



UNITED WAY OF MIDLAND, INC.
Midland, Texas

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

December 31, 2020 and 2019

UNITED WAY OF MIDLAND, INC.
Midland, Texas

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December 31, 2020 and 2019

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October 6, 2021

**Board of Directors
United Way of Midland, Inc.
Midland, Texas**

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of United Way of Midland, Inc. (the "Organization") which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Way of Midland, Inc. as of December 31, 2020 and 2019, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Condley and Company, L.L.P.

Certified Public Accountants

UNITED WAY OF MIDLAND, INC.
Midland, Texas

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31, | |
|------------------------------------------------------------------------------------------------------|---------------------|----------------------|
| | 2020 | 2019 |
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,919,038 | \$ 2,594,666 |
| Investments at fair value | 6,810,754 | 6,403,676 |
| Pledges receivable, net of allowance of \$76,369 in 2020 and \$57,607 in 2019 | 60,626 | 234,682 |
| Other assets | 7,270 | 6,428 |
| Total Current Assets | 8,797,688 | 9,239,452 |
| LONG-TERM ASSETS: | | |
| Beneficial interest in assets held by others | 596,062 | 574,582 |
| Fixed assets, at cost, net of accumulated depreciation of \$366,427 in 2020 and \$354,910 in 2019 | 276,410 | 262,271 |
| Total Long-Term Assets | 872,472 | 836,853 |
| TOTAL ASSETS | \$ 9,670,160 | \$ 10,076,305 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 4,139 | \$ 2,416 |
| Other liabilities | 52,401 | 36,083 |
| Due to designated organizations | 863,783 | 1,319,765 |
| Due to state and national affiliates | 41,863 | 40,981 |
| Total Current Liabilities | 962,186 | 1,399,245 |
| LONG-TERM LIABILITIES: | | |
| Due to designated organizations | 140,087 | 329,272 |
| Total Liabilities | 1,102,273 | 1,728,517 |
| NET ASSETS: | | |
| Without donor restrictions | | |
| Undesignated | 573,821 | 275,654 |
| Designated by the board - quasi endowment | 6,898,004 | 6,912,653 |
| Designated by the board - assets held by others | 596,062 | 574,582 |
| Designated by the board - initiatives | - | 84,899 |
| | 8,067,887 | 7,847,788 |
| With donor restrictions | | |
| Perpetual in nature | 500,000 | 500,000 |
| | 500,000 | 500,000 |
| Net Assets | 8,567,887 | 8,347,788 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 9,670,160 | \$ 10,076,305 |

The accompanying notes are an integral part of the consolidated financial statements.

UNITED WAY OF MIDLAND, INC.
Midland, Texas

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------------|-------------------------------|----------------------------|------------------|
| REVENUES, GAINS AND OTHER SUPPORT: | | | |
| Campaign contributions | \$ 1,296,004 | \$ | \$ 1,296,004 |
| Less: donor designations | (16,170) | | (16,170) |
| Less: allowance for uncollectible pledges | (64,070) | | (64,070) |
| Campaign contributions, net | 1,215,764 | - | 1,215,764 |
| Event income | 77,960 | | 77,960 |
| Grant income | 109,306 | | 109,306 |
| Paycheck Protection Program forgiveness | 89,600 | | 89,600 |
| Miscellaneous income | 19,136 | | 19,136 |
| Interest income, banks | 3,425 | | 3,425 |
| Net investment return | 659,392 | | 659,392 |
| | 958,819 | - | 958,819 |
| Total Revenues, Gains and Other Support | 2,174,583 | - | 2,174,583 |
| EXPENSES: | | | |
| Program: | | | |
| Program expenses | 1,441,805 | | 1,441,805 |
| Support services: | | | |
| General and administrative | 107,117 | | 107,117 |
| Fundraising | 405,562 | | 405,562 |
| Total Expenses | 1,954,484 | - | 1,954,484 |
| CHANGE IN NET ASSETS | 220,099 | | 220,099 |
| NET ASSETS AT BEGINNING OF YEAR | 7,847,788 | 500,000 | 8,347,788 |
| NET ASSETS AT END OF YEAR | \$ 8,067,887 | \$ 500,000 | \$ 8,567,887 |

The accompanying notes are an integral part of the consolidated financial statements.

UNITED WAY OF MIDLAND, INC.
Midland, Texas

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|-------------------------------------------|---------------------------------------|------------------------------------|---------------------|
| REVENUES, GAINS AND OTHER SUPPORT: | | | |
| Campaign contributions | \$ 2,142,630 | \$ | \$ 2,142,630 |
| Less: donor designations | (79,135) | | (79,135) |
| Less: allowance for uncollectible pledges | (26,501) | | (26,501) |
| Campaign contributions, net | <u>2,036,994</u> | <u>-</u> | <u>2,036,994</u> |
| | | | |
| Event income | 258,876 | | 258,876 |
| Grant income | 1,500 | | 1,500 |
| Miscellaneous income | 36,011 | | 36,011 |
| Interest income, banks | 5,265 | | 5,265 |
| Net investment return | 1,151,311 | | 1,151,311 |
| | <u>1,452,963</u> | <u>-</u> | <u>1,452,963</u> |
| | | | |
| Total Revenues, Gains and Other Support | <u>3,489,957</u> | <u>-</u> | <u>3,489,957</u> |
| | | | |
| EXPENSES: | | | |
| Program: | | | |
| Program expenses | 1,759,580 | | 1,759,580 |
| Support services: | | | |
| General and administrative | 189,088 | | 189,088 |
| Fundraising | 423,046 | | 423,046 |
| Total Expenses | <u>2,371,714</u> | <u>-</u> | <u>2,371,714</u> |
| | | | |
| CHANGE IN NET ASSETS | 1,118,243 | | 1,118,243 |
| | | | |
| NET ASSETS AT BEGINNING OF YEAR | <u>6,729,545</u> | <u>500,000</u> | <u>7,229,545</u> |
| | | | |
| NET ASSETS AT END OF YEAR | <u>\$ 7,847,788</u> | <u>\$ 500,000</u> | <u>\$ 8,347,788</u> |

The accompanying notes are an integral part of the consolidated financial statements.

UNITED WAY OF MIDLAND, INC.
Midland, Texas

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Year Ended December 31, | |
|-----------------------------------------------------------------------------------------|---------------------------------|---------------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 220,099 | \$ 1,118,243 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Net realized/unrealized gains on investments | (471,646) | (960,235) |
| Reinvested income | (134,303) | (103,357) |
| Provision for bad debt | 64,070 | 26,501 |
| (Gain)/Loss on disposal of fixed assets | 2,886 | (34,545) |
| Depreciation | 21,768 | 17,938 |
| (Increase)/Decrease in: | | |
| Pledges receivable | 109,986 | 319,202 |
| Other assets | (842) | 9,477 |
| Increase/(Decrease) in: | | |
| Accounts payable | 2,605 | 12,132 |
| Other liabilities | 16,318 | 36,083 |
| Due to designated organizations | (645,167) | (736,084) |
| | <u>(814,226)</u> | <u>(294,645)</u> |
| Net Cash Used in Operating Activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of fixed assets | (38,793) | (55,012) |
| Purchase of investments | (2,937,542) | (1,703,994) |
| Payments received for notes receivable | - | 60,053 |
| Proceeds from sales and maturities of investments | 3,093,410 | 2,117,512 |
| Proceeds from insurance for fixed assets | - | 40,129 |
| Distribution from beneficial interest in assets held for others | 21,523 | 21,345 |
| | <u>138,598</u> | <u>480,033</u> |
| Net Cash Provided by Investing Activities | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from debt payable | 89,600 | - |
| Forgiveness of debt payable | (89,600) | - |
| | <u>-</u> | <u>-</u> |
| Net Cash Used by Financing Activities | | |
| Net Increase (Decrease) in Cash and Cash Equivalents | (675,628) | 185,388 |
| Cash and Cash Equivalents at Beginning of Year | <u>2,594,666</u> | <u>2,409,278</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,919,038</u> | <u>\$ 2,594,666</u> |

The accompanying notes are an integral part of the consolidated financial statements.

UNITED WAY OF MIDLAND, INC.
Midland, Texas

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

| | Program | General & Administrative | Fundraising | Total Support Services | Total Functional Expenses |
|---------------------------------------|---------------------|-----------------------------|-------------------|------------------------------|---------------------------------|
| Operating Expenses | | | | | |
| Salaries and wages | \$ 142,900 | \$ 40,017 | \$ 217,252 | \$ 257,269 | \$ 400,169 |
| Employee benefits | 32,315 | 9,049 | 49,128 | 58,177 | 90,492 |
| Payroll taxes | 11,177 | 3,130 | 16,992 | 20,122 | 31,299 |
| | <u>186,392</u> | <u>52,196</u> | <u>283,372</u> | <u>335,568</u> | <u>521,960</u> |
| Grants | 1,121,559 | - | - | - | 1,121,559 |
| Other program disbursements | 67,911 | 27 | 150 | 177 | 68,088 |
| National and state dues | 10,307 | 2,886 | 15,670 | 18,556 | 28,863 |
| Event expense | - | - | 9,129 | 9,129 | 9,129 |
| Professional fees | - | 30,820 | - | 30,820 | 30,820 |
| Local travel | 134 | 27 | 590 | 617 | 751 |
| Contract services | 12,024 | 3,367 | 19,685 | 23,052 | 35,076 |
| Insurance | 4,226 | 1,184 | 6,425 | 7,609 | 11,835 |
| Building maintenance and repairs | 7,019 | 1,966 | 10,671 | 12,637 | 19,656 |
| Postage | 335 | 94 | 2,244 | 2,338 | 2,673 |
| Telephone | 2,526 | 707 | 3,840 | 4,547 | 7,073 |
| Office supplies | 1,124 | 895 | 1,850 | 2,745 | 3,869 |
| Printing, publications and promotions | 2,128 | 84 | 5,267 | 5,351 | 7,479 |
| Dues and subscriptions | 1,366 | 383 | 3,182 | 3,565 | 4,931 |
| Equipment maintenance | 12,692 | 2,002 | 16,202 | 18,204 | 30,896 |
| Utilities | 3,338 | 935 | 5,075 | 6,010 | 9,348 |
| Bank and payroll fees | - | 372 | 6,143 | 6,515 | 6,515 |
| Depreciation | 7,773 | 2,177 | 11,818 | 13,995 | 21,768 |
| Conferences and local meetings | 951 | 6,719 | 4,249 | 10,968 | 11,919 |
| Miscellaneous and other expenses | - | 276 | - | 276 | 276 |
| | <u>1,255,413</u> | <u>54,921</u> | <u>122,190</u> | <u>177,111</u> | <u>1,432,524</u> |
| Total functional expenses | <u>\$ 1,441,805</u> | <u>\$ 107,117</u> | <u>\$ 405,562</u> | <u>\$ 512,679</u> | <u>\$ 1,954,484</u> |

The accompanying notes are an integral part of the consolidated financial statements.

UNITED WAY OF MIDLAND, INC.
Midland, Texas

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

| | Program | General & Administrative | Fundraising | Total Support Services | Total Functional Expenses |
|---------------------------------------|---------------------|-----------------------------|-------------------|------------------------------|---------------------------------|
| Operating Expenses | | | | | |
| Salaries and wages | \$ 189,403 | \$ 56,448 | \$ 177,302 | \$ 233,750 | \$ 423,153 |
| Employee benefits | 49,650 | 14,797 | 46,477 | 61,274 | 110,924 |
| Payroll taxes | 12,280 | 4,207 | 13,804 | 18,011 | 30,291 |
| | <u>251,333</u> | <u>75,452</u> | <u>237,583</u> | <u>313,035</u> | <u>564,368</u> |
| Grants | 1,431,838 | - | - | - | 1,431,838 |
| Event expense | - | - | 88,223 | 88,223 | 88,223 |
| National and state dues | 21,697 | 6,466 | 20,310 | 26,776 | 48,473 |
| Professional fees | - | 76,739 | - | 76,739 | 76,739 |
| Local travel | 765 | 886 | 1,025 | 1,911 | 2,676 |
| Contract services | 5,823 | 10,736 | 6,205 | 16,941 | 22,764 |
| Insurance | 5,876 | 1,751 | 5,501 | 7,252 | 13,128 |
| Building maintenance and repairs | 5,074 | 1,512 | 4,750 | 6,262 | 11,336 |
| Postage | 1,233 | 367 | 1,154 | 1,521 | 2,754 |
| Telephone | 4,322 | 1,288 | 4,046 | 5,334 | 9,656 |
| Office supplies | 2,241 | 668 | 2,098 | 2,766 | 5,007 |
| Printing, publications and promotions | 715 | - | 6,459 | 6,459 | 7,174 |
| Dues and subscriptions | 1,213 | 756 | 2,581 | 3,337 | 4,550 |
| Equipment maintenance | 13,028 | 2,434 | 18,150 | 20,584 | 33,612 |
| Utilities | 4,243 | 1,265 | 3,972 | 5,237 | 9,480 |
| Bank and payroll fees | - | 311 | 4,621 | 4,932 | 4,932 |
| Depreciation | 8,029 | 2,393 | 7,516 | 9,909 | 17,938 |
| Conferences and local meetings | 2,150 | 6,064 | 8,852 | 14,916 | 17,066 |
| | <u>1,508,247</u> | <u>113,636</u> | <u>185,463</u> | <u>299,099</u> | <u>1,807,346</u> |
| Total functional expenses | <u>\$ 1,759,580</u> | <u>\$ 189,088</u> | <u>\$ 423,046</u> | <u>\$ 612,134</u> | <u>\$ 2,371,714</u> |

The accompanying notes are an integral part of the consolidated financial statements.

UNITED WAY OF MIDLAND, INC.
Midland, Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 1: STATEMENT OF ORGANIZATION AND PURPOSE

The United Way of Midland, Inc. (the "Organization") impacts the community by working with other organizations to identify the community's most pressing health, education and self-sufficiency needs and then allocates funds to local non-profit organizations with programs that are making a measurable difference in addressing those needs. The Organization accomplishes this through assessing the needs of the community, advocating for the selected public policies, reviewing funding applications submitted under identified areas of need and allocating funds to approved programs.

The Organization operates as a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of United Way of Midland, Inc. and UWM Properties, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation.

UWM Properties, Inc. was formed for the acquisition or funding of real estate to provide shelter for Midland county residents in disadvantaged circumstances. UWM Properties, Inc. operates as a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Basis of Accounting

The consolidated financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Organization determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. The allowance for pledges receivable totaled \$76,369 and \$57,607 as of December 31, 2020 and 2019, respectively.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Investments and Investment Income

Investment purchases are recorded at cost, or if donated, at the fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Cash held in certain brokerage accounts is considered a short-term investment. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Market value for investments is based on market indices for those items with a readily ascertainable market value. Hedge funds and private equity funds are valued primarily by the respective fund managers based on the underlying investments.

Fixed Assets

Fixed assets are recorded at cost as determined by either cost at acquisition or fair market value at date of gift, less accumulated depreciation. Depreciation is provided using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives ranging from 5 to 39 years. Capital purchases are typically capitalized for all costs greater than \$1,000, with purchases under \$1,000 evaluated on a case by case basis and those extending the life of an existing asset or having a life in excess of one year also being capitalized. All other items are expensed as repair and maintenance.

Due to Designated Organizations

Amounts due to designated organizations includes amounts allocated by the Organization to fund partner agencies in education, self-sufficiency, and health, which have not been paid at the statement of financial position date. Amounts due to designated organizations also includes amounts that have not been paid at the consolidated statement of financial position date for donor designated contributions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Salaries and related payroll expenses are recorded based on actual segregation of personnel by program or supporting services benefited. Distribution of all other expenses is based on actual usage or management's estimates of usage applicable to the various programs and supporting

services benefited. All salary, overhead, and miscellaneous costs attributable to fund-raising efforts are recorded as operating expenses in the period incurred.

Indirect expenses have been allocated to the various functions based on estimates made by the Organization's management. Depreciation expense has been allocated based on estimates of usage.

Federal Income Taxes

The Organization and its subsidiary are exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3).

Management evaluated both Organization's tax positions and concluded that the Organizations have taken no uncertain tax positions that require adjustment to the consolidated financial statements and therefore no adjustments have been included in the consolidated financial statements for 2020 or 2019. With a few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for three years prior to the most recent tax filing.

Donated Services

A substantial number of volunteers make significant contributions of time to the Organization's programs and fund-raising campaigns. 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 consolidated financial statements.

Endowment and Quasi-Endowment Investment and Spending Policies

The Organization has adopted investment and spending policies for endowment and quasi-endowment assets that attempt to preserve the corpus. The Organization's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The spending policy allows the Board of Directors to distribute annually, a percentage of a rolling three year average of endowed and quasi-endowed assets. For the years ended December 31, 2020 and 2019, a rate of 4% was adopted by the Board of Directors. Distributions totaling \$611,823 and \$256,862 were taken during the years ended December 31, 2020 and 2019, respectively. The current long-term return objective is to return amounts sufficient to support the spending policy, net of investment fees. Actual returns may vary.

Subsequent Events

The Organization has evaluated subsequent events through October 6, 2021, the date the consolidated financial statements were available to be issued.

Use of Estimates

The preparation of consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Adopted

ASU 2018-13

In August of 2018, the FASB issued Accounting Standards Update 2018-03 *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This standard modifies the disclosure requirement for fair value measurements. For nonpublic entities certain disclosure requirements for Level 3 fair value measurements will be modified or eliminated. The standard is effective for annual and interim periods beginning after

December 15, 2019. Certain amendments in the standard should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments of the standard should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. This standard was implemented during the year. No significant modifications were made to the consolidated financial statements of the Organization.

Not Adopted

ASU 2016-02

The FASB finalized the standard on leases in ASU 2016-02 Leases in February 2016. This update was to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle is that the lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee and therefore recognition of those lease assets and lease liabilities represent an improvement over previous GAAP. Under the guidance a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Additional guidelines for finance leases, operating leases and lessors is included in the guidance. The amendments under ASU 2020-05 defer the effective date for one year for entities in the “all other” category and public NFP entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Leases. Therefore, under the amendments, the standard is effective for entities within the “all other” category for fiscal years beginning after December 15, 2021.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the American Institute of Certified Public Accountants did not or are not believed by management to have a material impact on the Organization’s present or future consolidated financial statements.

NOTE 3: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the December 31, 2020 consolidated statement of financial position date, comprise the following:

| | |
|----------------------------------------------------------------------------------------|---------------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 1,919,039 |
| Investments at market | 6,810,754 |
| Pledges receivable, net | <u>60,626</u> |
| Total Financial assets | 8,790,419 |
| Less: | |
| Funds held for others | (11,602) |
| Endowed funds | (500,000) |
| Quasi-endowed funds | <u>(6,898,004)</u> |
| | (7,409,606) |
| Add: Available to spend for endowed funds (4%) | 258,643 |
| Add: Available to spend for assets held at Permian Basin Area Foundation | <u>21,275</u> |
| | 279,918 |
| Financial assets available within one year to meet cash needs for general expenditures | <u>\$ 1,660,731</u> |

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the December 31, 2019 consolidated statement of financial position date, comprise the following:

| | |
|----------------------------------------------------------------------------------------|---------------------|
| Financial assets: | |
| Cash and cash equivalents | \$ 2,594,666 |
| Investments at market | 6,403,676 |
| Pledges receivable, net | <u>234,682</u> |
| Total Financial assets | 9,233,024 |
| Less: | |
| Funds held for others | (11,745) |
| Endowed funds | (500,000) |
| Quasi-endowed funds | <u>(6,912,653)</u> |
| | (7,424,398) |
| Add: Available to spend for endowed funds (4%) | 242,673 |
| Add: Available to spend for assets held at Permian Basin Area Foundation | <u>21,523</u> |
| | 264,196 |
| Financial assets available within one year to meet cash needs for general expenditures | <u>\$ 2,072,822</u> |

Included in cash and cash equivalents is \$587,251 and \$1,008,977 held in brokerage accounts which are a component of quasi-endowed and endowed assets at December 31, 2020 and 2019, respectively. Quasi-endowed assets could be made available for general expenditure if approved by the Board of Directors. The beneficial interest in assets held by the Permian Basin Area Foundation are not included in the financial assets above, only the amount approved for distribution in the following year (see Note 8) is included. Only with the mutual consent of both the Organization and the Permian Basin Area Foundation would the entire interest be available for general expenditure.

NOTE 4: PLEDGES RECEIVABLE

Pledges receivable consisted of the following at December 31:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|------------------|-------------------|
| Pledges receivable, gross | \$ 136,995 | \$ 292,289 |
| Allowance for uncollectible pledges | <u>(76,369)</u> | <u>(57,607)</u> |
| Pledges receivable, net | <u>\$ 60,626</u> | <u>\$ 234,682</u> |

NOTE 5: INVESTMENTS

Fair values and related costs of investments are comprised of the following at December 31:

| | <u>2020</u> | | <u>2019</u> | |
|-------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Equities and ETFs | \$ 4,043,230 | \$ 3,247,509 | \$ 4,012,113 | \$ 3,478,134 |
| Mutual funds | 2,674,961 | 2,560,163 | 2,157,759 | 2,134,729 |
| Corporate bonds | <u>92,563</u> | <u>91,479</u> | <u>233,804</u> | <u>234,042</u> |
| Total Investments | <u>\$ 6,810,754</u> | <u>\$ 5,899,151</u> | <u>\$ 6,403,676</u> | <u>\$ 5,846,905</u> |

NOTE 6: FIXED ASSETS

Fixed assets consisted of the following at December 31,:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|-------------------|-------------------|
| Land | \$ 40,000 | \$ 40,000 |
| Land improvements | 56,252 | 56,252 |
| Building | 337,606 | 337,606 |
| Furniture and fixtures | <u>208,979</u> | <u>183,323</u> |
| Total cost | 642,837 | 617,181 |
| Less accumulated depreciation | <u>(366,427)</u> | <u>(354,910)</u> |
| Net book value | <u>\$ 276,410</u> | <u>\$ 262,271</u> |

NOTE 7: LONG-TERM DEBT

The Organization received an advancement of \$89,600 on April 10, 2020 as part of the Paycheck Protection Program (PPP). The PPP is a loan designed to provide a direct incentive for small businesses to keep their workers employed. The U.S. Small Business Administration (SBA) will forgive loans if all employees retention criteria are met, and the funds are used for eligible expenses. The loan program part of the CARES Act is to provide relief for American workers and small businesses.

Borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent or utilized during either the 8 or 24 week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting for forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan.

The Organization utilized all \$89,600 of the PPP Advance during 2020 and submitted the PPP Loan Forgiveness Application. Notification of forgiveness was received on November 10, 2020.

NOTE 8: BENEFICIAL INTEREST IN ASSETS HELD BY THE PERMIAN BASIN AREA FOUNDATION

The Organization entered into a contract with the Permian Basin Area Foundation (the "Area Foundation") on January 1, 1991. At the inception of this contract, the Organization transferred \$250,000 of undesignated assets to the Area Foundation and set up a board designated endowment fund. The Area Foundation was not granted variance power. The Organization has accounted for the transfer in accordance with ASC 958-605 as it relates to a receipt organization (the Area Foundation) and specified beneficiary (the Organization) under a reciprocal transaction that does not qualify as an equity transaction. Accordingly, the initial and any subsequent transfers of assets between the organizations are accounted for as an asset by the Organization ("Beneficial interest in assets held by others") and a corresponding liability by the Area Foundation. The asset has been adjusted to reflect its activity through the current year, as well as adjusted to its fair market value, at December 31, 2020 and 2019.

The agency fund agreement between the Organization and the Area Foundation states that the transfers to the Area Foundation are to be known as the United Way Permanent Fund (the Fund). It is the intent of the Organization that the Fund is an endowed fund for the benefit of the United Way of Midland, Inc. and the net earnings from the Fund shall be distributable to the Organization, or as the Organization directs, for qualified charitable purposes. The Fund and all net earnings are to be held exclusively for the Organization. The assets of the Fund are to be held and administered by the Area Foundation. Assets of

the Fund may be invested and reinvested from time to time in any securities, obligations or other property of any kind that the Area Foundation may deem advisable, including, but not limited to, interest bearing accounts, certificates of deposit, and common trust funds administered by the Area Foundation.

According to the fund agreement, the amount available for distributions from the Fund will be determined annually by the Area Foundation's Board of Governors based on a percentage of the market value of the fund. In setting the distribution policy for the fund, the Board considers the total average rate of return (including appreciation and/or depreciation of assets) for the previous twelve quarters, allowance for administration and investment fees, and the long-term objective of fund growth. During the years ended December 31, 2020 and 2019, the Organization withdrew \$21,523 and \$21,345, respectively, for the benefit of the Organization in accordance with the fund agreement.

The fund agreement may only be terminated with the mutual consent of both the Organization and the Area Foundation. Should the Organization ever cease to exist or permanently cease to perform its charitable functions or purpose, then the Area Foundation may distribute all or any part of the fund to any qualified charitable organization, as defined in Section 501 (c)(3) of the Internal Revenue Code.

The following is a progression of the board designated endowment funds held at the Permian Basin Area Foundation as of December 31,:

| | 2020 | 2019 |
|---------------------------|------------|------------|
| Beginning balance | \$ 574,582 | \$ 484,954 |
| Investment income | 12,695 | 12,792 |
| Realized/unrealized gains | 38,984 | 107,529 |
| Investment expense | (8,676) | (9,348) |
| Distributions | (21,523) | (21,345) |
| Ending balance | \$ 596,062 | \$ 574,582 |

NOTE 9: ENDOWMENT

Net assets with donor restrictions reflects a \$500,000 contribution that is restricted in perpetuity, of which 100% of the income is to be used for operations of the United Way of Midland.

The Organization has interpreted the Texas Uniform Prudent management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The Organization considers an endowed fund to be underwater if the fair value of the fund is less than the original value of the initial and subsequent gift amounts donated to the fund. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. There were no underwater endowment funds as of December 31, 2020 and 2019.

NOTE 10: RETIREMENT PLAN

In 1992, the Organization adopted a Simplified Employee Pension Plan (“SEP”). Contributions of 7.5% of eligible compensation are made by the Organization to each plan participant’s Individual Retirement Account. Contributions made by the Organization, on behalf of the employees, for the year ended December 31, 2020 and 2019 were \$17,364 and \$23,157, respectively. To be eligible to participate employees must be 21 years of age and have completed one full year of service. Participants are eligible to participate January 1 of the year following their one year anniversary. All participants are 100% vested.

NOTE 11: FAIR VALUE MEASUREMENTS

ASC 820-10, *Fair Value Measurements*, 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). ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820-10, 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. In determining fair value, the Organization uses various methods including market, income, and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets.

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

For years ended December 31, 2020 and 2019, the application of valuation techniques applied to similar assets has been consistent. There were no transfers between levels during the year. The following is a description of the valuation methodologies used for instruments measure at fair value:

Equity, ETFs, and corporate bonds: valued at the closing price reported on the active market on which the individual securities are traded. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs to the limited market activity of the instrument.

Mutual funds: valued at the net asset value of shares held at year end at the closing price reported on the active market.

Beneficial interest in assets held by Permian Basin Area Foundation (PBAF): valued at the net asset value as a practical expedient reported by the Permian Basin Area Foundation at the reporting date. As such, these amounts are not included in the fair value hierarchy.

Notes receivable: valued at amortized cost, which approximates fair value.

The table below presents the balances of assets measured at fair value on a recurring basis:

| Description | December 31, 2020 | | | | |
|--------------------------------|-------------------|------------------|----------|----------|----------|
| | Total | Level 1 | Level 2 | Level 3 | NAV |
| Equities and ETFs: | | | | | |
| Basic materials | \$ 10,181 | \$ 10,181 | \$ | \$ | \$ |
| Consumer goods | 273,627 | 273,627 | | | |
| Div. emerging markets | 136,777 | 136,777 | | | |
| Energy | 199,112 | 199,112 | | | |
| Financial | 151,323 | 151,323 | | | |
| Fixed income | 807,822 | 807,822 | | | |
| Foreign | 403,131 | 403,131 | | | |
| Healthcare | 88,295 | 88,295 | | | |
| Industrial goods | 38,637 | 38,637 | | | |
| Large blend | 517,293 | 517,293 | | | |
| Large growth | 195,977 | 195,977 | | | |
| Large value | 207,585 | 207,585 | | | |
| Logistics | 6,448 | 6,448 | | | |
| Mid-cap blend | 238,291 | 238,291 | | | |
| Mid-cap growth | 66,601 | 66,601 | | | |
| Mid-cap value | 36,551 | 36,551 | | | |
| Precious metals | 214,206 | 214,206 | | | |
| Real estate | 110,324 | 110,324 | | | |
| Small blend | 20,441 | 20,441 | | | |
| Technology | 320,608 | 320,608 | | | |
| Total equities and ETFs | 4,043,230 | 4,043,230 | - | - | - |

| Description | December 31, 2020 | | | | |
|--------------------------------------------|---------------------|---------------------|------------------|-------------|-------------------|
| | Total | Level 1 | Level 2 | Level 3 | NAV |
| Mutual funds: | | | | | |
| Div. emerging markets | 124,692 | 124,692 | | | |
| Financial | 17,368 | 17,368 | | | |
| Fixed income | 2,040,020 | 2,040,020 | | | |
| Foreign | 270,732 | 270,732 | | | |
| Infrastructure | 129,732 | 129,732 | | | |
| Large growth | 24,622 | 24,622 | | | |
| Small growth | 67,795 | 67,795 | | | |
| Total mutual funds | <u>2,674,961</u> | <u>2,674,961</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Corporate bonds: | | | | | |
| Consumer goods | 10,025 | | 10,025 | | |
| Financial | 72,459 | | 72,459 | | |
| Technology | 10,079 | | 10,079 | | |
| Total corporate bonds | <u>92,563</u> | <u>-</u> | <u>92,563</u> | <u>-</u> | <u>-</u> |
| Beneficial interest in assets held by PBAF | <u>596,062</u> | | | | <u>596,062</u> |
| Total | <u>\$ 7,406,816</u> | <u>\$ 6,718,191</u> | <u>\$ 92,563</u> | <u>\$ -</u> | <u>\$ 596,062</u> |

The following table presents unfunded commitments, redemption frequency, and notice period for investments that calculate fair value using the net asset value per share or its equivalent as of December 31, 2020:

| | Fair Value | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|------------------------------------------------|------------|---------------------|----------------------|--------------------------|
| Beneficial interest assets transferred to PBAF | \$ 596,062 | \$ - | Daily | None |

The table below presents the balances of assets measured at fair value on a recurring basis:

| Description | December 31, 2019 | | | | |
|--------------------------------------------|---------------------|---------------------|-------------------|-------------|-------------------|
| | Total | Level 1 | Level 2 | Level 3 | NAV |
| Equities and ETFs: | | | | | |
| Basic materials | \$ 2,615 | \$ 2,615 | \$ | \$ | \$ |
| Commodities | 205,839 | 205,839 | | | |
| Communication | 46,534 | 46,534 | | | |
| Consumer goods | 113,791 | 113,791 | | | |
| Div. emerging markets | 296,699 | 296,699 | | | |
| Energy | 181,329 | 181,329 | | | |
| Financial | 816,916 | 816,916 | | | |
| Fixed income | 212,979 | 212,979 | | | |
| Foreign | 7,683 | 7,683 | | | |
| Healthcare | 74,938 | 74,938 | | | |
| Industrial goods | 602,942 | 602,942 | | | |
| Large blend | 81,642 | 81,642 | | | |
| Large growth | 152,809 | 152,809 | | | |
| Large value | 33,589 | 33,589 | | | |
| Mid-cap value | 422,091 | 422,091 | | | |
| Mid-cap blend | 52,325 | 52,325 | | | |
| Mid-cap growth | 114,550 | 114,550 | | | |
| Precious metals | 42,814 | 42,814 | | | |
| Real estate | 145,632 | 145,632 | | | |
| Small blend | 91,930 | 91,930 | | | |
| Technology | 312,466 | 312,466 | | | |
| Total equities and ETFs | <u>4,012,113</u> | <u>4,012,113</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Mutual funds: | | | | | |
| Div. emerging markets | 67,262 | 67,262 | | | |
| Energy | 75,933 | 75,933 | | | |
| Fixed income | 1,617,021 | 1,617,021 | | | |
| Foreign | 105,404 | 105,404 | | | |
| Infrastructure | 100,497 | 100,497 | | | |
| Large blend | 131,572 | 131,572 | | | |
| Large value | 18,104 | 18,104 | | | |
| Small growth | 41,966 | 41,966 | | | |
| Total mutual funds | <u>2,157,759</u> | <u>2,157,759</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Corporate bonds: | | | | | |
| Consumer goods | 20,402 | | 20,402 | | |
| Financial | 83,180 | | 83,180 | | |
| Technology | 130,222 | | 130,222 | | |
| Total corporate bonds | <u>233,804</u> | <u>-</u> | <u>233,804</u> | <u>-</u> | <u>-</u> |
| Beneficial interest in assets held by PBAF | | | | | |
| | <u>574,582</u> | | | | <u>574,582</u> |
| Total | <u>\$ 6,978,258</u> | <u>\$ 6,169,872</u> | <u>\$ 233,804</u> | <u>\$ -</u> | <u>\$ 574,582</u> |

The table below reconciles the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2019:

| | <u>Level 3 Activities</u> | |
|-------------------|---------------------------|-----------------|
| | <u>Notes receivable</u> | |
| Beginning balance | \$ | 60,053 |
| Payments | | <u>(60,053)</u> |
| Ending balance | \$ | <u><u>-</u></u> |

The following table presents unfunded commitments, redemption frequency, and notice period for investments that calculate fair value using the net asset value per share or its equivalent as of December 31, 2019:

| | <u>Fair Value</u> | <u>Unfunded Commitment</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|---------------------------------------------------------|-------------------|--------------------------------|---------------------------------|-------------------------------------|
| Beneficial interest assets transferred to PBAF | \$ 574,582 | \$ - | Daily | None |

NOTE 12: CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization also maintains accounts at a stock brokerage firm. The accounts contain cash and securities. Cash and security balances are insured up to \$100,000 and \$500,000, respectively by the Securities Investor Protection Corporation. At various times during the year, the Organization may have balances at the financial institutions and stock brokerage firms in excess of insured limits.

The majority of the contributions received by the Organization come from local and regional donors. Local and regional economic conditions have a direct impact on the ability of these donors to make contributions. When economic conditions are improving, the potential for increased giving is enhanced. Conversely, when economic conditions are declining, contributions may tend to decline as well.

NOTE 13: SUBSEQUENT EVENT

On April 23, 2021, the Organization entered into a loan for \$112,367 under the Paycheck Protection Program as part of the Coronavirus Aid, Relief and Economic Security Act (CARES). The loan will be forgiven up to the amount used for payroll costs and utilities for the subsequent twenty four weeks and as long as employee salaries and headcounts are maintained. In the event that a portion of the loan is not forgiven, payments will be deferred for six months and then payable at 1% over a two year period.

The Organization utilized all \$112,367 of the second PPP Advance during 2021 and submitted the PPP Loan Forgiveness Application. Notification of forgiveness was received on September 8, 2021.