

UNITED WAY OF
MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF
METROPOLITAN NASHVILLE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2008 AND 2007

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of United Way of Middle Tennessee, Inc. d/b/a United Way of Metropolitan Nashville (the "Organization") as of December 31, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Way of Middle Tennessee, Inc. d/b/a United Way of Metropolitan Nashville as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
July 28, 2009

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents - Note 2 | \$ 6,839,433 | \$ 6,116,295 |
| Investments, at fair value - Note 4 | 9,710,299 | 13,600,783 |
| Pledges receivable, net - Note 5 | 8,770,835 | 8,931,615 |
| Grants receivable | 1,334,404 | 2,130,993 |
| Other receivable | 97,960 | 53,749 |
| Prepaid expenses | 64,975 | 33,027 |
| Property and equipment, net - Note 6 | 508,387 | 569,385 |
| Net pension assets - Note 7 | 51,685 | 1,468,380 |
| Cash surrender value of donated life insurance policies | <u>932,366</u> | <u>896,178</u> |
| TOTAL ASSETS | <u>\$ 28,310,344</u> | <u>\$ 33,800,405</u> |
| LIABILITIES | | |
| Designations payable | \$ 4,080,624 | \$ 4,343,078 |
| Allocations payable | 3,689,070 | 3,864,825 |
| Grant payments due to subrecipients | 1,178,427 | 1,532,292 |
| Advances from grantors | 28,978 | 16,957 |
| Accounts payable and accrued expenses | <u>539,464</u> | <u>345,700</u> |
| TOTAL LIABILITIES | <u>9,516,563</u> | <u>10,102,852</u> |
| COMMITMENTS AND CONTINGENCIES - Note 13 | | |
| NET ASSETS | | |
| Unrestricted | 485,046 | 1,659,492 |
| Temporarily restricted - Note 9 | 10,708,130 | 14,437,456 |
| Permanently restricted - Note 8 | <u>7,600,605</u> | <u>7,600,605</u> |
| TOTAL NET ASSETS | <u>18,793,781</u> | <u>23,697,553</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 28,310,344</u> | <u>\$ 33,800,405</u> |

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2008

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|---|--------------|---------------------------|---------------------------|---------------|
| PUBLIC SUPPORT AND REVENUE | | | | |
| Gross campaign results - 2007/2008 | \$ 5,485,338 | \$ - | \$ - | \$ 5,485,338 |
| Gross campaign results - released from restrictions | 11,728,191 | (11,728,191) | - | - |
| Total campaign results - 2007/2008 | 17,213,529 | (11,728,191) | - | 5,485,338 |
| Less donor designations | (5,163,010) | 3,302,436 | - | (1,860,574) |
| Less provision for uncollectible accounts | (714,931) | 509,560 | - | (205,371) |
| Net campaign revenue - 2007/2008 | 11,335,588 | (7,916,195) | - | 3,419,393 |
| Gross campaign results - 2008/2009 ⁽¹⁾ | - | 11,872,205 | - | 11,872,205 |
| Less donor designations | - | (2,959,533) | - | (2,959,533) |
| Less provision for uncollectible accounts | - | (612,902) | - | (612,902) |
| Net campaign revenue - 2008/2009 | - | 8,299,770 | - | 8,299,770 |
| Other contributions | 166,913 | 298,668 | - | 465,581 |
| Government grants | 7,869,390 | - | - | 7,869,390 |
| Designations from other United Way organizations | 128,430 | - | - | 128,430 |
| Service fees | 344,884 | - | - | 344,884 |
| Endowment spending rate | 620,000 | - | - | 620,000 |
| Interest income | 88,006 | - | - | 88,006 |
| Miscellaneous income | 251,346 | - | - | 251,346 |
| Unrealized loss on temporarily restrictive securities non-endowment | - | (85,441) | - | (85,441) |
| Repayments of grant revenue received but unexpended | - | (10,100) | - | (10,100) |
| Other net assets released from restrictions | 510,984 | (510,984) | - | - |
| TOTAL SUPPORT AND REVENUE | 21,315,541 | 75,718 | - | 21,391,259 |
| PROGRAM SERVICES | | | | |
| Program investments and designations to direct service providers | 13,039,002 | - | - | 13,039,002 |
| Less: donor designations | (5,163,010) | - | - | (5,163,010) |
| Net program investments | 7,875,992 | - | - | 7,875,992 |
| Community building | 695,701 | - | - | 695,701 |
| Grants and initiatives | 8,549,642 | - | - | 8,549,642 |
| TOTAL PROGRAM SERVICES | 17,121,335 | - | - | 17,121,335 |
| SUPPORTING SERVICES | | | | |
| Management and general | 1,269,533 | - | - | 1,269,533 |
| Fundraising and marketing | 2,598,055 | - | - | 2,598,055 |
| TOTAL SUPPORTING SERVICES | 3,867,588 | - | - | 3,867,588 |
| TOTAL COSTS AND EXPENSES | 20,988,923 | - | - | 20,988,923 |
| Change in net assets before non-operating items | 326,618 | 75,718 | - | 402,336 |
| Endowment losses, exclusive of spending rate | - | (3,805,044) | - | (3,805,044) |
| Employee retirement plan loss - Note 7 | (1,501,064) | - | - | (1,501,064) |
| CHANGE IN NET ASSETS | (1,174,446) | (3,729,326) | - | (4,903,772) |
| NET ASSETS - BEGINNING OF YEAR | 1,659,492 | 14,437,456 | 7,600,605 | 23,697,553 |
| NET ASSETS - END OF YEAR | \$ 485,046 | \$ 10,708,130 | \$ 7,600,605 | \$ 18,793,781 |

⁽¹⁾ Includes \$156,950 for future campaigns, less \$2,200 recognized in prior year.

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2007

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
|--|---------------------|---------------------------|---------------------------|----------------------|
| PUBLIC SUPPORT AND REVENUE | | | | |
| Gross campaign results - 2006/2007 | \$ 4,497,143 | \$ - | \$ - | \$ 4,497,143 |
| Gross campaign results - released from restrictions | 13,417,789 | (13,417,789) | - | - |
| Total campaign results - 2006/2007 | 17,914,932 | (13,417,789) | - | 4,497,143 |
| Less donor designations | (6,218,455) | 4,484,435 | - | (1,734,020) |
| Less provision for uncollectible accounts | (479,914) | 529,997 | - | 50,083 |
| Net campaign revenue - 2006/2007 | 11,216,563 | (8,403,357) | - | 2,813,206 |
| Gross campaign results - 2007/2008 ⁽¹⁾ | - | 11,721,967 | - | 11,721,967 |
| Less donor designations | - | (3,302,436) | - | (3,302,436) |
| Less provision for uncollectible accounts | - | (509,560) | - | (509,560) |
| Net campaign revenue - 2007/2008 | - | 7,909,971 | - | 7,909,971 |
| Other contributions | 505,323 | 539,025 | - | 1,044,348 |
| Government grants | 8,920,984 | - | - | 8,920,984 |
| Designations from other United Way organizations | 217,816 | - | - | 217,816 |
| Service fees | 474,185 | - | - | 474,185 |
| Endowment spending rate | 580,000 | - | - | 580,000 |
| Interest income | 166,170 | - | - | 166,170 |
| Miscellaneous income | 233,898 | - | - | 233,898 |
| Repayments on grant revenue received but expended | - | - | - | - |
| Other net assets released from restrictions | 295,503 | (295,503) | - | - |
| TOTAL SUPPORT AND REVENUE | 22,610,442 | (249,864) | - | 22,360,578 |
| PROGRAM SERVICES | | | | |
| Program investments and designations to direct service providers | 14,176,501 | - | - | 14,176,501 |
| Less: donor designations | (6,218,455) | - | - | (6,218,455) |
| Net program investments | 7,958,046 | - | - | 7,958,046 |
| Community building | 638,786 | - | - | 638,786 |
| Grants and initiatives | 9,660,026 | - | - | 9,660,026 |
| TOTAL PROGRAM SERVICES | 18,256,858 | - | - | 18,256,858 |
| SUPPORTING SERVICES | | | | |
| Management and general | 1,313,558 | - | - | 1,313,558 |
| Fundraising and marketing | 2,364,367 | - | - | 2,364,367 |
| TOTAL SUPPORTING SERVICES | 3,677,925 | - | - | 3,677,925 |
| TOTAL COSTS AND EXPENSES | 21,934,783 | - | - | 21,934,783 |
| Change in net assets before non-operating items | 675,659 | (249,864) | - | 425,795 |
| Endowment gains, exclusive of spending rate | - | 511,145 | - | 511,145 |
| Employee retirement plan gain - Note 7 | 50,920 | - | - | 50,920 |
| Effect of adoption of FSP No. SFAS 117-1 - Note 8 | (5,133,948) | 5,133,948 | - | - |
| CHANGE IN NET ASSETS | (4,407,369) | 5,395,229 | - | 987,860 |
| NET ASSETS - BEGINNING OF YEAR | 6,066,861 | 9,042,227 | 7,600,605 | 22,709,693 |
| NET ASSETS - END OF YEAR | \$ 1,659,492 | \$ 14,437,456 | \$ 7,600,605 | \$ 23,697,553 |

⁽¹⁾ Includes \$2,200 for future campaigns, less \$11,444 recognized in prior year.

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2008

| | Program Services | | |
|--|-----------------------|------------------------------|------------------------------|
| | Community Building | Grants and Initiatives | Total Program Services |
| Salaries | \$ 460,669 | \$ 365,432 | \$ 826,101 |
| Payroll taxes | 33,383 | 27,215 | 60,598 |
| Employee benefits | 50,021 | 35,312 | 85,333 |
| Total personnel costs | 544,073 | 427,959 | 972,032 |
| Professional and contract fees | 12,181 | 399,139 | 411,320 |
| Supplies | 693 | 8,168 | 8,861 |
| Telephone | 3,396 | 3,202 | 6,598 |
| Postage and shipping | 6,238 | 5,137 | 11,375 |
| Occupancy | 20,066 | 20,916 | 40,982 |
| Maintenance and equipment rental | 25,509 | 19,639 | 45,148 |
| Printing and promotional | 6,411 | 111,426 | 117,837 |
| Travel | 2,999 | 11,274 | 14,273 |
| Conferences, conventions, and meetings | 4,994 | 5,681 | 10,675 |
| Dues and subscriptions | 53,905 | 509 | 54,414 |
| Miscellaneous | - | 1,078 | 1,078 |
| Planned giving premium expense | - | - | - |
| Total other operating expenses | 136,392 | 586,169 | 722,561 |
| Depreciation of property and equipment | 15,236 | 15,881 | 31,117 |
| Total operating expenses | 695,701 | 1,030,009 | 1,725,710 |
| Program grants to direct service providers | - | 7,519,633 | 7,519,633 |
| | <u>\$ 695,701</u> | <u>\$ 8,549,642</u> | 9,245,343 |
| Net program investments (shown separately on the Statement of Activities) | | | <u>7,875,992</u> |
| | | | <u>\$ 17,121,335</u> |

See accompanying notes to financial statements.

| Supporting Services | | | |
|------------------------------|---------------------------------|---------------------------------|----------------------|
| Management and General | Fundraising and Marketing | Total Supporting Services | Total |
| \$ 621,264 | \$ 1,284,512 | \$ 1,905,776 | \$ 2,731,877 |
| 45,712 | 89,912 | 135,624 | 196,222 |
| 68,263 | 137,123 | 205,386 | 290,719 |
| 735,239 | 1,511,547 | 2,246,786 | 3,218,818 |
| 205,394 | 26,223 | 231,617 | 642,937 |
| 2,435 | 1,835 | 4,270 | 13,131 |
| 7,990 | 9,931 | 17,921 | 24,519 |
| 13,756 | 16,437 | 30,193 | 41,568 |
| 47,529 | 58,745 | 106,274 | 147,256 |
| 95,402 | 54,591 | 149,993 | 195,141 |
| 6,149 | 662,723 | 668,872 | 786,709 |
| 16,575 | 17,019 | 33,594 | 47,867 |
| 3,282 | 115,724 | 119,006 | 129,681 |
| 66,540 | 78,983 | 145,523 | 199,937 |
| 35,111 | 109 | 35,220 | 36,298 |
| 5,497 | - | 5,497 | 5,497 |
| 505,660 | 1,042,320 | 1,547,980 | 2,270,541 |
| 28,634 | 44,188 | 72,822 | 103,939 |
| 1,269,533 | 2,598,055 | 3,867,588 | 5,593,298 |
| - | - | - | 7,519,633 |
| <u>\$ 1,269,533</u> | <u>\$ 2,598,055</u> | 3,867,588 | 13,112,931 |
| | | - | 7,875,992 |
| | | <u>\$ 3,867,588</u> | <u>\$ 20,988,923</u> |

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2007

| | Program Services | | |
|--|-----------------------|------------------------------|------------------------------|
| | Community Building | Grants and Initiatives | Total Program Services |
| Salaries | \$ 410,723 | \$ 374,432 | \$ 785,155 |
| Payroll taxes | 30,384 | 27,342 | 57,726 |
| Employee benefits | 46,997 | 40,656 | 87,653 |
| Total personnel costs | 488,104 | 442,430 | 930,534 |
| Professional and contract fees | 22,880 | 591,605 | 614,485 |
| Supplies | 1,285 | 6,538 | 7,823 |
| Telephone | 3,541 | 3,029 | 6,570 |
| Postage and shipping | 6,591 | 5,239 | 11,830 |
| Occupancy | 21,264 | 22,343 | 43,607 |
| Maintenance and equipment rental | 25,213 | 18,911 | 44,124 |
| Printing and promotional | 11,237 | 67,387 | 78,624 |
| Travel | 2,287 | 13,347 | 15,634 |
| Conferences, conventions, and meetings | 5,378 | 6,283 | 11,661 |
| Dues and subscriptions | 34,235 | 361 | 34,596 |
| Miscellaneous | - | 518 | 518 |
| Planned giving premium expense | - | - | - |
| Total other operating expenses | 133,911 | 735,561 | 869,472 |
| Depreciation of property and equipment | 16,771 | 17,115 | 33,886 |
| Total operating expenses | 638,786 | 1,195,106 | 1,833,892 |
| Program grants to direct service providers | - | 8,464,920 | 8,464,920 |
| | <u>\$ 638,786</u> | <u>\$ 9,660,026</u> | 10,298,812 |
| Net program investments (shown separately on the Statement of Activities) | | | <u>7,958,046</u> |
| | | | <u>\$ 18,256,858</u> |

See accompanying notes to financial statements.

| Supporting Services | | | |
|------------------------------|---------------------------------|---------------------------------|----------------------|
| Management and General | Fundraising and Marketing | Total Supporting Services | Total |
| \$ 669,594 | \$ 1,227,373 | \$ 1,896,967 | \$ 2,682,122 |
| 48,389 | 88,402 | 136,791 | 194,517 |
| 73,366 | 118,190 | 191,556 | 279,209 |
| 791,349 | 1,433,965 | 2,225,314 | 3,155,848 |
| 210,941 | 31,471 | 242,412 | 856,897 |
| 3,685 | 3,804 | 7,489 | 15,312 |
| 9,403 | 10,440 | 19,843 | 26,413 |
| 16,456 | 18,899 | 35,355 | 47,185 |
| 61,681 | 62,847 | 124,528 | 168,135 |
| 58,552 | 57,821 | 116,373 | 160,497 |
| 6,372 | 505,843 | 512,215 | 590,839 |
| 8,287 | 19,116 | 27,403 | 43,037 |
| 5,125 | 80,281 | 85,406 | 97,067 |
| 82,771 | 90,735 | 173,506 | 208,102 |
| 22,060 | 314 | 22,374 | 22,892 |
| 5,760 | - | 5,760 | 5,760 |
| 491,093 | 881,571 | 1,372,664 | 2,242,136 |
| 31,116 | 48,831 | 79,947 | 113,833 |
| 1,313,558 | 2,364,367 | 3,677,925 | 5,511,817 |
| - | - | - | 8,464,920 |
| <u>\$ 1,313,558</u> | <u>\$ 2,364,367</u> | 3,677,925 | 13,976,737 |
| | | - | 7,958,046 |
| | | <u>\$ 3,677,925</u> | <u>\$ 21,934,783</u> |

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ (4,903,772) | \$ 987,860 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 103,939 | 113,833 |
| Loss on sale of property and equipment | - | 989 |
| Realized loss (gain) on sale of investments | 1,486,987 | (816,102) |
| Unrealized loss on investments | 2,093,722 | 72,934 |
| (Increase) decrease in assets: | | |
| Pledges receivable | 160,780 | 1,363,889 |
| Grant receivable | 796,589 | (1,635,726) |
| Refundable advances made to subrecipients | - | 1,371,712 |
| Prepaid expenses and other receivable | (76,159) | 36,073 |
| Net pension assets | 1,416,695 | (104,660) |
| Cash surrender value of life insurance policies | (36,188) | (54,965) |
| Increase (decrease) in liabilities: | | |
| Designations, allocations and grant payments due to subrecipients | (792,074) | 467,540 |
| Advances from grantors | 12,021 | (2,105,455) |
| Accounts payable and accrued expenses | <u>193,764</u> | <u>31,168</u> |
| TOTAL ADJUSTMENTS | <u>5,360,076</u> | <u>(1,258,770)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>456,304</u> | <u>(270,910)</u> |
| INVESTING ACTIVITIES | | |
| Purchase of investments | (25,358,614) | (20,624,690) |
| Proceeds from sale of investments | 25,668,389 | 22,310,450 |
| Purchase of property and equipment | <u>(42,941)</u> | <u>(111,750)</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>266,834</u> | <u>1,574,010</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 723,138 | 1,303,100 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>6,116,295</u> | <u>4,813,195</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 6,839,433</u> | <u>\$ 6,116,295</u> |

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

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) (the "Organization" or "United Way") presents its financial statements in accordance with the standards of accounting and financial reporting for not-for-profit and voluntary health and welfare organizations in conformity with accounting principles generally accepted in the United States of America.

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.

The mission of United Way is to bring people and organizations together to create a community where individuals, families, and neighborhoods thrive. The Organization is governed by a volunteer Board of Trustees composed of a cross section of community and business leaders.

Basis of presentation

The accompanying financial statements present the financial position and results of operations of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

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 beginning in the third quarter of each year to raise support for program investments in participating agencies 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 four-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 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 member 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 corresponding 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. Grant funds received prior to expenditure are recorded initially as an advance from the grantor under liabilities. 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. Grant program funds paid to subrecipient agencies prior to expenditure by the agency are reported under assets as refundable advances to the subrecipients.

Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, repurchase agreements, money market funds, commercial paper, and U.S. government bonds with original maturities when purchased of 90 days or less.

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of certificates of deposit and various marketable debt and equity securities and are carried at the quoted fair market value of the securities on the last business day of the reporting period. Net realized and unrealized gains and losses are reported in the statement of activities. Investments received by gift are recorded as support at the market or appraised value at the date of receipt.

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 range thirty years for buildings and three to five years for the majority of building improvements and equipment.

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.

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.

Less donor designations - represents the gross amount of campaign funding designated by the donor and held in an agency capacity by the Organization.

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

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services (Continued)

Program services (Continued)

Community building - includes activities funded by the annual campaign related to planning, oversight, administration of outcome-based investments, and support for the Family Resource Center system.

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

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 - 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 management and general fee based on actual historical costs in accordance with United Way of America'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.

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 since there is no objective basis by which to measure such values. Donated property and other in-kind contributions are recognized in the financial statements at fair value when received.

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.

Use of estimates in the preparation of the financial statements

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified in order to be comparative with the current year's presentation. As a result, the Organization's dues paid to United Way of America of \$175,630 in 2007 have been reclassified from its own supporting service classification to Community Building (\$27,360), Management and General (\$68,602), and Fundraising and Marketing (\$79,668) on the statement of functional expenses. The reclassification has no effect on the change in net assets previously reported.

Recent accounting pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and, accordingly, will be required to adopt FIN 48 in its December 31, 2009 annual financial statements. Prior to adopting FIN 48, the Organization will continue to evaluate uncertain tax positions and related income tax contingencies under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

The Organization is currently evaluating the impact, if any, of the adoption of this pronouncement on 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. 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.

UNITED WAY OF MIDDLE TENNESSEE, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 2 - CONCENTRATION OF CREDIT RISK (CONTINUED)

At times, the Organization's bank balances with financial institutions exceed applicable Federal Deposit Insurance Corporation (FDIC) insurance limits. Management considers bank balances in excess of FDIC limits to be a normal business risk. The Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013. The balance at December 31, 2008, exceeded the FDIC limit by approximately \$557,000. In addition, the Organization has a Repurchase Agreement Sweep Account, which had a balance of approximately \$4 million as of December 31, 2008, which is not FDIC insured, but which is (i) collateralized by direct obligations of the U.S. Treasury and other securities issued by federal government agencies, including mortgage-backed securities, and (ii) fully guaranteed as to principal and interest by those agencies.

Securities held in broker/dealer accounts 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 additional protection through the Customer Asset Protection Company. Under this program, cash and fully paid securities are not subject to any dollar amount limitation. Accounts held by another broker/dealer, to the extent they exceed SIPC limits, are covered by an additional \$124.5 million of insurance. The SIPC and additional protection do not insure against market risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Organization adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. SFAS 157-2, *Effective Date of FASB Statement No. 157*, the Organization will delay application of SFAS No. 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The application of SFAS No. 157 in situations where the market for a financial asset is not active was clarified by the issuance of FSP No. SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, in October 2008. FSP No. SFAS 157-3 became effective immediately and did not significantly affect the methods by which the Organization determines the fair values of its financial assets.

UNITED WAY OF MIDDLE TENNESSEE, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

- *Level 1 Inputs* - Unadjusted quotes prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, quotes prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Organization's financial assets and financial liabilities carried at fair value effective January 1, 2008. In general, fair value is based on quoted market prices, where available. If such quoted market prices are not available, fair value is based on internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Organization's creditworthiness among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Organization's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates and, therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Fair values for investments, except U.S. Treasury securities, debt obligations and mortgage-backed securities, 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.

The following table summarizes financial assets measured at fair value as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | <u>Level 1</u> <u>Inputs</u> | <u>Level 2</u> <u>Inputs</u> | <u>Total</u> |
|------------------------------------|---------------------------------|---------------------------------|---------------------|
| Short-term investments | \$ 171,050 | \$ - | \$ 171,050 |
| U.S. Treasury securities | - | 1,195,146 | 1,195,146 |
| U.S. Government agency obligations | - | 1,575,054 | 1,575,054 |
| Equity securities | 4,994,653 | - | 4,994,653 |
| Mortgage-backed securities | <u>-</u> | <u>1,774,396</u> | <u>1,774,396</u> |
| Total | <u>\$ 5,165,703</u> | <u>\$ 4,544,596</u> | <u>\$ 9,710,299</u> |

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 4 - INVESTMENTS

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

| | <u>2008</u> | | <u>2007</u> | |
|------------------------------------|---------------------|----------------------|----------------------|----------------------|
| | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Short-term investments | \$ 171,050 | \$ 171,050 | \$ 572,757 | \$ 572,757 |
| U.S. Treasury securities | 1,195,146 | 1,165,604 | 567,917 | 561,070 |
| U.S. Government agency obligations | 1,575,054 | 1,552,225 | 2,193,383 | 2,166,641 |
| Corporate debt securities | - | - | 45,971 | 46,265 |
| Equity securities | 4,994,653 | 5,573,703 | 9,780,425 | 8,147,755 |
| Mortgage-backed securities | 1,774,396 | 1,760,666 | 440,330 | 440,082 |
| | <u>\$ 9,710,299</u> | <u>\$ 10,223,248</u> | <u>\$ 13,600,783</u> | <u>\$ 11,934,570</u> |

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

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------|---------------------|
| Return on investments: | | |
| Interest and dividend income | <u>\$ 483,671</u> | <u>\$ 514,147</u> |
| Gain (loss) on investments: | | |
| Realized gain (loss) on sale of investments | (1,486,987) | 816,102 |
| Increase in accumulated unrealized loss on investments | <u>(2,093,722)</u> | <u>(72,934)</u> |
| Net realized and unrealized gain (loss) on investments | <u>(3,580,709)</u> | <u>743,168</u> |
| Total return on investments | <u>\$ (3,097,038)</u> | <u>\$ 1,257,315</u> |

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

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|---------------------|
| Interest income | \$ 88,006 | \$ 166,170 |
| Endowment spending rate | 620,000 | 580,000 |
| Endowment gain (loss), exclusive of spending rate | <u>(3,805,044)</u> | <u>511,145</u> |
| Total return on investments | <u>\$ (3,097,038)</u> | <u>\$ 1,257,315</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at December 31:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Future year campaign | \$ 155,200 | \$ - |
| Current year campaign | 8,578,657 | 8,518,890 |
| Prior years' campaigns | <u>3,128,730</u> | <u>3,221,752</u> |
| | <u>11,862,587</u> | <u>11,740,642</u> |
| Less allowance for uncollectible pledges: | | |
| Current year campaign | 820,068 | 709,596 |
| Prior years' campaigns | <u>2,271,684</u> | <u>2,099,431</u> |
| | <u>3,091,752</u> | <u>2,809,027</u> |
| Total pledges receivable | <u>\$ 8,770,835</u> | <u>\$ 8,931,615</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 consolidated 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>2008</u> | <u>2007</u> |
|-----------------------------------|-------------------|-------------------|
| Land | \$ 272,715 | \$ 272,715 |
| Building and improvements | 1,505,945 | 1,492,556 |
| Furniture and equipment | <u>1,178,374</u> | <u>1,148,822</u> |
| | 2,957,034 | 2,914,093 |
| Less accumulated depreciation | <u>2,448,647</u> | <u>2,344,708</u> |
| Total property and equipment, net | <u>\$ 508,387</u> | <u>\$ 569,385</u> |

UNITED WAY OF MIDDLE TENNESSEE, INC.
D/B/A UNITED WAY OF METROPOLITAN NASHVILLE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 7 - EMPLOYEE RETIREMENT PLANS

The Organization contributes to a defined benefit pension plan covering substantially all of its salaried employees who have completed one year of service and are at least 21 years of age. There are no contributions required to be paid to the plan by the Organization during the next fiscal year. The Organization expects to make a discretionary contribution equal to 2% of eligible salaries in 2009, or approximately \$49,000.

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>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| Benefit obligation | \$ (3,612,039) | \$ (3,556,541) |
| Fair value of plan assets | <u>3,663,724</u> | <u>5,024,921</u> |
| Net pension assets | <u>\$ 51,685</u> | <u>\$ 1,468,380</u> |
| Accumulated benefit obligation | <u>\$ (2,632,161)</u> | <u>\$ (2,627,812)</u> |
| Employer contributions | <u>\$ 54,913</u> | <u>\$ 56,746</u> |
| Annuities purchased or benefits paid (including expense charges) | <u>\$ 155,045</u> | <u>\$ 15,946</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.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

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

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|------------------|
| Net unrealized gain (loss) and amount previously not recognized in unrestricted net assets and in periodic pension cost | <u>\$ (1,501,064)</u> | <u>\$ 50,920</u> |
| Other Changes in Plan Assets and Benefit Obligations Recognized in Changes in Unrestricted Net Assets | | |
| | <u>2008</u> | <u>2007</u> |
| Service cost | \$ 213,452 | \$ 235,683 |
| Interest cost | 210,340 | 197,967 |
| Expected return on plan assets | (421,059) | (395,422) |
| Recognized actuarial net gains | <u>(32,189)</u> | <u>(35,222)</u> |
| Total recognized in net periodic pension cost and unrestricted net assets | <u>\$ (29,456)</u> | <u>\$ 3,006</u> |

There are currently no amounts of estimated net loss or prior service cost for the defined benefit pension plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year.

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

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 6.00% | 5.75% |
| Expected return on plan assets | 8.50% | 8.50% |
| Rate of compensation increase | 4.25% | 4.25% |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

The expected long-term rate of return on plan assets assumption of 8.5% 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 7.26% - 9.42% for 2008 (7.29% - 9.45% for 2007). A rate near the midpoint of the best estimate range of 8.5% was selected each year.

At December 31, 2008 and 2007 (the measurement date), plan assets are invested in separate pooled funds at a life insurance company, with asset class balances summarized as follows:

| <u>Investment Type</u> | <u>2008</u> | |
|--------------------------------------|---------------------|--------------------------------------|
| | <u>Amount</u> | <u>Percentage of Plan Assets</u> |
| Equity securities | \$ 1,741,761 | 47.54 % |
| Fixed income securities | 1,876,933 | 51.23 % |
| General account (money market funds) | 45,030 | 1.23 % |
| | <u>\$ 3,663,724</u> | <u>100.00 %</u> |
| <u>Investment Type</u> | <u>2007</u> | |
| | <u>Amount</u> | <u>Percentage of Plan Assets</u> |
| Equity securities | \$ 2,623,035 | 52.20 % |
| Fixed income securities | 2,399,199 | 47.75 % |
| General account (money market funds) | 2,687 | 0.05 % |
| | <u>\$ 5,024,921</u> | <u>100.00 %</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

The Organization's investment policy has a target allocation percentage of 60% equity and 40% fixed income. The actual ratio at any particular time is expected to vary somewhat from the guideline ratio. The investment objective for the plan is to achieve an average annual rate of return (net of investment management expense) over a three-to-five year period which exceeds a composite market index comprised of the Standard & Poor's 500 Composite Index, the Lehman Government/Credit Bond Index, and 90-day U.S. Treasury bills. The overall philosophy of the plan is to manage plan assets in a prudent, conservative, yet productive manner, with emphasis on preservation of capital and avoidance of excessive volatility in plan values.

No plan assets are expected to be returned to the Organization in 2008.

The following benefits are expected to be paid by the plan in the indicated years:

Year Ending December 31,

| | |
|-----------|-----------|
| 2009 | \$ 95,000 |
| 2010 | 103,000 |
| 2011 | 109,000 |
| 2012 | 470,000 |
| 2013 | 289,000 |
| 2014-2018 | 3,021,000 |

The Organization also sponsors a Section 403(b) retirement plan. The plan requires the Organization to match 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. Total employer contributions to this plan were \$46,069 in 2008 (\$48,718 in 2007).

UNITED WAY OF MIDDLE TENNESSEE, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 8 - ENDOWMENT FUNDS

In August 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) No. SFAS 117-1, *Endowments of Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. SFAS 117-1). FSP No. SFAS 117-1 provides 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). FSP No. SFAS 117-1 also requires 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.

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 endowment consists of two individual funds established for a variety of purposes. Its endowment consists of donor-restricted endowment funds only. 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), which was effective July 1, 2007. 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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

Spending policy - The Organization has a policy of appropriating for distribution each year 5% of the three-year moving average of the Endowment. The quarterly moving average method is used in order to smooth distributions from the endowment. The endowment value used in calculating the spending rate is determined based on a three-year moving average of quarterly endowment market values, with a budgeting lead of one year.

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 Lehman G/C 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, U.S. fixed income portfolios, equities, and mortgage-backed securities.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

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

| | 2008 | | |
|-------------------------------------|---------------------------|---------------------------|---------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Donor-Restricted endowment funds | <u>\$ 1,840,049</u> | <u>\$ 7,600,605</u> | <u>\$ 9,440,654</u> |
| | | | |
| | 2007 | | |
| | Temporarily Restricted | Permanently Restricted | Total |
| Donor-Restricted endowment funds | <u>\$ 5,645,093</u> | <u>\$ 7,600,605</u> | <u>\$13,245,698</u> |

UNITED WAY OF MIDDLE TENNESSEE, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

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

| | 2008 | | |
|---|---------------------------|---------------------------|----------------------|
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, January 1, 2008 | \$ 5,645,093 | \$ 7,600,605 | \$ 13,245,698 |
| Contributions | - | - | - |
| Investment income | 483,671 | - | 483,671 |
| Net depreciation (realized and unrealized) | (3,668,715) | - | (3,668,715) |
| Amounts appropriated for expenditure | (620,000) | - | (620,000) |
| Endowment net assets, December 31, 2008 | <u>\$ 1,840,049</u> | <u>\$ 7,600,605</u> | <u>\$ 9,440,654</u> |
| | 2007 | | |
| | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, January 1, 2007 - before reclassification | \$ - | \$ 7,600,605 | \$ 7,600,605 |
| Net asset reclassification from unrestricted net assets pursuant to FSP No. SFAS 117-1 | <u>5,133,948</u> | <u>-</u> | <u>5,133,948</u> |
| Endowment net assets, January 1, 2007 - after reclassification | 5,133,948 | 7,600,605 | 12,734,553 |
| Contributions | - | - | - |
| Investment income | 514,147 | - | 514,147 |
| Net appreciation (realized and unrealized) | 576,998 | - | 576,998 |
| Amounts appropriated for expenditure | (580,000) | - | (580,000) |
| Endowment net assets, December 31, 2007 | <u>\$ 5,645,093</u> | <u>\$ 7,600,605</u> | <u>\$ 13,245,698</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 9 - NET ASSETS

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

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|----------------------|
| Contributions to support the Restore the Dream fund | \$ 269,645 | \$ 355,085 |
| Contributions to support the Behavior risk assessment | - | 10,100 |
| Contributions to support the Read to Succeed program | 225,043 | 479,775 |
| Contributions to support the Vanderbilt Family Literacy program | - | 31,033 |
| Contributions to support the Metro Nashville Minority AIDS 07/08 program | 572 | 175 |
| Contributions to support the Metro Nashville Minority AIDS 08/09 program | 1,514 | - |
| Contributions to support the Bank of America - EITC grant | 12,500 | - |
| Contributions to support the Metro Nashville Part A 08/09 program | 24,755 | - |
| Contributions to support the Metro Nashville Part B 08/09 program | 34,282 | - |
| Contributions to support allocations and operations of future periods | 8,142,820 | 7,916,195 |
| Deferred revenue for future campaigns | 156,950 | - |
| Net gains on permanently restricted endowment since inception | <u>1,840,049</u> | <u>5,645,093</u> |
| Total temporarily restricted net assets | <u>\$ 10,708,130</u> | <u>\$ 14,437,456</u> |

Permanently restricted net assets at December 31, 2008 and 2007 consist entirely of endowment funds. Income from such endowment funds is temporarily restricted until the funds have been appropriated for expenditure.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS

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

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Program services (primarily restricted grants and contributions) | \$ 510,984 | \$ 295,503 |
| Passage of time (previous year's campaign pledges to support current year operations) | <u>7,916,195</u> | <u>8,403,357</u> |
| Total net assets released from restrictions | <u>\$ 8,427,179</u> | <u>\$ 8,698,860</u> |

NOTE 11 - RECONCILIATION OF METROPOLITAN NASHVILLE CAMPAIGN

The following table reconciles total campaign results reported in the Metropolitan Nashville campaign to the total unrestricted campaign results, per the statement of activities, of the respective campaigns for the years ended December 31:

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| Metropolitan Nashville campaign | \$ 17,059,287 | \$ 17,846,187 |
| Additional amounts reported on prior campaigns | <u>154,242</u> | <u>68,745</u> |
| Total unrestricted campaign results | <u>\$ 17,213,529</u> | <u>\$ 17,914,932</u> |

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 12 - SUPPORTING SERVICES

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

During 2003, United Way of America 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>2008</u> | <u>Statement of Activities</u> | <u>Per Form 990</u> |
|--|------------------------------------|----------------------|
| Total unrestricted support and revenue | \$ 21,315,541 | |
| Plus: Donor designations | <u>5,163,010</u> | |
| Adjusted total revenue | <u>\$ 26,478,551</u> | <u>\$ 25,680,903</u> |
| Total supporting services costs | \$ 3,867,588 | \$ 3,867,588 |
| Percent of adjusted total revenue | 14.6% | 15.1% |
| | | |
| <u>2007</u> | <u>Statement of Activities</u> | <u>Per Form 990</u> |
| Total unrestricted support and revenue | \$ 22,610,442 | |
| Plus: Donor designations | <u>6,218,455</u> | |
| Adjusted total revenue | <u>\$ 28,828,897</u> | <u>\$ 28,409,407</u> |
| Total supporting services costs | \$ 3,677,925 | \$ 3,705,285 |
| Percent of adjusted total revenue | 12.8% | 13.0% |

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 13 - FEDERAL AND STATE CONTRACTS

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.