$ 3,102,739</u></u>	<u><u>7,005,599</u></u>

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(8) Endowment/Planned Giving Receivables

United Way has recorded as a receivable the following unconditional promises to give to its Centennial Endowment program as of December 31, 2017 and 2016:

	2017	2016
Amounts due in:		
Less than one year	\$ 518,950	1,438,087
More than one year	6,600,000	6,569,883
Unconditional promises to give	7,118,950	8,007,970
Less unamortized discount at 1.65% to 3.03%	(2,844,603)	(3,097,449)
Endowment/Planned Giving receivables	\$ 4,274,347	4,910,521

(9) Property and Equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

	2017	2016
Land	\$ 33,083	33,083
Building – Minneapolis Citizen's Aid	7,868,230	7,783,365
Furniture and equipment	2,736,115	3,052,875
	10,637,428	10,869,323
Less accumulated depreciation	(7,363,886)	(7,000,913)
Net book value	\$ 3,273,542	3,868,410

(10) Pension Plans

United Way has two defined benefit plans and three defined contribution plans. The plans were assumed by United Way as a result of the merger, effective May 1, 2001, of United Way of Minneapolis Area and United Way of the Saint Paul Area, Inc. The two defined benefit plans and one of the defined contribution 403(b) plans were frozen effective December 31, 2004. In 2017, the United Way terminated one of the defined benefit plans and final distributions for this plan occurred before December 31, 2017. Employees hired after May 1, 2001 are eligible to participate in the defined contribution 401(k) plan established January 1, 2001, and the defined contribution 403(b) plan established January 1, 1990.

(a) Defined Benefit Plan – United Way of Minneapolis Area

This defined benefit plan was assumed by United Way from United Way of Minneapolis Area. After May 1, 2001, no new participation is allowed. The plan covers all regular employees hired by United Way of Minneapolis Area prior to May 1, 2001 who had completed one year of eligible service and who attained the age of 21. Plan benefits are determined based on years of service and employee

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Notes to Financial Statements

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compensation during the last years of employment. The expected return on assets assumption of 5.0% as of December 31, 2016 was based on the historical and projected rates of return for the asset classes in the plan's investment portfolio. Assumed projected rates of return for each asset class were selected after analyzing historical experience, future expectations of the returns, and the volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed.

Effective December 31, 2004, the plan froze benefit accruals and employees do not earn additional defined benefits for services after that date. In 2016, the United Way announced that it would terminate the plan by 2017. In November 2016, notification of the termination was sent to all the participants when the termination was considered to be imminent. As such, the 2016 actuarial valuation of the plan was prepared on the liquidation basis of accounting. In 2017, the plan was terminated and all final distributions occurred before December 31, 2017. A non-cash settlement loss of \$1,948,372 was recorded in 2017 on the Statement of Activities.

Net periodic pension expense for the years ended December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Interest cost	\$ 184,748	283,641
Expected return on plan assets	(219,946)	(290,837)
Amortization of loss	<u>56,429</u>	<u>77,424</u>
Net periodic pension expense	<u>\$ 21,231</u>	<u>70,228</u>

The funded status and accrued benefit cost as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Pension benefits:		
Projected benefit obligation	\$ —	(6,184,959)
Fair value of plan assets	—	5,965,160
Accrued benefit cost recognized in the balance sheet	—	(219,799)

The actuarial assumptions as of December 31:

Discount rate:		
Benefit obligation	—%	—%
417 (e) Segment 1:	—	2.00
417 (e) Segment 2:	—	4.00
417 (e) Segment 3:	—	5.00
Net periodic benefit costs	—	4.25
Expected return on plan assets	—	5.00
Rate of compensation increases	Not applicable	Not applicable

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Net periodic costs and benefits paid for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Pension cost	\$ 21,231	70,228
Benefits paid	6,565,861	406,750

The asset allocations by category at December 31, 2017 and 2016 are as follows:

	2017	2016
Collective investment trust funds	—%	99.02%
Short-term investment funds	—	0.98
Total	—%	100.00%

In anticipation of plan termination, United Way changed its investment strategy to a 100% liability driven investment strategy. As a result, during 2014, mutual fund investments were sold and replaced with collective investment trust fund investments. It is United Way's policy to use NAV as practical expedient to measure fair value.

The following table summarizes the investment assets accounted for at fair value within the fair value hierarchy as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Collective investment trust funds	\$ —	5,906,908	—	5,906,908
Short-term investment funds	—	58,252	—	58,252
Total investments	\$ —	5,965,160	—	5,965,160

(b) Defined Benefit Plan – Twin Cities Nonprofit Partners Pension Plan

United Way participates in a multiemployer defined benefit pension plan in which 16 of its agencies also participate. Of the approximate 1,062 participants, 6.7% are United Way employees. Effective December 31, 2004, the plan froze benefit accruals and, as a result, employees do not earn additional defined benefits for future services.

As required by GAAP for this plan, an employer shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contribution due and unpaid. The funding is determined by the actuary and is allocated based on employee compensation among United Way and the participating agencies. The objective in funding the plan is to accumulate sufficient funds to provide for benefits and to achieve full funding to allow for termination of the plan. Because the plan's unfunded projected termination liability exceeds the fair market value of plan assets, continued annual contributions will be required in order to achieve full funding. If any participating agency defaults on their annual contributions, United Way and the other remaining agencies assume the liability and

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contributions of the agency in default. Plan assets are invested based on a long term investment strategy and held approximately 30% in fixed income securities and 70% in equity accounts. United Way made contributions of \$140,964 and \$140,964 in the years ended December 31, 2017 and 2016, respectively, which is recognized as pension cost. As of January 1, 2017 (the most recent actuarial valuation report available), total plan assets were \$42,265,511, the accumulated benefit obligation was \$38,069,222, and the total funding percentage was greater than 75%.

The following table presents information concerning United Way's participation in the multiemployer defined benefit pension plan:

	<u>2017</u>	<u>2016</u>
Legal name	Twin Cities Nonprofit Partners Pension Plan	Twin Cities Nonprofit Partners Pension Plan
EIN/Plan number	41-1973442/333	41-1973442/333
Plan year end	12/31/2017	12/31/2016
Pension Protection Act percentage funded	110%	110%
Contributions by United Way	\$ 140,964	140,964
Contributions as percentage of total contributed	9%	9%
Rehabilitation plan status	n/a	n/a
Surcharge imposed	No	No

(c) Defined Contribution Plans

Greater Twin Cities United Way 401(k) Plan: This defined contribution plan was assumed by United Way from United Way Administrative Services of the Twin Cities. The plan was established under Section 401(k) on January 1, 2001. The plan covers employees over age 21 with certain restrictions as to length of employment. United Way's cash contributions to this plan were \$557,014 and \$547,667 during the years ended December 31, 2017 and 2016, respectively.

Greater Twin Cities United Way 403(b) Plan: This defined contribution plan was assumed by United Way from United Way of Minneapolis Area. The plan was established January 1, 1990 under Section 403(b) of the Internal Revenue Code. Contributions to this plan are limited to highly compensated employee deferrals.

Greater Twin Cities United Way and Participating Agencies Matched Savings 403(b) Plan: This defined contribution plan was assumed by United Way from United Way of the Saint Paul Area, Inc. The plan was frozen effective December 31, 2004, after which no new participation was allowed by employees of United Way or the three participating agencies.

(11) Income Taxes

United Way is classified as a tax-exempt organization under Minnesota Statute 290.05 and Section 501(c)(3) of the Internal Revenue Code and is exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code and, as such, is subject to income taxes only on net

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unrelated business income. United Way did not have any unrelated business income for the years ended December 31, 2017 and 2016. United Way's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. United Way has no uncertain tax positions resulting in an accrual of tax expense or benefit.

(12) Net Funds Granted/Distributed

Net funds granted/distributed by United Way were made in the following focus areas for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Education and jobs	\$ 19,611,131	23,211,225
Safety net	17,127,009	20,405,404
Nonprofit sector capacity building	1,081,215	771,340
Other Community support and engagement	<u>438,618</u>	<u>24,933</u>
	<u>\$ 38,257,973</u>	<u>44,412,902</u>

(13) Services Provided Directly by Greater Twin Cities United Way

Services provided directly by United Way for the years ended December 31, 2017 and 2016 include the following programs:

	<u>2017</u>	<u>2016</u>
Community impact identification and evaluation	\$ 3,280,562	3,488,466
Direct services to the community:		
2-1-1/information and referral services	2,054,201	2,197,414
Volunteer United	565,405	791,079
Labor community services	391,407	400,904

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	<u>2017</u>	<u>2016</u>
Goal area strategy implementation:		
Generation Next	\$ 1,734,054	1,809,908
Child Care Accreditation Program	—	181,151
Start early funders coalition	333,344	407,235
Nonprofit capacity building	345,978	348,156
Career Academies	502,137	588,480
Systems change and innovation initiatives	47,521	176,340
Reading by third grade	28,000	48,473
Early learning	64,860	55,000
Financial stability programs	214,536	165,163
Education	35,014	31,448
Access to healthcare	191,143	87,400
Out of school time/after school activity	129,685	43,907
Hunger partnership systems	215,896	24,053
Housing	10,000	10,111
Action Day	169,899	—
Other	304,881	241,224
	<u>\$ 10,618,523</u>	<u>11,095,912</u>

(14) Endowment Funds

As approved by the Board of Directors, United Way's endowments are invested with The Saint Paul Foundation and The Minneapolis Foundation. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by 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.

(a) Interpretation of Relevant Law

United Way has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, United Way 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 as 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 UPMIFA.

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(b) Endowment Net Asset Composition by Type of Fund as of December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 18,515,534	—	—	18,515,534
Donor-restricted endowment funds	—	8,325,822	31,766,523	40,092,345
	<u>\$ 18,515,534</u>	<u>8,325,822</u>	<u>31,766,523</u>	<u>58,607,879</u>

(c) Changes in Endowment Net Assets for the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 14,944,262	5,620,267	31,136,643	51,701,172
Investment return:				
Investment income	121,260	188,067	—	309,327
Net change in value (realized and unrealized)	2,216,057	3,668,656	335,010	6,219,723
Total investment return	2,337,317	3,856,723	335,010	6,529,050
Contributions	1,639,460	—	294,870	1,934,330
Appropriation of endowment assets	(405,505)	(1,151,168)	—	(1,556,673)
Endowment net assets, end of year	<u>\$ 18,515,534</u>	<u>8,325,822</u>	<u>31,766,523</u>	<u>58,607,879</u>

(d) Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 15,003,834	—	—	15,003,834
Donor-restricted endowment funds	(59,572)	5,620,267	31,136,643	36,697,338
	<u>\$ 14,944,262</u>	<u>5,620,267</u>	<u>31,136,643</u>	<u>51,701,172</u>

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(e) Changes in Endowment Net Assets for the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 14,290,039	4,959,934	27,771,237	47,021,210
Investment return:				
Investment income	101,396	179,918	—	281,314
Net change in value (realized and unrealized)	<u>831,235</u>	<u>1,496,872</u>	<u>1,018,160</u>	<u>3,346,267</u>
Total investment return	932,631	1,676,790	1,018,160	3,627,581
Contributions	271,633	—	2,347,246	2,618,879
Appropriation of endowment assets	<u>(550,041)</u>	<u>(1,016,457)</u>	<u>—</u>	<u>(1,566,498)</u>
Endowment net assets, end of year	\$ <u><u>14,944,262</u></u>	<u><u>5,620,267</u></u>	<u><u>31,136,643</u></u>	<u><u>51,701,172</u></u>

(f) Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)

	<u>2017</u>	<u>2016</u>
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation	\$ <u>31,766,523</u>	<u>31,136,643</u>
Total endowment funds classified as permanently restricted net assets	\$ <u><u>31,766,523</u></u>	<u><u>31,136,643</u></u>
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a time restriction without purpose restrictions	\$ <u>8,325,822</u>	<u>5,620,267</u>
Total endowment funds classified as temporarily restricted net assets	\$ <u><u>8,325,822</u></u>	<u><u>5,620,267</u></u>

(g) 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 UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets are \$0 and \$59,571 as of December 31, 2017 and 2016, respectively. These

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deficiencies resulted partially from unfavorable market fluctuations that originally occurred during the year ended December 31, 2008.

(h) Return Objectives and Risk Parameters

As approved by the Board of Directors, United Way's endowments are invested in The Saint Paul Foundation's Multi-Asset Endowment Portfolio and The Minneapolis Foundation's Long Term Growth Fund and managed according to their investment and spending policies. These policies attempt to provide a consistent return on assets, preserve capital and the purchasing power of the endowment assets, while providing a predictable funding stream to support programs. Endowment assets include those assets of donor-restricted funds that United Way must hold in perpetuity as well as board-designated funds. Under these policies, the endowment assets are invested in a manner to strive for long-term returns that meet or exceed an absolute return objective plus the spending policy rate, an annual return equal to or greater than composite benchmarks made up of market indices in a similar proportion at the funds' target asset allocation, and a placement in a specified ranking within a universe of investment peers.

(i) Strategies Employed for Achieving Objectives

To satisfy its long term rate of return objectives, United Way 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 equity based investments to achieve its long term return objectives within prudent risk constraints.

(j) Spending Policy and How the Investment Objectives Relate to Spending Policy

As approved by the Board of Directors, United Way's endowments are invested in The Saint Paul Foundation's Multi-Asset Endowment Portfolio and The Minneapolis Foundation's Long Term Growth Fund, and are managed according to their investment and spending policies. United Way receives distributions each year based on these spending policies. The Saint Paul Foundation has a policy of appropriating for distribution each year 5% of the portfolio's average market value over the last 20 calendar quarters but not less than 4.25% of the portfolio's current market value nor more than 5.50% of the current market value. The Minneapolis Foundation has a policy of appropriating for distribution 4.00% of the fund's average market value over the last 12 quarters. When agreeing to these spending policies, United Way considered the long term expected return on its endowments. These spending policies are consistent with United Way's objective to maintain the purchasing power of the endowment assets held in perpetuity, to provide a consistent and predictable funding stream, as well as to provide additional growth through new gifts and investment return.

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(15) Other Temporarily Restricted Net Assets

Other temporarily restricted net assets include the following balances, which are time restricted or related to specific program services at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Contributions restricted to specific programs or uses:		
Generation Next	\$ 889,461	2,567,616
Early Learning and Child Care Accreditation Program	176,369	213,153
Women's Leadership Council	609,628	498,230
Healthy Communities	27,482	46,625
Hunger and Homelessness	268,750	677,500
United Way ARISE Project	227,601	172,941
System Change and Innovation initiatives	13,065	25,000
Hunger Partnership	221,251	358,999
Holiday Wishes	21,148	22,022
Scholarship Fund	82,337	76,127
Career Academies	666,590	296,105
United Ways of MN	10,300	12,550
Culturally Specific Organizations	488,077	1,213,208
Solidarity MN	418,438	—
Start Early Funders Coalition	84,166	193,333
Other	346,498	444,313
	<u>\$ 4,551,161</u>	<u>6,817,722</u>