

United Way of Metropolitan Nashville 2008 Audited Financial Statements

Frequently Asked Questions

August 13, 2009

In January 2003 the membership of United Way of America approved the “Eligibility Criteria for Initial and Sustained Membership in the United Way System” (membership standards). Included among those was Standard H, which addressed the audit and annual financial statements of member organizations. Subsequently the Financial Issues Committee developed detailed financial statement standards that were approved by the National Professional Council and were required for all fiscal years beginning after June 30, 2004. Early implementation was encouraged and United Way of Metropolitan Nashville chose to be an early adopter of the standards and implemented them in the 2003 financial statements. Those standards have since been characterized as “requirements” and Requirement H is one of a number of criteria for membership in the United Way system.

The footnotes to the audited financial statements explain many questions that may arise while reviewing the statements. The following FAQ’s are provided to help summarize or clarify.

Statements of Financial Position (Page 2)

1. *Why are investments, at fair value, much lower than they were in 2007?*
Investments, which are reported at fair market value at December 31, 2008, reflect earnings, withdrawals, and changing market conditions. The majority of the investments reported here were invested in equity securities, and their fair market value was severely impacted by the economic conditions at the end of 2008.
2. *Pledges receivable seem much lower than the amount of gross campaign revenue reported on the Statement of Activities. Why?*
Pledges receivable listed in the Statement of Financial Position are largely the results of the incomplete campaign still in progress at the end of the current year. Also included is the prior year campaign, which is substantially collected by the end of 2008. Both of these campaigns’s pledges receivable is reduced by an allowance for uncollectible pledges. (See Note 5)
3. *Why, when compared to last year, are grants receivable and grant payments due to sub-recipients lower.*
Government grant revenues decreased significantly due to a change in the funding process for one of the grants related to the Ryan White/Community AIDS Partnership. When grants from non-government sources are included, more than \$8.5 million in grant revenue was earned. Changes in grants receivable and payable are due to timing within the individual grants.

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4. *What are net pension assets, and why has that asset declined?*
United Way of Metropolitan Nashville's defined benefit pension plan assets were severely impacted by unrealized losses related to the market conditions at the end of 2008. The plan, however, continues to be adequately funded. In 2006, United Way elected to adopt the new recognition and measurement date provisions of FAS 158, which requires that the funded status of defined benefit plans be fully recognized, measured at the end of the calendar year. The net funded status of the plan declined from more than \$1.4 million to approximately \$52,000. See note 7 for complete details.

5. *The individual amounts in the net asset classes reported for 2007 do not agree with the amounts reported in last year's audit report. Why?*
The amounts reported in last year's audit have been reclassified for presentation purposes. FAS 117-1 changes the way endowment investment gains and losses are reported; moving them to temporarily restricted net assets except for those funds actually used by the organization's operations. To provide a better basis for comparison, the 2007 amounts have been reclassified to the new presentation.

6. *What are unrestricted net assets, and why are they lower in 2008?*
Unrestricted net assets are net assets not subject to any donor-imposed restriction. The net asset classes and activity within or between them are explained in Note 1. Net assets decreased in 2008 because of the changes in the funded status of the pension. Those losses were partially offset by the result of unrestricted revenue exceeding expenses, resulting from unanticipated increases in campaign revenue and savings in organizational expenses.

7. *Unrestricted net assets are more than \$500,000. Is that money available for distribution to agencies?*
Like retained earnings and owner's equity in for-profit accounting, unrestricted net assets are the difference between total assets and total liabilities. It includes some assets that are shown on the organization's books that are not readily liquid, such as building and equipment (net of depreciation), net pension assets, and the cash surrender value of life insurance policies in the planned giving program

8. *What are temporarily restricted net assets?*
Assets subject to donor-imposed restrictions are temporarily restricted until the restriction can be met by action or the passage of time. Temporarily restricted net assets are primarily pledges from the 2008 campaign that will be used in 2009. The amount of temporarily restricted net assets fluctuates from year to year due to the timing of campaign processing, the amount of designated gifts, and the total campaign, as well as the gains and losses on endowment investments. With the introduction of FAS 117-1, temporarily restricted net assets are subject to more year-to-year fluctuation from the reporting of endowment gains and losses. (See Notes 1, 9, and 10)

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9. *What are permanently restricted net assets?*

Contributions from donors that establish endowments cannot be spent and thus are considered permanently restricted net assets. (See Note 1)

United Way of America's Financial Statement requirement prescribes a presentation format that reports the activities of each asset class separately, and then consolidates the asset classes. United Way of Metropolitan Nashville had traditionally reported the activities in unrestricted net assets, which recorded the results of the annual campaign and the program investments and expenses that related to that campaign, and separately scheduled the changes in the other asset classes. The present format provides greater information on the activity in the temporarily restricted and permanently restricted asset classes.

Consolidated Statements of Activities (Page 3)

10. *What makes up total campaign results?*

The results of the 2007/2008 annual campaign, which provides revenue for 2008 activities, were more than \$17.0 million, and with additional amounts reported from prior year campaigns, the total in 2008 was reported at \$17,213,529. See Note 11 for a reconciliation of the total campaign results.

11. *Why are donor designations subtracted from total campaign results?*

FASB 116 requires that the revenue and funding resulting from designated pledges not be considered revenue. Campaign pledges that are designated by donors are considered to be transactions that are passed through to agencies and are subtracted in the audit (GAAP) presentation. In 2008 those gross donor designations were \$5,163,010. (See Note 1)

12. *What is the provision for uncollectible pledges?*

Some of the pledges made in the 2007/2008 campaign will not be collected due to changes donors may experience, such as a job change or retirement. Employer events, such as reorganization, downsizing, or change in ownership may also impact pledge loss. The pledge loss in the 2007/2008 campaign is approximately 7.3% of the total campaign pledges, greater than our historical average, but predictable considering current economic conditions.. Since gross designated pledges have been eliminated in the audit presentation, only the provision for uncollectible unrestricted pledges is presented. (See Note 5)

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13. What is the endowment spending rate?

By board policy, a portion of the income from the long-term (endowment) investments is used each year to support current operational needs. This policy serves to insulate operational programs from capital market fluctuations. Long term investment gains or losses beyond the spending rate are reported later in the unrestricted net asset column of the Statement of Activities. (See Notes 1 and 4)

14. What are service fees?

The amounts that are withheld for fund-raising, processing, and transferring donor designated gifts to agencies and other United Way organizations are reported as service fees. UWA Membership Requirement M governs the maximum allowable amount of those fees. (See Note 1)

15. What makes up the miscellaneous income of \$251,346?

The 2008 miscellaneous income includes revenue recognized from the increase in cash surrender value of life insurance policies in the planned giving program, event income that offsets event costs reported elsewhere, and other miscellaneous reimbursements.

16. Program expenses are reduced by designations in the amount of \$5,163,010. Why?

Designations are not included in revenue in the Statement of Activities since they are considered a transaction passed through to agencies. Likewise, they are not included in program expenses.

17. United Way of America dues were shown separately in supporting services in previous year's audits but is not this year. Why?

The UWA requirements previously had UWA dues segregated, consistent with the way UWA dues were presented on IRS form 990. There were major revisions to the form 990 beginning in 2008. One of those changes is that UWA dues, reported as "payments to affiliates" are no longer reported separately but are included in Part XI, the Statement of Functional Expenses, and is allocated across functional categories. The UWA requirement for financial statements was revised to remain consistent with form 990.

18. In unrestricted net assets, when comparing total supporting services to total support and revenue, it appears that the overhead percentage is 18.2%. Is that correct?

The audited financial statements present financial results that reflect the omission of designated pledges but include the costs incurred to raise and administer those designated pledges. We had traditionally added back the omitted designated pledges to the overhead calculation to more accurately present supporting service costs.

The UWA membership requirements have established the IRS form 990 as the common document that all United Ways will use to report supporting services (or overhead) rates. The Form 990 is recognized as the information standard for nonprofits and is the public

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document watchdog agencies use to rate nonprofit performance. The total revenue number on the Form 990 will usually differ from the audit, due mainly to the reporting of designations and gains and losses in the endowment.

Note 12 is included in the audit to clearly show the overhead rate, and is summarized below.

	<u>2008</u>	<u>2007</u>
Total supporting service expense	\$ 3,867,588	\$ 3,705,285
Overhead percentage using UWA's form 990 formula	15.1%	13.0%
Overhead percentage calculated in UWMN's traditional method, using total support and revenue from the audit plus omitted designations (unrestricted net assets, activities from operations)	14.6%	12.8%