

UNITED WAY OF
MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2012 AND 2011

UNITED WAY OF MIDDLE TENNESSEE, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
United Way of Middle Tennessee, Inc.
d/b/a United Way of Metropolitan Nashville

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the United Way of Middle Tennessee, Inc. (the "Organization"), a Tennessee not-for-profit corporation, which comprise the statement financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Organization's 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 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 financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Way of Middle Tennessee as of December 31, 2012 and 2011, 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.

 Y. H. CRAFT PLLC

Nashville, Tennessee
August 29, 2013

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 2,907,793	\$ 3,666,318
Pledges receivable, net	9,318,439	7,754,217
Grants receivable	981,611	942,729
Other receivable	93,700	65,662
Prepaid and other	45,273	33,494
Investments, at fair value	11,346,239	10,532,746
Property and equipment, net	466,894	467,420
Net pension assets	569,101	1,236,298
Cash surrender value on donor life insurance policies	<u>1,094,160</u>	<u>1,106,061</u>
TOTAL ASSETS	<u>\$ 26,823,210</u>	<u>\$ 25,804,945</u>
LIABILITIES		
Designations payable	\$ 3,503,799	\$ 2,860,354
Allocations payable	3,482,367	3,579,706
Grant payments due to subrecipients	888,015	975,359
Accounts payable and accrued expenses	<u>636,634</u>	<u>724,681</u>
TOTAL LIABILITIES	<u>8,510,815</u>	<u>8,140,100</u>
NET ASSETS		
Unrestricted (deficit)	1,646,613	(539,075)
Temporarily restricted	9,065,177	10,603,315
Permanently restricted	<u>7,600,605</u>	<u>7,600,605</u>
TOTAL NET ASSETS	<u>18,312,395</u>	<u>17,664,845</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,823,210</u>	<u>\$ 25,804,945</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
PUBLIC SUPPORT AND REVENUE				
Gross campaign results - prior year	\$ 3,237,317	\$ -	\$ -	\$ 3,237,317
Gross campaign results - released from restrictions	<u>10,687,277</u>	<u>(10,687,277)</u>	<u>-</u>	<u>-</u>
Total campaign results - prior year	13,924,594	(10,687,277)	-	3,237,317
Less donor designations	(3,764,313)	2,640,928	-	(1,123,385)
Less provision for uncollectible accounts	<u>(371,432)</u>	<u>508,490</u>	<u>-</u>	<u>137,058</u>
Net campaign revenue - prior year	9,788,849	(7,537,859)	-	2,250,990
Gross campaign results - current year	-	12,826,908	-	12,826,908
Less donor designations	-	(3,719,975)	-	(3,719,975)
Less provision for uncollectible accounts	<u>-</u>	<u>(589,507)</u>	<u>-</u>	<u>(589,507)</u>
Net campaign revenue - current year	-	8,517,426	-	8,517,426
Grants	6,422,993	70,296	-	6,493,289
Other contributions and in-kind	315,759	-	-	315,759
Designations from other United Way organizations	245,101	-	-	245,101
Service fees	438,306	-	-	438,306
Endowment spending rate	525,000	-	-	525,000
Miscellaneous income	72,582	-	-	72,582
Other investment income	54,955	18,097	-	73,052
Other net assets released from restrictions	<u>82,921</u>	<u>(82,921)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>17,946,466</u>	<u>985,039</u>	<u>-</u>	<u>18,931,505</u>
PROGRAM SERVICES				
Program investments and designations to direct service providers	11,265,007	-	-	11,265,007
Less: donor designations	<u>(3,764,313)</u>	<u>-</u>	<u>-</u>	<u>(3,764,313)</u>
Net program investments	7,500,694	-	-	7,500,694
Community building	1,088,420	-	-	1,088,420
Grants and initiatives	<u>5,971,521</u>	<u>-</u>	<u>-</u>	<u>5,971,521</u>
TOTAL PROGRAM SERVICES	<u>14,560,635</u>	<u>-</u>	<u>-</u>	<u>14,560,635</u>
SUPPORTING SERVICES				
Management and general	1,426,023	-	-	1,426,023
Fundraising and marketing	<u>2,236,958</u>	<u>-</u>	<u>-</u>	<u>2,236,958</u>
TOTAL SUPPORTING SERVICES	<u>3,662,981</u>	<u>-</u>	<u>-</u>	<u>3,662,981</u>
TOTAL COSTS AND EXPENSES	<u>18,223,616</u>	<u>-</u>	<u>-</u>	<u>18,223,616</u>
Change in net assets before non-operating items	(277,150)	985,039	-	707,889
Endowment gain, exclusive of spending rate	-	676,823	-	676,823
Endowment gains appropriated for strategic operating reserves	3,200,000	(3,200,000)	-	-
Employee retirement plan loss	<u>(737,162)</u>	<u>-</u>	<u>-</u>	<u>(737,162)</u>
CHANGE IN NET ASSETS	2,185,688	(1,538,138)	-	647,550
NET ASSETS - BEGINNING OF YEAR	<u>(539,075)</u>	<u>10,603,315</u>	<u>7,600,605</u>	<u>17,664,845</u>
NET ASSETS - END OF YEAR	<u>\$ 1,646,613</u>	<u>\$ 9,065,177</u>	<u>\$ 7,600,605</u>	<u>\$ 18,312,395</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
PUBLIC SUPPORT AND REVENUE				
Gross campaign results - prior year	\$ 4,991,565	\$ -	\$ -	\$ 4,991,565
Gross campaign results - released from restrictions	9,609,153	(9,609,153)	-	-
Total campaign results - prior year	14,600,718	(9,609,153)	-	4,991,565
Less donor designations	(4,795,405)	3,373,212	-	(1,422,193)
Less provision for uncollectible accounts	(445,558)	436,478	-	(9,080)
Net campaign revenue - prior year	9,359,755	(5,799,463)	-	3,560,292
Gross campaign results - current year	-	10,682,567	-	10,682,567
Less donor designations	-	(2,640,928)	-	(2,640,928)
Less provision for uncollectible accounts	-	(508,490)	-	(508,490)
Net campaign revenue - current year	-	7,533,149	-	7,533,149
Grants	6,789,549	65,000	-	6,854,549
Disaster relief contributions	5,331	-	-	5,331
Other contributions and in-kind	206,950	-	-	206,950
Designations from other United Way organizations	229,975	-	-	229,975
Service fees	426,625	-	-	426,625
Endowment spending rate	500,000	-	-	500,000
Interest income	202	-	-	202
Miscellaneous income	480,755	-	-	480,755
Unrealized loss on temporarily restricted securities non-endowment	-	(7,000)	-	(7,000)
Other net assets released from restrictions	447,559	(447,559)	-	-
TOTAL SUPPORT AND REVENUE	18,446,701	1,344,127	-	19,790,828
PROGRAM SERVICES				
Program investments and designations to direct service providers	12,692,396	-	-	12,692,396
Less: donor designations	(4,795,405)	-	-	(4,795,405)
Net program investments	7,896,991	-	-	7,896,991
Community building	926,105	-	-	926,105
Grants and initiatives	7,088,157	-	-	7,088,157
TOTAL PROGRAM SERVICES	15,911,253	-	-	15,911,253
SUPPORTING SERVICES				
Management and general	1,461,711	-	-	1,461,711
Fundraising and marketing	2,450,731	-	-	2,450,731
TOTAL SUPPORTING SERVICES	3,912,442	-	-	3,912,442
TOTAL COSTS AND EXPENSES	19,823,695	-	-	19,823,695
Change in net assets before non-operating items	(1,376,994)	1,344,127	-	(32,867)
Endowment loss, exclusive of spending rate	-	(535,279)	-	(535,279)
Employee retirement plan loss	(251,526)	-	-	(251,526)
CHANGE IN NET ASSETS	(1,628,520)	808,848	-	(819,672)
NET ASSETS - BEGINNING OF YEAR	1,089,445	9,794,467	7,600,605	18,484,517
NET ASSETS - END OF YEAR	\$ (539,075)	\$ 10,603,315	\$ 7,600,605	\$ 17,664,845

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services		
	Community Building	Grants and Initiatives	Total Program Services
Salaries	\$ 696,961	\$ 261,551	\$ 958,512
Payroll taxes	51,015	15,901	66,916
Employee benefits	68,533	27,570	96,103
Total personnel costs	816,509	305,022	1,121,531
Professional and contract fees	35,227	77,550	112,777
Supplies	2,786	9,673	12,459
Telephone	5,945	3,530	9,475
Postage and shipping	3,938	2,559	6,497
Occupancy	31,484	16,227	47,711
Maintenance and equipment rental	45,276	7,956	53,232
Printing and promotional	40,208	33,918	74,126
Travel	11,483	9,041	20,524
Conferences, conventions and meetings	26,335	6,303	32,638
Dues and subscriptions	54,308	-	54,308
Miscellaneous	1,541	-	1,541
Total other operating expenses	258,531	166,757	425,288
Depreciation of property and equipment	13,380	5,860	19,240
Total operating expenses	1,088,420	477,639	1,566,059
Program grants to direct service providers	-	5,493,882	5,493,882
	<u>\$ 1,088,420</u>	<u>\$ 5,971,521</u>	7,059,941
Net program investments (shown separately on the statement of activities)			<u>7,500,694</u>
			<u>\$ 14,560,635</u>

See accompanying notes to financial statements.

Supporting Services			
Management and General	Fundraising and Marketing	Total Supporting Services	Total
\$ 750,735	\$ 994,138	\$ 1,744,873	\$ 2,703,385
45,360	69,414	114,774	181,690
<u>101,382</u>	<u>106,856</u>	<u>208,238</u>	<u>304,341</u>
897,477	1,170,408	2,067,885	3,189,416
245,242	229,033	474,275	587,052
9,604	6,183	15,787	28,246
11,153	14,005	25,158	34,633
8,680	10,673	19,353	25,850
54,778	49,656	104,434	152,145
53,498	71,551	125,049	178,281
9,136	423,433	432,569	506,695
24,937	32,045	56,982	77,506
14,762	117,682	132,444	165,082
40,921	81,508	122,429	176,737
<u>32,417</u>	<u>7,694</u>	<u>40,111</u>	<u>41,652</u>
505,128	1,043,463	1,548,591	1,973,879
<u>23,418</u>	<u>23,087</u>	<u>46,505</u>	<u>65,745</u>
1,426,023	2,236,958	3,662,981	5,229,040
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,493,882</u>
<u>\$ 1,426,023</u>	<u>\$ 2,236,958</u>	3,662,981	10,722,922
		<u>-</u>	<u>7,500,694</u>
		<u>\$ 3,662,981</u>	<u>\$ 18,223,616</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services		
	Community Building	Grants and Initiatives	Total Program Services
Salaries	\$ 536,156	\$ 323,587	\$ 859,743
Payroll taxes	38,768	21,801	60,569
Employee benefits	55,780	36,496	92,276
Total personnel costs	630,704	381,884	1,012,588
Professional and contract fees	70,424	128,122	198,546
Supplies	1,474	6,516	7,990
Telephone	6,984	3,570	10,554
Postage and shipping	3,504	2,243	5,747
Occupancy	23,727	21,973	45,700
Maintenance and equipment rental	41,675	14,391	56,066
Printing and promotional	41,372	107,757	149,129
Travel	10,026	8,586	18,612
Conferences, conventions and meetings	32,556	5,389	37,945
Dues and subscriptions	53,072	275	53,347
Miscellaneous	-	140	140
Total other operating expenses	284,814	298,962	583,776
Depreciation of property and equipment	10,587	8,318	18,905
Total operating expenses	926,105	689,164	1,615,269
Program grants to direct service providers	-	6,169,025	6,169,025
Disaster relief grants to direct service providers	-	229,968	229,968
	<u>\$ 926,105</u>	<u>\$ 7,088,157</u>	8,014,262
Net program investments (shown separately on the statement of activities)			<u>7,896,991</u>
			<u>\$ 15,911,253</u>

See accompanying notes to financial statements.

Supporting Services

Management and General	Fundraising and Marketing	Total Supporting Services	Total
\$ 704,040	\$ 985,456	\$ 1,689,496	\$ 2,549,239
45,298	67,656	112,954	173,523
109,814	103,331	213,145	305,421
859,152	1,156,443	2,015,595	3,028,183
302,954	406,425	709,379	907,925
5,883	6,864	12,747	20,737
10,361	13,127	23,488	34,042
7,796	10,350	18,146	23,893
46,482	49,801	96,283	141,983
50,950	43,877	94,827	150,893
5,962	535,911	541,873	691,002
43,291	32,225	75,516	94,128
22,817	94,378	117,195	155,140
46,488	75,269	121,757	175,104
38,402	3,374	41,776	41,916
581,386	1,271,601	1,852,987	2,436,763
21,173	22,687	43,860	62,765
1,461,711	2,450,731	3,912,442	5,527,711
-	-	-	6,169,025
-	-	-	229,968
<u>\$ 1,461,711</u>	<u>\$ 2,450,731</u>	3,912,442	11,926,704
		-	7,896,991
		<u>\$ 3,912,442</u>	<u>\$ 19,823,695</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 647,550	\$ (819,672)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	65,745	62,765
Realized gain on sale of investments	(602,841)	(299,348)
Unrealized (gain) loss on investments	(440,591)	666,572
(Increase) decrease in assets:		
Pledges receivable	(1,564,222)	(635,762)
Grant receivable	(38,882)	507,978
Prepaid expenses and other receivable	(39,817)	(48,055)
Net pension assets	667,197	(137,410)
Cash surrender value of donated life insurance policies	(51,717)	(50,141)
Increase (decrease) in liabilities:		
Designations, allocations and grant payments due to subrecipients	458,762	(1,490,850)
Accounts payable and accrued expenses	(88,047)	10,350
TOTAL ADJUSTMENTS	(1,634,413)	(1,413,901)
NET CASH USED IN OPERATING ACTIVITIES	(986,863)	(2,233,573)
INVESTING ACTIVITIES		
Purchase of investments	(4,945,361)	(3,229,112)
Proceeds from sale of investments	5,175,300	3,596,466
Proceeds from donor life insurance policy	63,618	-
Purchase of property and equipment	(65,219)	(56,916)
NET CASH PROVIDED BY INVESTING ACTIVITIES	228,338	310,438
NET DECREASE IN CASH	(758,525)	(1,923,135)
CASH - BEGINNING OF YEAR	3,666,318	5,589,453
CASH - END OF YEAR	<u>\$ 2,907,793</u>	<u>\$ 3,666,318</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

United Way of Middle Tennessee, Inc. (d/b/a United Way of Metropolitan Nashville in Davidson County and United Way of Cheatham County in Cheatham County) (collectively the "Organization" or "United Way") is an exempt publicly supported organization that brings people and organizations together to create solutions for the community's most complex issues in the areas of education, financial stability and health. The Organization is governed by a volunteer Board of Trustees composed of a cross section of community and business leaders.

The Organization, whose antecedents date back to the Community Chest of Nashville formed in 1922, was incorporated as The United Givers Fund of Nashville and Davidson County on May 21, 1954.

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions, Pledges Receivable, Campaign Expenses, and Program Investments

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Campaigns are conducted annually to raise support for program investments in the subsequent year. Pledges receivable are recognized in the period received, with an allowance provided for estimated uncollectible accounts. The allowance for uncollectible accounts is computed based on a three-year historical average write-off percentage, adjusted by management estimates of current economic factors, applied to gross campaign including donor designations.

Campaign support pledged is recognized as an increase in temporarily restricted net assets until the year of investment. All contributions are considered available for use as approved by the Board of Trustees unless specifically restricted or designated by the donor. Campaign pledges designated by donors to specific agencies or other United Way organizations are considered to be agency-type transactions and are recorded as pledges receivable and designations payable on the statement of financial position and not included in net revenues or expenses of the Organization. Campaign expenses for annual campaigns are recognized in the period incurred. The Organization honors designations made by donors to each organization by distributing a proportionate share of receipts based on donor designations to each organization.

Program investments in partner agencies are recognized as program service expenses in the period approved by the Board of Trustees, and correspond to the period of the release of time restrictions for related campaign pledges.

Grant revenue from federal and state government agencies is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Federal and state grant funds paid to subrecipient agencies are recognized as grant expenses in the period a liability is incurred for eligible expenditures by the subrecipient.

Expenditures related to federal and state contracts are subject to adjustment upon review by the granting agencies. It is management's assessment that the amounts, if any, of expenditures which may be disallowed would not have a material effect on the Organization's financial position.

Cash

Cash consists of demand deposits with banks.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of money market, equity securities, fixed income mutual funds and a commodity fund and are carried at the quoted fair market value on the last business day of the reporting period. The changes in unrealized gains and losses are recognized currently in the statement of activities.

Property and Equipment

Property and equipment are reported at cost at the date of purchase or at estimated fair value at date of gift to the Organization. The United Way's policy is to capitalize purchases with a cost of \$500 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, which is thirty years for buildings and range from three to ten years for building improvements, furniture and equipment.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services:

Program Investments and Designations to Direct Service Providers - includes activities funded by the annual campaign for outcome-based investments in agency programs, coordination and administration of Family Resource Centers, support of the 2-1-1 community information line, program investments in the Read to Succeed initiative, and other program investments.

Donor Designations - represents the gross amount of campaign funding designated by the donor to an eligible 501(c)3 agency.

Net Program Investments - includes the net amounts provided to agencies and program investments from unrestricted campaign funds.

Community Building - includes activities funded by the annual campaign related to planning, oversight, administration of outcome-based investments, and support for community initiatives.

Grants and Initiatives - includes activities that deliver services funded by sources other than the annual campaign, such as the Ryan White/Community AIDS Partnership, Read to Succeed, 2-1-1, the Nashville Alliance for Financial Independence, Restore the Dream and Disaster Relief.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Supporting Services:

Management and General - relates to the overall direction of the Organization. These expenses are not identifiable with a particular program or event or with fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, human resources, finance, information technology, and other administrative activities.

Fundraising and Marketing - includes costs of activities directed toward appeals for financial support. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Fair Value Measurements

The Organization classifies its investments based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs).

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

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for investments in U.S. Treasury securities, debt obligations and mortgage-backed securities are based primarily on other observable values, such as interest rates and yield curves.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

No changes in the valuation methodologies have been made since the prior year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Service Fees

Service fees are amounts charged by the Organization for raising, processing and transferring donor-designated gifts to agencies and other United Way organizations. Donor-designated pledges are assessed both a fundraising and a management and general fee based on actual historical costs in accordance with United Way Worldwide's Membership Requirements as outlined in its publication titled *Cost Deduction Requirements for Membership Requirement M*. The Organization is committed to complying with that requirement in assessing these service fees. Amounts designated by donors are presented at the gross amount in the statement of activities prior to such charges.

Printing and Promotional

Advertising costs are expensed as incurred. Advertising expense in the amount of \$506,695 was incurred for the year ended December 31, 2012 (\$691,002 for the year ended December 31, 2011).

Donated Services and In-Kind Contributions

A large number of volunteers donate substantial amounts of time toward the annual campaign and the various community activities; however, no values for in-kind amounts have been included in the financial statements. Donated property and other in-kind contributions are recognized in the financial statements at fair value when received.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Income Distribution Policy

The Organization's policy is to distribute a portion of the endowment income to support current operational needs. This policy is designed to insulate operational programs from capital market fluctuations. Under this policy, endowment income distributions are based on an amount approved in advance by the Board. Actual endowment return earned in excess of or less than the spending rate is reported separately in the statement of activities.

Income Taxes

The Organization qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

The Organization files a U.S. federal Form 990 for organizations exempt from income tax. The Organization's returns for years prior to fiscal year 2009 are no longer open to examination.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax return to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there were no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the results of operations or as previously reported.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2012 and August 29, 2013, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, various grants, pledges receivable and investments. The Organization maintains cash accounts at financial institutions, investment companies and trusts whose accounts are insured by the Federal Deposit Insurance Corporation. Pledges receivable consist of corporate and individual pledges for the annual campaign, which are widely dispersed to mitigate credit risk. Grant receivables represent concentrations of credit risk to the extent they are receivable from concentrated sources.

Securities held in a broker/dealer account are insured by the Securities Investor Protection Corporation (SIPC), up to \$500,000 per broker/dealer, in certain circumstances such as fraud or failure of the institution. Accounts held by one broker/dealer, which exceed SIPC limits, are covered by an additional \$1.9 million of insurance through Lloyd's of London. Accounts held by a trust are covered by error and omissions insurance up to the full amount invested. The SIPC and additional insurance protection do not insure against market risk.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 3 - FAIR VALUE MEASUREMENTS

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of December 31:

2012				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Short-term investments	\$ 209,349	\$ -	\$ -	\$ 209,349
Equity securities:				
Large Cap funds	4,873,858	-	-	4,873,858
Mid Cap funds	508,077	-	-	508,077
Small Cap funds	482,246	-	-	482,246
International funds	1,314,879	-	-	1,314,879
Fixed income mutual funds	3,678,467	-	-	3,678,467
Commodity fund	279,363	-	-	279,363
Total Investments	<u>\$ 11,346,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,346,239</u>
2011				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Short-term investments	\$ 46,146	\$ -	\$ -	\$ 46,146
Equity securities:				
Large Cap funds	4,688,112	-	-	4,688,112
Mid Cap funds	357,762	-	-	357,762
Small Cap funds	787,011	-	-	787,011
International funds	947,250	-	-	947,250
Fixed income mutual funds	3,355,453	-	-	3,355,453
Commodity fund	351,012	-	-	351,012
Total Investments	<u>\$ 10,532,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,532,746</u>

The reported fair value amounts above have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair values after the statement of financial position dates may differ significantly from the amounts presented herein.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 4 - INVESTMENTS

The fair values and related costs of investments are summarized as follows at December 31:

	<u>2012</u>		<u>2011</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Short-term investments	\$ 209,349	\$ 209,349	\$ 46,146	\$ 46,146
Equity securities	7,179,060	6,304,706	6,780,135	6,202,413
Fixed income mutual funds	3,678,467	3,491,004	3,355,453	3,269,910
Commodity fund	279,363	321,910	351,012	435,598
	<u>\$11,346,239</u>	<u>\$10,326,969</u>	<u>\$10,532,746</u>	<u>\$ 9,954,067</u>

Return on investments was as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Return on investments:		
Interest and dividend income	\$ 275,855	\$ 370,100
Investment fees	(44,412)	(44,953)
Gain (loss) on investments:		
Realized gain on sale of investments	602,841	299,348
Increase (decrease) in accumulated unrealized gain on investments	<u>440,591</u>	<u>(666,572)</u>
Total return (loss) on investments	<u>\$ 1,274,875</u>	<u>\$ (42,077)</u>

Return (loss) on investments is reported in the statements of activities as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Interest income	\$ -	\$ 202
Unrealized gain (loss) on non-endowment securities	73,052	(7,000)
Endowment spending rate	525,000	500,000
Endowment gain (loss), exclusive of spending rate	<u>676,823</u>	<u>(535,279)</u>
Total return (loss) on investments	<u>\$ 1,274,875</u>	<u>\$ (42,077)</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Future year campaign	\$ -	\$ 50,000
Current year campaign	9,196,317	7,703,647
Prior years' campaigns	<u>2,159,984</u>	<u>2,186,208</u>
	<u>11,356,301</u>	<u>9,939,855</u>
Less allowance for uncollectible pledges:		
Current year campaign	791,478	677,461
Prior years' campaigns	<u>1,246,384</u>	<u>1,508,177</u>
	<u>2,037,862</u>	<u>2,185,638</u>
Total pledges receivable	<u>\$ 9,318,439</u>	<u>\$ 7,754,217</u>

The results of the current and future year campaigns, net of the related allowance for uncollectible pledges, less designations payable, have been included in temporarily restricted net assets on the accompanying statements of financial position, as such contributions are restricted for allocations of the future periods.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 272,715	\$ 272,715
Building and improvements	1,597,419	1,551,007
Furniture and equipment	<u>1,315,511</u>	<u>1,296,702</u>
	<u>3,185,645</u>	<u>3,120,424</u>
Less accumulated depreciation	<u>2,718,751</u>	<u>2,653,004</u>
Total property and equipment, net	<u>\$ 466,894</u>	<u>\$ 467,420</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 7 - EMPLOYEE RETIREMENT PLANS

The Organization sponsors a Section 403(b) retirement plan. The plan requires the Organization to match 50% of an employee's deferral amount up to a maximum of 3% of each eligible employee's annual compensation. Employees are eligible to participate in the plan starting the first day of the month following employment. Participants' employer match accounts become vested incrementally over three years of service. Effective January 1, 2012, the Organization amended this plan to allow for a base contribution of approximately \$45,000. Total employer contributions to this plan were \$52,577 in 2012 (\$45,347 in 2011).

The Organization had a defined benefit pension plan ("Plan") covering substantially all salaried employees who had completed one year of service and were at least 21 years of age. During 2011, the Plan adopted an amendment that froze the Plan effective December 31, 2011, thus no additional benefits will accrue under the Plan. No employee is eligible to become a participant in the Plan on or after December 31, 2011 and all participants in the Plan became fully vested as of December 31, 2011.

The following tables present the plan's funded status and the components of net periodic pension cost as of and for the years ended December 31:

Obligations and Funded Status	<u>2012</u>	<u>2011</u>
Benefit obligation	\$ (3,985,034)	\$ (3,335,008)
Fair value of plan assets	<u>4,554,135</u>	<u>4,571,306</u>
Net pension assets	<u>\$ 569,101</u>	<u>\$ 1,236,298</u>
Accumulated benefit obligation	\$ (3,985,034)	\$ (3,335,008)
Employer contributions	<u>\$ -</u>	<u>\$ 53,704</u>
Annuities purchased or benefits paid (including expense charges)	<u>\$ 91,246</u>	<u>\$ 201,802</u>

The entire balance of net pension assets is included in total assets on the statement of financial position.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

Amounts recognized in the statement of activities consisted of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Net unrealized gain (loss) and amount previously not recognized in unrestricted net assets and in periodic pension cost	<u>\$ (737,162)</u>	<u>\$ (251,526)</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Changes in Unrestricted Net Assets		
	<u>2012</u>	<u>2011</u>
Service cost	\$ (9,625)	\$ (166,891)
Interest cost	(146,693)	(175,540)
Expected return on plan assets	226,283	357,311
Gain recognized due to curtailment	<u>-</u>	<u>320,352</u>
Total recognized in net periodic pension cost and unrestricted net assets	<u>\$ 69,965</u>	<u>\$ 335,232</u>

The following weighted average assumptions were used in accounting for the plan as of December 31:

	<u>2012</u>	<u>2011</u>
Discount rate	3.75%	4.25%
Expected return on plan assets	5.00%	8.00%
Rate of compensation increase	0.00%	5.00%

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

The expected long-term rate of return on plan assets assumption of 5% (8% as of December 31, 2011) was selected using the “building block” approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - *Selection of Economic Assumptions for Measuring Pension Obligations*. Based on the Organization’s investment policy for the pension plan in effect as of the beginning of each year, a best-estimate range was determined for both the real rate of return (net of inflation) and for inflation using 30-year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best-estimate range of 4.74% - 5.72% for 2012 (7.36% - 9.91% for 2011). A rate near the midpoint of the best estimate range of 5% was selected at December 31, 2012 (8% at December 31, 2011).

Historically, the Organization’s defined benefit pension plan investment policy had a target allocation percentage of 60% equity and 40% fixed income, however as of December 31, 2011, the effective date of the Plan curtailment, all of the Plan’s assets were liquidated to money market funds.

NOTE 8 - ENDOWMENT FUNDS

Financial accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Financial accounting standards also require additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

Interpretation of applicable law - The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization's permanently restricted endowment funds are based on signed donor agreements which outline the spending policies described below. In the absence of such donor restrictions, the Organization would follow UPMIFA and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA). In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of the investments
- The investment policies of the Organization

Spending policy - The Organization has a policy of appropriating for distribution each year up to 5% of the three-year moving average of the quarterly endowment market values.

In 2012, the Organization's Board of Trustees appropriated \$3.2 million of the net appreciation on the endowment fund to function as a Board-designated strategic operating reserves fund.

In addition, during 2012, the Organization's Board of Trustees established a Board-designated Quasi-endowment fund with the proceeds from a donor life insurance policy.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

Investment return objective, risk parameters and strategies - The Organization has adopted investment and spending policies, approved by the Board of Trustees, to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Trustees deems acceptable. The goal of the endowment is to exist in perpetuity, and therefore, provide for fund making in perpetuity. To attain this goal, the overriding objective of the endowment is to maintain purchasing power and, net of spending, to grow the aggregate portfolio value at the rate of inflation or greater over the endowments investment horizon. Specific performance standards have been formulated for the endowment. Underlying these standards is the belief that the management of the endowment should be directed toward achieving the following investment objectives:

- The endowment taken as a whole should achieve a minimum five-year return (income, realized capital gains and losses and unrealized capital gains and losses) equal to or higher than the five-year average of the three-month Treasury bill rate plus 300 basis points.
- The total endowment should outperform a weighted index (70/30 percent) of the Standard & Poor's 500 and Barclays Index over a five-year average.
- The return of the endowment manager(s) should fall at least in the top half of the second quartile of a universe of similarly weighted indices for one, three, and five-year returns. The universes are selected jointly by the Investment Managers and the Finance Committee.

Asset allocations are targeted at 72.5% equities, 25% fixed income and 2.5% alternative investments. Limits are in place as to the amount of stock that is invested in a single company to reduce the potential impact of losses on individual investments. Investment allocations are spread between cash equivalents, fixed income portfolios, equities, and commodities.

A schedule of endowment net asset composition by type of fund as of December 31 follows:

	2012		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Board-Designated endowment	\$ 64,173	\$ -	\$ -
Donor-Designated endowment funds	\$ -	\$ 258,900	\$ 7,600,605
	2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-Restricted endowment funds	\$ -	\$ 2,782,077	\$ 7,600,605

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

A schedule of changes in endowment net assets follows for the years ended December 31:

	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2012	\$ -	\$ 2,782,077	\$ 7,600,605	\$ 10,382,682
Proceeds from donor life insurance policy	63,618	-	-	63,618
Investment income	536	245,534	-	246,070
Investment fees	(23)	(42,277)	-	(42,300)
Net appreciation (realized and unrealized)	42	998,566	-	998,608
Amounts appropriated for expenditure	-	(525,000)	-	(525,000)
One-time board appropriation for strategic operating reserves	-	(3,200,000)	-	(3,200,000)
Endowment net assets, December 31, 2012	<u>\$ 64,173</u>	<u>\$ 258,900</u>	<u>\$ 7,600,605</u>	<u>\$ 7,923,678</u>

	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2011	\$ -	\$ 3,317,356	\$ 7,600,605	\$ 10,917,961
Investment income	-	369,898	-	369,898
Investment fees	-	(44,953)	-	(44,953)
Net depreciation (realized and unrealized)	-	(360,224)	-	(360,224)
Amounts appropriated for expenditure	-	(500,000)	-	(500,000)
Endowment net assets, December 31, 2011	<u>\$ -</u>	<u>\$ 2,782,077</u>	<u>\$ 7,600,605</u>	<u>\$ 10,382,682</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 9 - NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2012</u>	<u>2011</u>
Contributions to support the Restore the Dream fund	\$ 168,340	\$ 150,064
Contributions to support the 2-1-1 program	45,296	18,098
Contributions to support the National Alliance for Financial Independence	25,000	65,000
Contributions to support allocations and operations of future periods	8,533,581	7,537,860
Deferred revenue for future campaigns, net of designations	34,060	50,216
Net unappropriated gains on permanently restricted endowment since inception	<u>258,900</u>	<u>2,782,077</u>
Total temporarily restricted net assets	<u>\$ 9,065,177</u>	<u>\$ 10,603,315</u>

Permanently restricted net assets at December 31, 2012 and 2011 consist entirely of endowment funds. Income from such endowment funds is temporarily restricted until the funds have been appropriated for expenditure.

NOTE 10 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS AND OTHER

Net assets were released from donor restrictions and other by incurring expenses satisfying the restricted purposes or by the passage of time as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Program services (primarily restricted grants and contributions)	\$ 82,921	\$ 447,559
Passage of time (previous year's campaign pledges to support current year operations)	7,537,859	5,799,463
One-time board appropriation for Board-designated strategic operating reserves	<u>3,200,000</u>	<u>-</u>
Total net assets released from restrictions	<u>\$ 10,820,780</u>	<u>\$ 6,247,022</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 11 - OPERATING LEASES

The Organization is obligated on six noncancelable operating leases for various office equipment that expire at various dates through December 2016. Total rental expense in the amount of \$52,814 was incurred for the year ended December 31, 2012 (\$47,633 for the year ended December 31, 2011).

Future minimum lease payments required under all noncancelable leases as of December 31, 2012 are:

Year Ending December 31,

2013	\$	52,763
2014		52,763
2015		52,763
2016		<u>27,365</u>
	\$	<u>185,654</u>

NOTE 12 - DISASTER RELIEF CONTRIBUTIONS

In May 2010, in response to the historic flooding that occurred in the Middle Tennessee area and throughout the state, United Way began receiving contributions for flood relief. The funds were received in the form of contributions made during the 2010 annual campaign, individual and corporate contributions, and a grant received from funds of the Metro Nashville Disaster Response Fund.

During the years ended December 31, 2012 and 2011, additional gifts were received in the amount of \$383 and \$5,331, respectively. During 2011, \$235,053 was distributed in support of flood relief.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012 AND 2011

NOTE 13 - SUPPORTING SERVICES

Supporting services costs include management and general, fundraising and marketing, and dues to United Way Worldwide. Those costs are presented in detail in the statement of functional expenses.

During 2003, United Way Worldwide adopted a standard methodology for preparing the IRS Form 990 and utilizing it as the basis for calculating the "overhead rate." The overhead rate is calculated as the percentage of total supporting services costs to unrestricted revenues. The principal difference between total revenues reported per the financial statements and the Form 990 is the inclusion of donor designations. Form 990 provides for reporting the total campaign results as revenue. The table below details the overhead rate calculation in comparison with unrestricted revenue in the financial statements:

<u>2012</u>	<u>Statement of Activities</u>	<u>Per Form 990</u>
Total unrestricted support and revenue	\$ 17,946,466	
Plus: Donor designations	<u>3,764,313</u>	
Adjusted total revenue	<u>\$ 21,710,779</u>	<u>\$ 21,066,734</u>
Total supporting services costs	\$ 3,662,981	\$ 3,662,981
Percent of adjusted total revenue	16.9%	17.4%
 <u>2011</u>	 <u>Statement of Activities</u>	 <u>Per Form 990</u>
Total unrestricted support and revenue	\$ 18,446,701	
Plus: Donor designations	<u>4,795,405</u>	
Adjusted total revenue	<u>\$ 23,242,106</u>	<u>\$ 22,564,598</u>
Total supporting services costs	\$ 3,912,442	\$ 3,912,442
Percent of adjusted total revenue	16.8%	17.3%

Other differences in adjusted total revenue between the financial statements and the Form 990 result from: (1) the endowment gains (losses) exclusive of the spending rate, and the amount of unrealized gains (losses) therein; (2) the service fee income earned on donor designations; and (3) the bad debt allowance on donor designations. Changes in temporarily and permanently restricted net assets per the financial statements are reported on the Form 990 as other changes in net assets and not as revenues in the current year.