

United Way of the Cape Fear Area

*Financial Statements
For the Year Ended June 30, 2014
with 2013 Comparative Totals*

United Way of the Cape Fear Area

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EARNEY & COMPANY

L.L.P.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
United Way of the Cape Fear Area
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of United Way of the Cape Fear Area (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Way of the Cape Fear Area as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Support Allocations and Donor Designations for the 2013 Campaign on pages 16 and 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of United Way of the Cape Fear Area'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 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 United Way of the Cape Fear Area's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited United Way of the Cape Fear Area's 2013 financial statements and our report dated November 21, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ewing & Company, L.L.P.

Wilmington, North Carolina
October 27, 2014

United Way of the Cape Fear Area
STATEMENT OF FINANCIAL POSITION

	As of June 30, 2014			2013
	Unrestricted	Temporarily Restricted	Total	Comparative Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,765,497	\$ 37,500	\$ 1,802,997	\$ 1,930,877
Investments	298,524	-	298,524	253,338
Annual campaign pledges receivable, net of \$133,616 allowance for doubtful accounts	844,014	-	844,014	733,019
Grant receivable	34,404	-	34,404	-
Other receivable	8,053	-	8,053	18,697
Prepaid expense	8,191	-	8,191	149
Total Current Assets	<u>2,958,683</u>	<u>37,500</u>	<u>2,996,183</u>	<u>2,936,080</u>
Property and Equipment				
Furniture and equipment	123,144	-	123,144	123,144
Less: Accumulated depreciation	(98,993)	-	(98,993)	(90,078)
Property, net	<u>24,151</u>	<u>-</u>	<u>24,151</u>	<u>33,066</u>
Total Assets	<u>\$ 2,982,834</u>	<u>\$ 37,500</u>	<u>\$ 3,020,334</u>	<u>\$ 2,969,146</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable & accrued expense	\$ 15,467	\$ -	\$ 15,467	\$ 33,758
Deferred revenue	31,250	-	31,250	-
Grants payable	930,350	-	930,350	846,100
Due to designated agencies	161,097	-	161,097	272,669
Lease payable	338	-	338	4,279
Total Current Liabilities/Total Liabilities	<u>1,138,502</u>	<u>-</u>	<u>1,138,502</u>	<u>1,156,806</u>
Net Assets				
Unrestricted	1,844,332	-	1,844,332	1,812,340
Temporarily restricted	-	37,500	37,500	-
Total Net Assets	<u>1,844,332</u>	<u>37,500</u>	<u>1,881,832</u>	<u>1,812,340</u>
Total Liabilities and Net Assets	<u>\$ 2,982,834</u>	<u>\$ 37,500</u>	<u>\$ 3,020,334</u>	<u>\$ 2,969,146</u>

The Accompanying Notes are an Integral Part of these Financial Statements

United Way of the Cape Fear Area
STATEMENT OF ACTIVITIES

	For the Year Ended June 30, 2014			2013
	Unrestricted	Temporarily Restricted	Total	Comparative Total
Revenue & Support				
Annual campaign, net	\$ 2,090,953	\$ -	\$ 2,090,953	\$ 2,171,880
Less designations	(407,550)	-	(407,550)	(493,936)
Federal grant - Senior Aides Program	-	589,292	589,292	552,861
Federal grant - HPRP (ARRA)	-	-	-	259,764
Federal grant - ESG	-	282,583	282,583	-
Homeless Project grants	176,058	-	176,058	150,000
Blue Ribbon Commission grants	30,000	25,000	55,000	78,764
Other grants	15,270	75,000	90,270	-
In-kind contributions	105,000	-	105,000	75,050
Investment income	2,239	-	2,239	10,414
Gain (loss) on market securities	45,185	-	45,185	21,971
Miscellaneous income	36,886	-	36,886	6,997
Net assets released from restriction	934,375	(934,375)	-	-
Total Revenue & Support	<u>3,028,416</u>	<u>37,500</u>	<u>3,065,916</u>	<u>2,833,765</u>
Expenses				
Program				
Allocation & grants	930,350	-	930,350	846,100
Senior Aides	672,604	-	672,604	641,824
Community Impact	302,990	-	302,990	295,421
Marketing & communications	106,694	-	106,694	98,516
Other programs	530,316	-	530,316	654,643
General & administrative	120,680	-	120,680	120,024
Fundraising	332,790	-	332,790	252,821
Total Expenses	<u>2,996,424</u>	<u>-</u>	<u>2,996,424</u>	<u>2,909,349</u>
Change in Net Assets	31,992	37,500	69,492	(75,584)
Net Assets				
Beginning of year	<u>1,812,340</u>	<u>-</u>	<u>1,812,340</u>	<u>1,887,924</u>
End of year	<u>\$ 1,844,332</u>	<u>\$ 37,500</u>	<u>\$ 1,881,832</u>	<u>\$ 1,812,340</u>

The Accompanying Notes are an Integral Part of these Financial Statements

United Way of the Cape Fear Area
STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014

	Program							Total Expenses	2013 Comparative Total
	Allocations & Grants	Senior Aides	Community Impact	Marketing & Communications	Other Programs	General & Administrative	Fundraising		
Salaries	\$ -	\$ -	\$ 143,196	\$ 47,133	\$ 107,272	\$ 55,386	\$ 140,774	\$ 493,761	\$ 554,396
Employee benefits	-	-	27,590	14,971	14,523	7,764	20,985	85,833	128,489
Payroll taxes	-	-	14,377	4,681	12,056	6,685	14,908	52,707	48,146
Total Salary & Related	-	-	185,163	66,785	133,851	69,835	176,667	632,301	731,031
Professional fees	-	4,322	3,676	1,893	4,463	1,706	4,439	20,499	18,225
Supplies	-	2,767	4,034	1,532	4,364	4,812	37,639	55,148	29,758
Campaign grant supplies	-	484	1,033	363	2,990	3,023	28,659	36,552	25,131
Telephone	-	1,322	2,314	995	2,549	884	3,323	11,387	12,886
Utilities & house keeping	-	390	686	303	793	(107)	848	2,913	5,863
Postage	-	499	884	385	1,009	440	2,048	5,265	8,910
Occupancy	-	19,862	17,316	7,626	13,948	14,227	15,860	88,839	88,894
Computer software & maintenance	-	2,163	7,541	1,691	3,717	1,247	3,684	20,043	12,896
Advertising & printing	-	1,077	2,476	4,438	2,651	741	18,227	29,610	26,876
Travel	-	5,698	5,576	610	4,187	429	5,556	22,056	25,651
Annual meeting	-	-	-	-	-	-	-	-	482
Membership dues	-	4,020	7,397	2,884	8,855	2,122	10,422	35,700	34,459
Insurance	-	5,619	1,006	506	1,469	438	983	10,021	16,748
Conferences & training	-	815	1,747	666	3,584	377	4,109	11,298	9,965
211 project	-	-	27,265	-	-	-	-	27,265	24,902
Special grants & events	-	-	10,528	-	62,000	-	-	72,528	13,890
In-kind expense	-	12,600	23,100	15,750	15,750	18,900	18,900	105,000	75,050
Senior Aides - salary & related	-	609,807	-	-	-	-	-	609,807	575,997
Allocations & grants	1,337,900	-	-	-	-	-	-	1,337,900	1,340,036
Less: Designations	(407,550)	-	-	-	-	-	-	(407,550)	(493,936)
Homeless Project allocations & expenses	-	-	-	-	260,927	-	-	260,927	313,882
Total Operating Expenses	<u>930,350</u>	<u>671,445</u>	<u>301,742</u>	<u>106,427</u>	<u>527,107</u>	<u>119,074</u>	<u>331,364</u>	<u>2,987,509</u>	<u>2,897,596</u>
Depreciation & loss on retirement	-	1,159	1,248	267	3,209	1,606	1,426	8,915	11,753
Total Expenses	<u>\$ 930,350</u>	<u>\$ 672,604</u>	<u>\$ 302,990</u>	<u>\$ 106,694</u>	<u>\$ 530,316</u>	<u>\$ 120,680</u>	<u>\$ 332,790</u>	<u>\$ 2,996,424</u>	<u>\$ 2,909,349</u>

The Accompanying Notes are an Integral Part of these Financial Statements

United Way of the Cape Fear Area
STATEMENT OF CASH FLOWS

	For the Year Ended June 30, 2014			2013
	Unrestricted	Temporarily Restricted	Total	Comparative Total
Cash Flows From Operating Activities				
Cash Collections for:				
Contributions & other	\$ 2,751,521	\$ 37,500	\$ 2,789,021	\$ 3,006,316
Investment Income	2,239	-	2,239	10,414
Less: Cash Payments for:				
Total expenses	<u>(2,919,140)</u>	<u>-</u>	<u>(2,919,140)</u>	<u>(2,868,783)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(165,380)</u>	<u>37,500</u>	<u>(127,880)</u>	<u>147,947</u>
Cash Flows From Investing Activities				
Purchase of property and equipment	-	-	-	-
Purchases and proceeds of investments, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,496)</u>
Net Cash Provided by (Used in) Investing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,496)</u>
Cash Flows From Financing Activities				
Payments of principal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Equivalents	(165,380)	37,500	(127,880)	140,451
Cash and Cash Equivalents				
Beginning of year	<u>1,930,877</u>	<u>-</u>	<u>1,930,877</u>	<u>1,790,426</u>
End of year	<u>\$ 1,765,497</u>	<u>\$ 37,500</u>	<u>\$ 1,802,997</u>	<u>\$ 1,930,877</u>
Reconciliation of Change in Net Assets to Cash Provided by (Used in) Operating Activities				
Excess of revenues over (under) expenses	\$ 31,992	\$ 37,500	\$ 69,492	\$ (75,583)
Depreciation	8,915	-	8,915	11,753
Unrealized (gain) loss	(45,185)	-	(45,185)	(21,971)
(Increase) Decrease in:				
Receivables	(134,756)	-	(134,756)	218,221
Prepays	(8,042)	-	(8,042)	21,711
Increase (Decrease) in:				
Accounts payable	<u>(18,304)</u>	<u>-</u>	<u>(18,304)</u>	<u>(6,184)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (165,380)</u>	<u>\$ 37,500</u>	<u>\$ (127,880)</u>	<u>\$ 147,947</u>
Interest paid			<u>\$ -</u>	<u>\$ -</u>
Income taxes paid			<u>\$ -</u>	<u>\$ -</u>

The Accompanying Notes are an Integral Part of these Financial Statements

United Way of the Cape Fear Area
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2014

1. NATURE OF THE ORGANIZATION

United Way of the Cape Fear Area (the "Organization") is a nonprofit organization, organized under the laws of the State of North Carolina for the primary purpose of soliciting and distributing funds to local human service agencies serving New Hanover, Pender, and Brunswick counties. The Organization was incorporated on July 3, 1953 and is governed by a volunteer Board of Directors. The Organization also directly sponsors and administers a federal grant program and carries out several smaller community programs. The mission of the United Way is to provide community-wide leadership to develop resources and assure their effective use for delivery of needed human care services.

The Organization uses the following program service categories for reporting purposes:

Allocations and Grants: Funds directed to other nonprofit agencies through 29 programs to address critical health and human service needs in the tri-county area.

Senior Aides Program: A federally funded program, sponsored by the Organization, placing low-income seniors in community service positions that provide them with valuable training and work experiences.

Community Impact: The Community Impact department identifies the most critical health and human service needs in our community, establishes strategies, and applies resources to achieve results. The department focuses on three different impact areas and identifies needs, strategies, and solutions specific to each area. The areas are defined as Education, Health, and Financial Stability. Each impact area has two sets of dedicated volunteers either establishing needs and strategies or determining the best possible solutions to apply resources. Another set of volunteer experts oversee all three impact areas and make recommendations to the Board of Directors, who approve all needs assessments and resource allocations.

Marketing and Communications: This division works in conjunction with and serves to promote the Organization's mission and vision and all the programs listed above. It develops and executes a yearly strategic plan designed to enhance the annual Community Impact process and all campaign-related activities. It produces and disseminates collateral materials created specifically to educate and inform the public while creating a positive image for the Organization. It maintains all social media functions in coordination with the Organization's strategic messaging and performs all duties pertaining to crisis communication as needed.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profits. As a result, the financial statements have been prepared on the accrual basis. Income is recognized when earned and expenses are recognized when incurred.

The significant accounting policies followed are described below to enhance the usefulness and understandability of the financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Classes of Net Assets

The financial statements report net assets and changes in net assets in classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- a) **Unrestricted net assets** are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- b) **Temporarily restricted net assets** are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those net assets directly) are reported as temporarily restricted until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Property and Depreciation

Property is reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than 1 year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of 5-10 years.

Equipment is reviewed for impairment when significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. General and administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising and advertising costs are expensed as incurred, even though they may result in contributions received in future years. Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

Gifts-In-Kind Contributions

The Organization periodically receives contributions in a form other than cash or investments. If the Organization receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Organization's capitalization policy. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed.

The Organization benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Organization's program operations and in its fundraising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, required specialized skills, and are provided by individuals possessing those skills.

During fiscal 2014, advertising donated by local media was valued at \$105,000 and recorded. No other amounts for donated services were recognized in the financial statements as the criteria for recognition have not been met.

Grant Revenue

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue from federal agencies is subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Organization's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Organization.

Income Taxes

The Organization is a nonprofit corporation and is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code on related income. United Way of the Cape Fear Area files a Form 990, Return of Organization Exempt from Income Tax, with the IRS and North Carolina Department of Revenue and is generally no longer subject to examination by the IRS for fiscal years prior to 2011.

Pledges Receivable and Allowance for Doubtful Pledges

Pledges receivable are stated at the full amount of outstanding pledges made by donors, less an allowance for doubtful pledges. Donor pledge balances may be paid in lump-sum billings, or received in monthly or quarterly employee payroll deductions. No interest is charged against unpaid balances. The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the pledges that will not be collected. Management evaluates historical write-offs as a percentage of the total pledges received for each campaign year to estimate a general allowance to apply to the current year campaign pledge total. This estimate may be adjusted for management's estimate of any changes in current economic conditions that might give rise to results that differ from past experience, and at times the amount of the adjustment can be material.

Prior Year Information

The financial statements include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in connection with the Organization's financial statements for the year then ended, from which the summarized information was derived. Certain reclassifications of prior year comparative amounts have been made in order to conform to the current year presentation.

Subsequent Events

Management considered the inclusion of subsequent events in the disclosures of the footnotes through October 27, 2014, which was the financial statement issuance date.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash and cash equivalents are as follows at June 30:

	<u>2014</u>	<u>2013</u>
Petty Cash	\$ 1,375	\$ 1,375
Checking - Operating	87,537	85,221
Checking - Senior AIDES	38,816	51,331
Checking - CFC	-	14
Checking - Other	533,405	480,066
Money Markets & Savings	<u>1,141,864</u>	<u>1,312,870</u>
	<u>\$ 1,802,997</u>	<u>\$ 1,930,877</u>

4. INVESTMENTS – FAIR VALUE MEASUREMENTS

The Organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1. Quoted prices for identical assets or liabilities in active markets to which the Organization has access at the measurement date.
- Level 2. Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, the Organization measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the Organization is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Organization's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give, and
- recurring measurement of investments (see below).

Investments include a mutual fund investment which is carried at fair value as determined by quoted market price (the highest of three fair value measurement levels identified in accounting principles generally accepted in the United States of America). Fair values of assets measured on a recurring basis as of June 30, 2014 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>
Mutual Fund	<u>\$ 298,524</u>	<u>\$ 298,524</u>

5. FEDERAL GRANTS

The Organization sponsors the Senior Community Service Employment Program (Senior AIDES Program) which hires people who meet certain age and income requirements and places them into part-time jobs at local nonprofit and public agencies, which provide human services to the community. Grant revenue recognized under this program was \$589,292 during the period July 1, 2013 to June 30, 2014.

The Organization also sponsors the Emergency Solutions Grant (ESG) program under the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act of 2009. Funding for this program is passed through the NC Department of Health and Human Services. This purpose of this program is to assist people to quickly regain stability and permanent housing after experiencing a housing crisis and/or homelessness. Grant revenue recognized under this program was \$282,583 during the period July 1, 2013 to June 30, 2014.

6. OPERATING LEASES

Effective February 2008, the Organization entered into an operating lease agreement on a new facility. The lease agreement was amended in May 2014. Under the terms of the amendment, rent will be fixed at \$8,191 per month for the period June 1, 2014 through May 31, 2019 with the option to extend the lease for up to 3 additional 2 year terms. Also under the terms of the amendment, the Organization obtained an additional 786 square feet and was granted the right to sublease that space to Corbett Partners Incorporated, d/b/a Eastcoast Research, or its successors and assigns. Rent expense totaling \$87,396 was recorded for the period July 1, 2013 to June 30, 2014 and \$87,434 for the period July 1, 2012 to June 30, 2013.

7. GRANTS PAYABLE AND DUE TO DESIGNATED AGENCIES

In June 2013, the Organization approved its 2013 operating budget, including grant allocations communicated to partner agencies in the amount of \$930,350, as well as \$161,097 of donor designations (due to designated agencies).

8. DEFINED CONTRIBUTION PENSION PLAN

The Organization maintains a defined contribution pension plan qualified under Section 401(a) of the Code. The plan covers employees who are at least age 21 and have one year of eligible service. The plan provides for monthly employer contributions on behalf of participants of 10% of the participants' compensation. Total employer contributions for the year were \$47,777.

9. CONCENTRATIONS OF RISK

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. The Organization deposits its cash with high quality financial institutions, and management believes the Organization is not exposed to significant credit risk on those amounts.

The majority of the Organization's contributions and grants are received from corporations, foundations, and individuals located in the Lower Cape Fear in Southeastern, North Carolina. As such, the Organization's ability to generate resources via contributions and grants is dependent upon the economic health of that area. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for the Organization's services.

The Organization's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to the Organization's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets by investment advisors of mutual funds should mitigate the impact of changes in any one class.

10. RISK MANAGEMENT

From time to time, the Organization may be aware of various asserted and unasserted claims. Management feels that these claims can be successfully defended and intends to resist the allegations of these matters in every way and does not plan to seek out-of-court settlements. In the event that judgments adverse to their interest were to be rendered, management feels any liability will be fully covered by existing insurance or not be material to the financial statements.

The Organization is exposed to various risks of loss in the ordinary course of business as a result of torts, theft of, damage to, or destruction of assets, business interruption, allegations of liability, natural disasters, employee and officer errors and omission, and employee workers' compensation and medical claims.

The Organization purchases commercial insurance coverage against risk of loss due to property damage and theft, and various other insurable risks. The Organization carries personal property insurance in the amount of \$150,000 in 2013 and 2014 with a deductible of \$1,000 for all perils. The Organization carries wind and hail insurance in the amount of \$165,000 for personal property in 2013 and 2014 with a \$2,500 deductible. The Organization carries a commercial package policy with a \$2,000,000 aggregate. The Organization carries Directors and Officers insurance in the amount of \$2,000,000 per policy period with an aggregate of \$2,000,000 and \$1,000 retention. The Organization also carries employee theft insurance in the amount of \$50,000 with a \$500 deductible.

No claim payment has exceeded insurance coverage in the past three fiscal years where insurance coverage applies, subject to the deductibles and retentions noted above.

United Way of the Cape Fear Area
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2014

	<u>CFDA Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<u>U.S. Department of Labor</u>			
Passed through Senior Service America, Inc. Employment Program	17.235	\$ 589,292	\$ -
<u>U.S. Department of Housing and Urban Development</u>			
Passed through North Carolina Department of Health and Human Services, Division of Aging and Adult Services	14.231	<u>282,583</u>	<u>257,091</u>
Total Federal Grants		<u>\$ 871,875</u>	<u>\$ 257,091</u>

Notes:

1. The schedule was prepared on the accrual basis.
2. No noncash expenditures are included in this schedule.

United Way of the Cape Fear Area

Schedule of Support Allocations and Donor Designations for the 2013 Campaign
For the Period from July 1, 2013 to June 30, 2014

Cape Fear Health Net	\$ 180,091
BRC - Youth Enrichment Zone	146,602
Coastal Horizons Center Inc.	111,154
Good Shepherd Center	89,990
Triangle Disability	62,000
Food Bank of Central & Eastern NC	56,652
Smart Start of New Hanover County	53,332
Salvation Army	61,555
Communities in Schools Cape Fear	47,058
Kids Making It, Inc.	43,915
Brigade Boys & Girls Club	39,264
Brunswick Family Assistance	30,138
Community Boys and Girls Club of Wilmington	27,687
The Carousel Center	27,284
American Red Cross Cape Fear Chapter	27,028
DREAMS Center for Arts Education	21,368
Communities in Schools Brunswick	21,222
Cape Fear Literacy Council	19,355
Lower Cape Fear Hospice Inc.	17,820
LINC	17,141
Wilmington Area Rebuilding Ministry Inc.	15,342
Columbus County DREAM Center	13,341
Mother Hubbards Cupboard of Wilmington	11,743
Domestic Violence Shelter & Services	10,644
QENO	10,450
Nourish NC	10,446
Brunswick Housing Opportunities	10,000
Phoenix Employment Ministries	6,456
Pender Adult Services Inc.	5,592
Cape Fear Habitat for Humanity	4,936
Carolina Canines for Service	4,787
The Warrior Ride	2,634
Boy Scouts of America-Cape Fear	2,094
New Hope Clinic	1,923
Wilmington Health Access for Teens	1,782
Catholic Charities of the Diocese of Raleigh, Inc.	1,770
Hope Harbor Home	1,709
Girl Scouts - NC Coastal Pines	1,636
American Cancer Society NC Division	1,474
NHRMC Foundation	1,315
Wilmington Police Recreation Association	1,230

Leukemia & Lymphoma Society	1,092
Alzheimers North Carolina, Inc.	896
YAHWEH Center	892
Public Health Foundation of New Hanover	710
American Heart Association, Inc.	635
Safe Child	592
Tileston Outreach	571
Child Advocacy and Parenting Place Exchange Club Center, Inc.	537
Direct Pay and Other Designations	<u>110,015</u>
	<u>1,337,900</u>
Less: Contributions designated by donors	<u>(407,550)</u>
	<u>\$ 930,350</u>

EARNEY & COMPANY

L.L.P.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
United Way of the Cape Fear Area
Wilmington, North Carolina

We have audited, in accordance with the 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, the financial statements of United Way of the Cape Fear Area (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered United Way of the Cape Fear Area's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of United Way of the Cape Fear Area's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether United Way of the Cape Fear Area's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young, L.L.P.

Wilmington, North Carolina
October 27, 2014

EARNEY & COMPANY

L.L.P.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
United Way of the Cape Fear Area
Wilmington, North Carolina

Report on Compliance for Each Major Federal Program

We have audited United Way of the Cape Fear Area's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of United Way of the Cape Fear Area's major federal programs for the year ended June 30, 2014. United Way of the Cape Fear Area's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of United Way of the Cape Fear Area's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about United Way of the Cape Fear Area's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of United Way of the Cape Fear Area's compliance.

Opinion on Each Major Federal Program

In our opinion, United Way of the Cape Fear Area complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to these matters.

United Way of the Cape Fear Area's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. United Way of the Cape Fear Area's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of United Way of the Cape Fear Area is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered United Way of the Cape Fear Area's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of United Way of the Cape Fear Area's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Eamy & Company, L.L.P.

Wilmington, North Carolina
October 27, 2014

Section II – Findings

1. Compliance finding related to reporting. Late filing of SA1.

Information on the federal program

U.S. Department of Labor – Passed through Senior Service America, Inc.
Employment Program: CFDA # 17.235

Criteria or specific requirement

The grant agreement with Senior Services America, Inc. for SCSEP funds requires the Monthly Report of Costs (SA1) to be submitted within 30 calendar days after the reported month.

Condition

During fiscal 2014, United Way of the Cape Fear Area failed to submit three SA1 reports by the deadlines required of the grant agreement.

Questioned costs

No questioned costs identified as a result of this finding.

Effect

Late filing of required reports by grant recipient may delay reimbursements and cause additional administrative time to be incurred by the granting agency.

Context

United Way of the Cape Fear Area is required by the grant agreement to file SA1 reports within 30 calendar days after the reported month. The audit test included pulling all submitted reports to review the date submitted and compare to the deadlines required in the grant agreement.

Cause

As in the past, management submitted the required reports based on cash needs and not an absolute deadline. No late notices were received from grantor.

Recommendation

Management should file the SA1 report prior to the deadlines required in the grant agreement to ensure funds requested are received and to maintain compliance with the grant agreement. The Vice President of Finance should establish a calendar for report filing and verify compliance.

Views of responsible officials and planned corrective actions

As soon as management was made aware of this finding in the previous audit, the monitoring recommendation outlined above was implemented. Management has contacted the grantor regarding the finding. While the grantor expects to receive the reports on time, they have not withheld funding or imposed any penalties as a result of the late filings during the fiscal year ended June 30, 2014.

Section IV – Prior Audit Findings

1. During fiscal year 2013, United Way of the Cape Fear Area failed to submit the SAI, SA2, and the Closeout Grant Report by the deadlines required of the grant agreement.

Status: Significant progress was made in improving the timeliness of report submissions during fiscal 2014. Three SA1 reports were filed late in 2014. Two of those reports were submitted prior to the conclusion of the 2013 audit and prior to management's implementation of recommendations made at the conclusion of the 2013 audit. The third instance of late filing occurred during a period of staff transition. Since that time, management has been actively involved in monitoring the timely submission of required reports resulting in no additional late filings.