

THE UNITED WAY OF
METROPOLITAN NASHVILLE, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2004 AND 2003

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The United Way of Metropolitan Nashville, Inc.

We have audited the accompanying statements of financial position of The United Way of Metropolitan Nashville, Inc. (the "Organization") as of December 31, 2004 and 2003, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 The United Way of Metropolitan Nashville, Inc. as of December 31, 2004 and 2003, 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
June 2, 2005

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents	\$ 6,651,831	\$ 5,560,693
Investments, at fair value - Note 2	10,743,662	10,197,036
Pledges receivable, net - Note 3	15,941,906	17,045,913
Grants receivable	229,278	574,307
Prepaid expenses	103,412	119,185
Property and equipment, net - Note 4	716,276	804,353
Prepaid pension costs - Note 5	642,670	618,902
Cash surrender value of life insurance policies	707,867	650,446
Other	<u>304,761</u>	<u>283,522</u>
TOTAL ASSETS	<u>\$ 36,041,663</u>	<u>\$ 35,854,357</u>
LIABILITIES		
Designations payable	\$ 9,598,928	\$ 9,714,278
Allocations payable	4,306,066	4,476,126
Grants payable	658,058	577,944
Advances from grantors	775,389	-
Accounts payable and accrued expenses	<u>227,491</u>	<u>344,624</u>
TOTAL LIABILITIES	<u>15,565,932</u>	<u>15,112,972</u>
COMMITMENTS AND CONTINGENCIES - Note 11		
NET ASSETS		
Unrestricted	2,436,526	1,793,247
Temporarily restricted - Note 6	10,916,471	11,825,404
Permanently restricted	<u>7,122,734</u>	<u>7,122,734</u>
TOTAL NET ASSETS	<u>20,475,731</u>	<u>20,741,385</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,041,663</u>	<u>\$ 35,854,357</u>

See accompanying notes to financial statements.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUE				
Gross campaign results - 2003/2004	\$ 2,230,166	\$ -	\$ -	\$ 2,230,166
Gross campaign results - released from restrictions	<u>19,032,689</u>	<u>(19,032,689)</u>	<u>-</u>	<u>-</u>
Total campaign results - 2003/2004	21,262,855	(19,032,689)	-	2,230,166
Less donor designations	(8,033,365)	7,719,503	-	(313,862)
Less provision for uncollectible accounts	<u>(657,260)</u>	<u>710,291</u>	<u>-</u>	<u>53,031</u>
Net campaign revenue - 2003/2004	12,572,230	(10,602,895)	-	1,969,335
Gross campaign results - 2004/2005 ⁽¹⁾	-	17,441,225	-	17,441,225
Less donor designations	-	(7,016,614)	-	(7,016,614)
Less provision for uncollectible accounts	<u>-</u>	<u>(649,124)</u>	<u>-</u>	<u>(649,124)</u>
Net campaign revenue - 2004/2005	-	9,775,487	-	9,775,487
Other contributions	229,680	63,328	-	293,008
Government grants	3,783,297	-	-	3,783,297
Designations from other United Way organizations	120,318	-	-	120,318
Service fees	609,407	-	-	609,407
Endowment spending rate	345,000	-	-	345,000
Interest income	37,097	-	-	37,097
Miscellaneous income	213,943	-	-	213,943
Other net assets released from restrictions	<u>144,853</u>	<u>(144,853)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>18,055,825</u>	<u>(908,933)</u>	<u>-</u>	<u>17,146,892</u>
PROGRAM SERVICES				
Program investments and designations to direct service providers	17,026,331	-	-	17,026,331
Less: donor designations	<u>(8,033,365)</u>	<u>-</u>	<u>-</u>	<u>(8,033,365)</u>
Net program investments	8,992,966	-	-	8,992,966
Community building	990,221	-	-	990,221
Grants and initiatives	<u>4,164,704</u>	<u>-</u>	<u>-</u>	<u>4,164,704</u>
TOTAL PROGRAM SERVICES	<u>14,147,891</u>	<u>-</u>	<u>-</u>	<u>14,147,891</u>
SUPPORTING SERVICES				
Management and general	1,048,602	-	-	1,048,602
Fundraising and marketing	2,230,998	-	-	2,230,998
United Way of America dues	<u>156,583</u>	<u>-</u>	<u>-</u>	<u>156,583</u>
TOTAL SUPPORTING SERVICES	<u>3,436,183</u>	<u>-</u>	<u>-</u>	<u>3,436,183</u>
TOTAL COSTS AND EXPENSES	<u>17,584,074</u>	<u>-</u>	<u>-</u>	<u>17,584,074</u>
Change in net assets before endowment gains (losses)	471,751	(908,933)	-	(437,182)
Endowment gains (losses), exclusive of spending rate	<u>171,528</u>	<u>-</u>	<u>-</u>	<u>171,528</u>
CHANGE IN NET ASSETS	643,279	(908,933)	-	(265,654)
NET ASSETS - BEGINNING OF YEAR	<u>1,793,247</u>	<u>11,825,404</u>	<u>7,122,734</u>	<u>20,741,385</u>
NET ASSET TRANSFERS TO SUCCESSOR AGENCY	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 2,436,526</u>	<u>\$ 10,916,471</u>	<u>\$ 7,122,734</u>	<u>\$ 20,475,731</u>

⁽¹⁾ Includes \$640,800 for future campaigns, less \$1,478,200 recognized in prior year.

See accompanying notes to financial statements.

	2003			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
PUBLIC SUPPORT AND REVENUE				
Gross campaign results - 2002/2003	\$ 1,281,963	\$ -	\$ -	\$ 1,281,963
Gross campaign results - released from restrictions	22,698,789	(22,698,789)	-	-
Total campaign results - 2002/2003	23,980,752	(22,698,789)	-	1,281,963
Less donor designations	(10,202,189)	8,896,668	-	(1,305,521)
Less provision for uncollectible accounts	(849,266)	980,704	-	131,438
Net campaign revenue - 2002/2003	12,929,297	(12,821,417)	-	107,880
Gross campaign results - 2003/2004 ⁽²⁾	-	19,710,684	-	19,710,684
Less donor designations	-	(8,187,893)	-	(8,187,893)
Less provision for uncollectible accounts	-	(710,291)	-	(710,291)
Net campaign revenue - 2003/2004	-	10,812,500	-	10,812,500
Other contributions	257,612	50,000	3,015,327	3,322,939
Government grants	3,719,714	-	-	3,719,714
Designations from other United Way organizations	67,912	-	-	67,912
Service fees	532,383	-	-	532,383
Endowment spending rate	339,000	-	-	339,000
Interest income	34,006	-	-	34,006
Miscellaneous income	201,155	-	-	201,155
Other net assets released from restrictions	194,080	(194,080)	-	-
TOTAL SUPPORT AND REVENUE	18,275,159	(2,152,997)	3,015,327	19,137,489
PROGRAM SERVICES				
Program investments and designations to direct service providers	19,179,538	-	-	19,179,538
Less: donor designations	(10,202,189)	-	-	(10,202,189)
Net program investments	8,977,349	-	-	8,977,349
Community building	1,084,581	-	-	1,084,581
Grants and initiatives	4,110,576	-	-	4,110,576
TOTAL PROGRAM SERVICES	14,172,506	-	-	14,172,506
SUPPORTING SERVICES				
Management and general	1,119,170	-	-	1,119,170
Fundraising and marketing	2,446,540	-	-	2,446,540
United Way of America dues	175,728	-	-	175,728
TOTAL SUPPORTING SERVICES	3,741,438	-	-	3,741,438
TOTAL COSTS AND EXPENSES	17,913,944	-	-	17,913,944
Change in net assets before endowment gains (losses)	361,215	(2,152,997)	3,015,327	1,223,545
Endowment gains (losses), exclusive of spending rate	1,382,525	-	-	1,382,525
CHANGE IN NET ASSETS	1,743,740	(2,152,997)	3,015,327	2,606,070
NET ASSETS - BEGINNING OF YEAR	66,498	13,978,401	4,107,407	18,152,306
NET ASSET TRANSFERS TO SUCCESSOR AGENCY	(16,991)	-	-	(16,991)
NET ASSETS - END OF YEAR	\$ 1,793,247	\$ 11,825,404	\$ 7,122,734	\$ 20,741,385

⁽²⁾ Includes \$1,478,200 for future campaigns, less \$610,000 recognized in prior year.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2004

	Program Services		
	Community Building	Grants and Initiatives	Total Program Services
Salaries	\$ 708,716	\$ 157,352	\$ 866,068
Employee benefits	67,518	20,795	88,313
Payroll taxes	49,561	11,006	60,567
Total personnel costs	825,795	189,153	1,014,948
Professional and contract fees	23,116	155,472	178,588
Supplies	2,941	6,380	9,321
Telephone	9,308	1,512	10,820
Postage and shipping	9,414	1,669	11,083
Occupancy	36,816	11,722	48,538
Maintenance and equipment rental	23,360	3,705	27,065
Printing and promotional	3,180	54,077	57,257
Travel	5,060	2,882	7,942
Conferences, conventions, and meetings	5,242	8,059	13,301
Dues and subscriptions	7,154	25	7,179
Miscellaneous	-	42	42
Planned giving premium expense	-	-	-
Total other operating expenses	125,591	245,545	371,136
Depreciation of property and equipment	38,835	6,214	45,049
Total operating expenses	990,221	440,912	1,431,133
Program investments and grants to direct service providers	-	3,723,792	3,723,792
	<u>\$ 990,221</u>	<u>\$ 4,164,704</u>	5,154,925
Net program investments (shown separately on the Statement of Activities)			<u>8,992,966</u>
			<u>\$ 14,147,891</u>

See accompanying notes to financial statements.

Supporting Services				
Management and General	Fundraising and Marketing	United Way of America Dues	Total Supporting Services	Total
\$ 585,625	\$ 1,235,882	\$ -	\$ 1,821,507	\$ 2,687,575
42,534	108,776	-	151,310	239,623
35,275	82,362	-	117,637	178,204
663,434	1,427,020	-	2,090,454	3,105,402
85,571	40,139	-	125,710	304,298
17,157	5,950	-	23,107	32,428
15,436	20,925	-	36,361	47,181
13,394	21,637	-	35,031	46,114
51,597	70,419	-	122,016	170,554
99,766	57,782	-	157,548	184,613
2,707	409,547	-	412,254	469,511
16,802	20,308	-	37,110	45,052
6,268	73,897	-	80,165	93,466
15,984	11,662	156,583	184,229	191,408
12,936	256	-	13,192	13,234
9,709	-	-	9,709	9,709
347,327	732,522	156,583	1,236,432	1,607,568
37,841	71,456	-	109,297	154,346
1,048,602	2,230,998	156,583	3,436,183	4,867,316
-	-	-	-	3,723,792
\$ 1,048,602	\$ 2,230,998	\$ 156,583	\$ 3,436,183	8,591,108
				8,992,966
				\$ 17,584,074

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2003

	Program Services		
	Community Building	Grants and Initiatives	Total Program Services
Salaries	\$ 699,524	\$ 162,355	\$ 861,879
Employee benefits	92,569	14,883	107,452
Payroll taxes	49,525	12,083	61,608
Total personnel costs	841,618	189,321	1,030,939
Professional and contract fees	102,858	176,146	279,004
Supplies	4,658	4,142	8,800
Telephone	12,372	2,764	15,136
Postage and shipping	9,198	2,292	11,490
Occupancy	30,730	7,980	38,710
Maintenance and equipment rental	23,711	5,272	28,983
Printing and promotional	2,983	1,057	4,040
Travel	4,995	9,003	13,998
Conferences, conventions, and meetings	3,582	3,611	7,193
Dues and subscriptions	7,676	325	8,001
Miscellaneous	475	-	475
Planned giving premium expense	-	-	-
Total other operating expenses	203,238	212,592	415,830
Depreciation of property and equipment	39,725	10,363	50,088
Total operating expenses	1,084,581	412,276	1,496,857
Program investments and grants to direct service providers	-	3,698,300	3,698,300
	<u>\$ 1,084,581</u>	<u>\$ 4,110,576</u>	5,195,157
Net program investments (shown separately on the Statement of Activities)			8,977,349
			<u>\$ 14,172,506</u>

See accompanying notes to financial statements.

Supporting Services				
Management and General	Fundraising and Marketing	United Way of America Dues	Total Supporting Services	Total
\$ 624,083	\$ 1,247,031	\$ -	\$ 1,871,114	\$ 2,732,993
70,955	158,898	-	229,853	337,305
35,087	86,249	-	121,336	182,944
730,125	1,492,178	-	2,222,303	3,253,242
90,668	95,704	-	186,372	465,376
12,735	5,457	-	18,192	26,992
17,953	26,601	-	44,554	59,690
12,707	20,498	-	33,205	44,695
53,124	64,620	-	117,744	156,454
72,371	45,709	-	118,080	147,063
2,363	507,989	-	510,352	514,392
11,323	24,694	-	36,017	50,015
4,343	69,931	-	74,274	81,467
11,404	11,634	175,728	198,766	206,767
26,725	2,075	-	28,800	29,275
24,968	-	-	24,968	24,968
340,684	874,912	175,728	1,391,324	1,807,154
48,361	79,450	-	127,811	177,899
1,119,170	2,446,540	175,728	3,741,438	5,238,295
-	-	-	-	3,698,300
\$ 1,119,170	\$ 2,446,540	\$ 175,728	\$ 3,741,438	8,936,595
				8,977,349
				\$ 17,913,944

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (265,654)	\$ 2,606,070
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	154,346	177,899
Realized (gain) loss on sale of investments	(351,732)	(30,029)
Unrealized (gain) loss on investments	56,988	(1,553,808)
Noncash contribution	-	(3,015,327)
(Increase) decrease in assets, net of transfers to separately incorporated entity:		
Pledges receivable	1,104,007	2,902,798
Grant receivable	345,029	(403,940)
Prepaid expenses	15,773	(6,577)
Prepaid pension costs	(23,768)	60,193
Cash surrender value of life insurance policies	(57,421)	(55,704)
Other assets	(21,239)	(32,331)
Increase (decrease) in liabilities, net of transfers to separately incorporated entity:		
Designations, allocations and grants payable	(205,296)	(1,334,876)
Advances from grantors	775,389	-
Accounts payable and accrued expenses	(117,133)	(6,337)
TOTAL ADJUSTMENTS	<u>1,674,943</u>	<u>(3,298,039)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,409,289</u>	<u>(691,969)</u>
INVESTING ACTIVITIES		
Purchase of investments	(16,712,295)	(19,375,410)
Proceeds from sale of investments	16,460,413	19,576,722
Purchase of property and equipment	(66,269)	(114,283)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(318,151)</u>	<u>87,029</u>
NET CASH USED IN FINANCING ACTIVITIES		
Cash transferred to separately incorporated United Way entity or successor agency	-	(16,991)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,091,138	(621,931)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,560,693</u>	<u>6,182,624</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,651,831</u>	<u>\$ 5,560,693</u>

See accompanying notes to financial statements.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The United Way of Metropolitan Nashville, Inc. (the "Organization" or "United Way") presents its financial statements according to 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 current name, The United Way of Metropolitan Nashville, Inc., was adopted in 1999.

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

Prior to December 31, 2002, the United Way presented consolidated financial statements to include the accounts and operations of affiliated United Way organizations under common administrative and budgetary control. The United Way organization in Hickman County, Tennessee ceased to exist in 2003, and its remaining assets were transferred to the local county executive for distribution. The accompanying Statements of Activities do not include any activity of the Hickman County United Way organization, other than the transfer of beginning net assets relating to that organization in 2003.

The Combined Federal Campaign ("CFC") contracts with the United Way to manage the campaign and administer the funds of CFC. In accordance with United Way of America's revised *Financial Statement Standards (Membership Standard H)*, campaign results of the Metropolitan Nashville Combined Federal Campaign (the "Campaign") are included in the gross campaign results of The United Way of Metropolitan Nashville, Inc. The Organization has retroactively included CFC's assets and liabilities in the statements of financial position as of December 31, 2003, to be comparative with the current year's presentation. CFC's Campaign results have previously been, and continue to be, included in the Organization's statements of activities. (See Note 8.)

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation (Continued)

Financial statement presentation follows the accounting and reporting standards established by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the assets, liabilities and net assets of the Organization are reported as follows:

- Unrestricted - includes unrestricted resources and represents expendable funds available for support of the Organization's operations.
- Temporarily restricted - includes gifts from contributions restricted for specific programs or time periods.
- Permanently restricted - includes gifts which contain provisions requiring in perpetuity that the principal be invested and the income or specific portions thereof be used for the Organization's operations.

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 in the fall 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 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.

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.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents include demand deposits with banks, repurchase agreements, and money market funds with original maturities when purchased of three months or less.

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. Changes in unrealized gains and losses are recognized in the statement of activities for the year. 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, at fair market value at the date of gift if the value is readily determinable, or other reasonable basis as determined by the Board of Trustees if cost is unknown. Costs of maintenance and repairs are charged to expense as incurred. Building and equipment are depreciated by the straight-line method over their estimated useful lives. The general range of useful lives is thirty years for building 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 - functional allocation

The following program and supporting services are included in the accompanying consolidated 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, program investments in the Read to Succeed initiative and 2-1-1.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services - functional allocation (Continued)

Program services (Continued):

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.

Community building - includes activities funded by the annual campaign related to planning, oversight, and administration of outcome-based investments, Read to Succeed, 2-1-1, 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, 2-1-1, Workforce Development, and Family Resource Center coordination.

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.

United Way of America dues - payments to the Organization's national offices for membership.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. The Organization is committed to complying with United Way of America's *Cost Deduction Standards (Membership Standard M)* 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

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.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 2 - INVESTMENTS

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

	<u>2004</u>		<u>2003</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Short-term investments	\$ 544,486	\$ 544,486	\$ 287,146	\$ 287,146
Mutual funds - hedge fund	350,000	350,000	-	-
U.S. Treasury securities	1,090,247	1,067,530	563,767	561,077
Corporate debt securities	512,176	515,170	538,874	540,754
Equity securities	7,612,708	6,479,099	7,468,266	6,284,814
U.S. Government agency obligations	<u>634,045</u>	<u>659,407</u>	<u>1,338,983</u>	<u>1,338,287</u>
	<u>\$ 10,743,662</u>	<u>\$ 9,615,692</u>	<u>\$ 10,197,036</u>	<u>\$ 9,012,078</u>

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

	<u>2004</u>	<u>2003</u>
Return on investments:		
Interest and dividend income	<u>\$ 258,881</u>	<u>\$ 171,694</u>
Gain (loss) on investments:		
Realized gain (loss) on sale of investments	351,732	30,029
Increase in accumulated unrealized gain (loss) on investments	<u>(56,988)</u>	<u>1,553,808</u>
Net realized and unrealized gain (loss) on investments	<u>294,744</u>	<u>1,583,837</u>
Total return (loss) on investments	<u>\$ 553,625</u>	<u>\$ 1,755,531</u>

The following amounts are included in the statements of activities for the years ended December 31:

	<u>2004</u>	<u>2003</u>
Interest income	\$ 37,097	\$ 34,006
Endowment spending rate	345,000	339,000
Endowment gains (losses) exclusive of spending rate	<u>171,528</u>	<u>1,382,525</u>
Total return (loss) on investments	<u>\$ 553,625</u>	<u>\$ 1,755,531</u>

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Future year campaign	\$ 604,353	\$ 1,451,000
Current year campaign	14,979,473	15,387,608
Prior years' campaigns	<u>4,118,115</u>	<u>4,135,878</u>
	19,701,941	20,974,486
Less allowance for uncollectible pledges	<u>3,760,035</u>	<u>3,928,573</u>
Total pledges receivable	<u>\$ 15,941,906</u>	<u>\$ 17,045,913</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 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Land	\$ 272,715	\$ 272,715
Building and improvements	1,387,843	1,369,967
Furniture and equipment	<u>1,582,503</u>	<u>1,534,111</u>
	3,243,061	3,176,793
Less accumulated depreciation	<u>2,526,785</u>	<u>2,372,440</u>
Total property and equipment, net	<u>\$ 716,276</u>	<u>\$ 804,353</u>

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 5 - 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.

The following table sets forth the plan's change in benefit obligation, change in plan assets, funded status and components of pension (income) expenses recognized in the accompanying financial statements for the years ended December 31:

Change in Benefit Obligation	<u>2004</u>	<u>2003</u>
Benefit obligation - beginning of year	\$ 2,224,658	\$ 1,969,769
Service cost	209,087	217,394
Interest cost	155,044	142,192
Change in assumptions	265,941	(81,025)
Actuarial (gain) loss	(30,759)	14,620
Annuities purchased or benefits paid	(49,183)	(22,948)
Expense charges	<u>(15,230)</u>	<u>(15,344)</u>
Benefit obligation - end of year	<u>\$ 2,759,558</u>	<u>\$ 2,224,658</u>
Change in Plan Assets	<u>2004</u>	<u>2003</u>
Fair value of assets - beginning of year	\$ 3,707,294	\$ 3,115,453
Actual return (loss) on plan assets	305,050	630,133
Employer contributions	24,394	-
Employee contributions	-	-
Annuities purchased or benefits paid (including expense charges)	<u>(64,413)</u>	<u>(38,292)</u>
Fair value of assets - end of year	<u>\$ 3,972,325</u>	<u>\$ 3,707,294</u>
Funded Status	<u>2004</u>	<u>2003</u>
Benefit obligation	\$ 2,759,558	\$ 2,224,658
Fair value of plan assets	<u>3,972,325</u>	<u>3,707,294</u>
Funded status	1,212,767	1,482,636
Unrecognized transition (asset) obligation	-	-
Unrecognized net actuarial (gains) losses	<u>(570,097)</u>	<u>(863,734)</u>
Prepaid pension costs - end of year	<u>\$ 642,670</u>	<u>\$ 618,902</u>

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 5 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

Following is a summary, by year, of expected benefit payments to be paid by the plan, which reflect expected future service, as appropriate:

Year Ending December 31,

2005	\$ 13,000
2006	45,000
2007	15,000
2008	80,000
2009	120,000
2010 - 2014	1,401,000

There are no contributions required to be paid to the plan by the Organization during the next fiscal year. The Organization has approved a contribution equal to 2% of eligible salaries for 2005.

Components of Net Periodic Cost (Income)	<u>2004</u>	<u>2003</u>
Service cost	\$ 209,087	\$ 217,394
Interest cost	155,044	142,192
Expected return on plan assets	(313,623)	(265,827)
Amortization of unrecognized transitional obligation or (asset)	-	(23,762)
Recognized net (gains) losses	<u>(49,882)</u>	<u>(9,804)</u>
Net periodic cost (income) for the year	<u>\$ 626</u>	<u>\$ 60,193</u>

Weighted average assumptions as of December 31:

	<u>2004</u>	<u>2003</u>
Discount rate	6.00%	6.50%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increases	4.25%	4.25%

Changes in actuarial assumptions during 2004 related to the reduction of the discount rate from 6.5% to 6.0%, resulting in an increase to the pension benefit obligation of \$265,941 as of December 31, 2004. Changes in actuarial assumptions during 2003 related to the increase of assumed participant withdrawal rate, resulting in a decrease to the pension benefit obligation by \$81,025 as of December 31, 2003.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 5 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

At December 31, 2004, 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>Amount</u>	<u>Percentage of Plan Assets</u>
Equity securities	\$ 2,430,998	61.20 %
Fixed income securities	1,445,021	36.38 %
General account (money market funds)	<u>96,306</u>	<u>2.42 %</u>
	<u>\$ 3,972,325</u>	<u>100.00 %</u>

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, minimized risk and avoidance of excessive volatility in plan values.

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 the fiscal year, a best-estimate range was determined for both the real rate of return (net of inflation) and for inflation based on 30-year period rolling averages. An average inflation rate within the range equal to 4.00% was selected and added to the real rate of return range to arrive at a best-estimate range of 8.10% - 10.03%. A rate near the midpoint of the best estimate range of 8.5% was selected.

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 the first day of the month following employment. Participants become vested incrementally over three years of service. Total employer contributions were \$48,666 in 2004 (\$48,960 in 2003).

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 6 - NET ASSETS

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

	<u>2004</u>	<u>2003</u>
Contributions to support the Restore the Dream fund	\$ 271,942	\$ 248,843
Contributions to support the Decatur County initiative	123,540	195,893
Contributions to support the Workforce Development initiative	32,422	14,693
Contributions to support Success by Six program	-	50,000
Contributions to support allocations and operations of future periods	<u>10,488,567</u>	<u>11,315,975</u>
Total temporarily restricted net assets	<u>\$ 10,916,471</u>	<u>\$ 11,825,404</u>

Permanently restricted net assets at December 31, 2004 and 2003 consist entirely of endowment funds. Income from such endowment funds is unrestricted.

NOTE 7 - 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 for the years ended December 31 as follows:

	<u>2004</u>	<u>2003</u>
Program services (primarily restricted grants and contributions)	\$ 144,853	\$ 194,080
Passage of time (previous year's campaign pledges to support current year operations)	<u>10,602,895</u>	<u>12,821,417</u>
Total net assets released from restrictions	<u>\$ 10,747,748</u>	<u>\$ 13,015,497</u>

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 8 - GOVERNMENTAL CAMPAIGN

Summarized financial information of the Combined Federal Campaign, which is included in the Organization's financial statements, as of and for the years ended December 31, follows:

STATEMENTS OF FINANCIAL POSITION

	<u>2004</u>	<u>2003</u>
Cash	\$ 262,495	\$ 189,353
Pledges receivable, net of allowance	973,752	931,839
Prepaid campaign expenses	<u>82,953</u>	<u>88,428</u>
Total assets	<u>\$ 1,319,200</u>	<u>\$ 1,209,620</u>
Due to United Way	\$ 108,140	\$ 54,579
Designations payable	<u>1,211,060</u>	<u>1,155,041</u>
Total liabilities	<u>\$ 1,319,200</u>	<u>\$ 1,209,620</u>

STATEMENTS OF ACTIVITIES

	<u>2004</u>	<u>2003</u>
Gross campaign revenue	\$ 996,369	\$ 946,772
Less: designations	<u>(996,369)</u>	<u>(946,772)</u>
Net campaign revenue	<u>\$ -</u>	<u>\$ -</u>
Designations to direct service providers	996,369	946,772
Less: donor designations	<u>(996,369)</u>	<u>(946,772)</u>
Net program investment	<u>\$ -</u>	<u>\$ -</u>

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 8 - GOVERNMENTAL CAMPAIGN (CONTINUED)

Also included in the temporarily restricted column on the Statement of Activities are amounts pledged relating to future campaigns, as follows, for the years ended December 31:

	<u>2004</u>	<u>2003</u>
Gross campaign revenue - future campaigns	\$ 1,016,652	\$ 991,210
Less: donor designations	<u>(1,016,652)</u>	<u>(991,210)</u>
Net campaign revenue	<u>\$ -</u>	<u>\$ -</u>

NOTE 9 - 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 at December 31:

	<u>2004</u>	<u>2003</u>
Metropolitan Nashville campaign	\$ 20,310,902	\$ 23,084,542
Additional amounts reported on prior campaigns	88,335	82,165
Combined Federal Campaign revenues, net of amounts already recognized in the Metropolitan Nashville campaign	<u>863,618</u>	<u>814,045</u>
Total unrestricted campaign results	<u>\$ 21,262,855</u>	<u>\$ 23,980,752</u>

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 10 - 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 in reported total revenues 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>2004</u>	<u>Per Financial Statement</u>	<u>Per Form 990</u>
Total unrestricted support and revenue	\$ 18,055,825	
Plus: Donor designations	<u>8,033,365</u>	
Adjusted total revenue	<u>\$ 26,089,190</u>	<u>\$ 25,228,454</u>
Total supporting services costs	\$ 3,436,183	\$ 3,436,183
Percent of adjusted total revenue	13.2%	13.6%
<u>2003</u>	<u>Per Financial Statement</u>	<u>Per Form 990</u>
Total unrestricted support and revenue	\$ 18,275,159	
Plus: Donor designations	<u>10,202,189</u>	
Adjusted total revenue	<u>\$ 28,477,348</u>	<u>\$ 27,326,282</u>
Total supporting services costs	\$ 3,741,438	\$ 3,741,438
Percent of adjusted total revenue	13.1%	13.7%

Other differences in adjusted total revenue between the financial statements and the Form 990 result from: (1) the amount of unrealized gains (losses) included in the endowment revenue; (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.

THE UNITED WAY OF METROPOLITAN NASHVILLE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2004 AND 2003

NOTE 11 - FEDERAL AND STATE CONTRACTS

Expenditures related to federal and state contracts are subject to adjustment based 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.

NOTE 12 - 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.

The Organization maintains cash and investment balances in bank deposit accounts at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.