

UNITED WAY OF
MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2017 AND 2016

UNITED WAY OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the United Way of Middle Tennessee, Inc. (the "Organization"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United Way of Middle Tennessee, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2018 on our consideration of United Way of Middle Tennessee, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering United Way of Middle Tennessee, Inc.'s internal control over financial reporting and compliance.

Kraft CPA, PLLC

Nashville, Tennessee
June 7, 2018

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 4,443,788	\$ 3,441,475
Pledges receivable, net	9,576,997	9,623,815
Grants receivable	1,459,619	927,384
Prepaid and other	129,703	324,297
Investments, at fair value	16,648,521	14,686,920
Property and equipment, net	379,131	365,007
Cash surrender value of donor life insurance policies	<u>580,580</u>	<u>558,424</u>
TOTAL ASSETS	<u>\$ 33,218,339</u>	<u>\$ 29,927,322</u>
LIABILITIES		
Designations payable	\$ 3,492,591	\$ 3,714,055
Allocations payable	3,105,859	3,145,098
Grant payments due to subrecipients	1,041,038	668,607
Accounts payable, accrued expenses and other	630,024	567,076
Net pension liability	<u>4,827</u>	<u>247,915</u>
TOTAL LIABILITIES	<u>8,274,339</u>	<u>8,342,751</u>
NET ASSETS		
Unrestricted	4,772,814	3,388,159
Temporarily restricted	12,570,581	10,595,807
Permanently restricted	<u>7,600,605</u>	<u>7,600,605</u>
TOTAL NET ASSETS	<u>24,944,000</u>	<u>21,584,571</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,218,339</u>	<u>\$ 29,927,322</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
PUBLIC SUPPORT AND REVENUE				
Gross campaign results - prior year	\$ 1,174,149	\$ -	\$ -	\$ 1,174,149
Gross campaign results - released from restrictions	<u>13,677,074</u>	<u>(13,677,074)</u>	<u>-</u>	<u>-</u>
Total campaign results - prior year	14,851,223	(13,677,074)	-	1,174,149
Less donor designations	(3,923,898)	3,892,699	-	(31,199)
Less provision for uncollectible accounts	<u>(296,604)</u>	<u>681,827</u>	<u>-</u>	<u>385,223</u>
Net campaign revenue - prior year	<u>10,630,721</u>	<u>(9,102,548)</u>	<u>-</u>	<u>1,528,173</u>
Gross campaign results - current year	-	14,528,767	-	14,528,767
Less donor designations	-	(3,780,149)	-	(3,780,149)
Less provision for uncollectible accounts	<u>-</u>	<u>(612,409)</u>	<u>-</u>	<u>(612,409)</u>
Net campaign revenue - current year	<u>-</u>	<u>10,136,209</u>	<u>-</u>	<u>10,136,209</u>
Grants	8,086,853	7,500	-	8,094,353
Other contributions and in-kind	698,339	-	-	698,339
Designations from other United Way organizations	170,753	-	-	170,753
Service fees	452,174	-	-	452,174
Endowment spending rate	475,000	-	-	475,000
Miscellaneous income	24,141	-	-	24,141
Non-endowment investment income	1,032,535	42,796	-	1,075,331
Other net assets released from restrictions	<u>216,914</u>	<u>(216,914)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>21,787,430</u>	<u>867,043</u>	<u>-</u>	<u>22,654,473</u>
PROGRAM SERVICES				
Program investments and designations to direct service providers	11,387,585	-	-	11,387,585
Less: donor designations	<u>(3,923,898)</u>	<u>-</u>	<u>-</u>	<u>(3,923,898)</u>
Net program investments	7,463,687	-	-	7,463,687
Community building	1,847,883	-	-	1,847,883
Grants and initiatives	<u>7,856,972</u>	<u>-</u>	<u>-</u>	<u>7,856,972</u>
TOTAL PROGRAM SERVICES	<u>17,168,542</u>	<u>-</u>	<u>-</u>	<u>17,168,542</u>
SUPPORTING SERVICES				
Management and general	1,442,548	-	-	1,442,548
Fundraising and marketing	<u>1,771,851</u>	<u>-</u>	<u>-</u>	<u>1,771,851</u>
TOTAL SUPPORTING SERVICES	<u>3,214,399</u>	<u>-</u>	<u>-</u>	<u>3,214,399</u>
TOTAL COSTS AND EXPENSES	<u>20,382,941</u>	<u>-</u>	<u>-</u>	<u>20,382,941</u>
Change in net assets before non-operating items	1,404,489	867,043	-	2,271,532
Endowment gain, net of endowment spending rate	-	1,107,731	-	1,107,731
Employee retirement plan loss	<u>(19,834)</u>	<u>-</u>	<u>-</u>	<u>(19,834)</u>
CHANGE IN NET ASSETS	1,384,655	1,974,774	-	3,359,429
NET ASSETS - BEGINNING OF YEAR	<u>3,388,159</u>	<u>10,595,807</u>	<u>7,600,605</u>	<u>21,584,571</u>
NET ASSETS - END OF YEAR	<u>\$ 4,772,814</u>	<u>\$ 12,570,581</u>	<u>\$ 7,600,605</u>	<u>\$ 24,944,000</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
PUBLIC SUPPORT AND REVENUE				
Gross campaign results - prior year	\$ 970,642	\$ -	\$ -	\$ 970,642
Gross campaign results - released from restrictions	<u>14,859,513</u>	<u>(14,859,513)</u>	<u>-</u>	<u>-</u>
Total campaign results - prior year	15,830,155	(14,859,513)	-	970,642
Less donor designations	(4,587,814)	4,279,940	-	(307,874)
Less provision for uncollectible accounts	<u>(680,548)</u>	<u>716,627</u>	<u>-</u>	<u>36,079</u>
Net campaign revenue - prior year	<u>10,561,793</u>	<u>(9,862,946)</u>	<u>-</u>	<u>698,847</u>
Gross campaign results - current year	-	13,737,999	-	13,737,999
Less donor designations	-	(3,892,699)	-	(3,892,699)
Less provision for uncollectible accounts	<u>-</u>	<u>(681,827)</u>	<u>-</u>	<u>(681,827)</u>
Net campaign revenue - current year	<u>-</u>	<u>9,163,473</u>	<u>-</u>	<u>9,163,473</u>
Grants	4,518,945	174,201	-	4,693,146
Other contributions and in-kind	911,242	-	-	911,242
Designations from other United Way organizations	182,030	-	-	182,030
Service fees	552,169	-	-	552,169
Endowment spending rate	460,000	-	-	460,000
Miscellaneous income	24,026	-	-	24,026
Non-endowment investment income	386,940	16,924	-	403,864
Other net assets released from restrictions	<u>228,285</u>	<u>(228,285)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>17,825,430</u>	<u>(736,633)</u>	<u>-</u>	<u>17,088,797</u>
PROGRAM SERVICES				
Program investments and designations to direct service providers	12,081,822	-	-	12,081,822
Less: donor designations	<u>(4,587,814)</u>	<u>-</u>	<u>-</u>	<u>(4,587,814)</u>
Net program investments	7,494,008	-	-	7,494,008
Community building	1,841,862	-	-	1,841,862
Grants and initiatives	<u>4,335,341</u>	<u>-</u>	<u>-</u>	<u>4,335,341</u>
TOTAL PROGRAM SERVICES	<u>13,671,211</u>	<u>-</u>	<u>-</u>	<u>13,671,211</u>
SUPPORTING SERVICES				
Management and general	1,235,117	-	-	1,235,117
Fundraising and marketing	<u>2,073,933</u>	<u>-</u>	<u>-</u>	<u>2,073,933</u>
TOTAL SUPPORTING SERVICES	<u>3,309,050</u>	<u>-</u>	<u>-</u>	<u>3,309,050</u>
TOTAL COSTS AND EXPENSES	<u>16,980,261</u>	<u>-</u>	<u>-</u>	<u>16,980,261</u>
Change in net assets before non-operating items	845,169	(736,633)	-	108,536
Endowment loss, net of endowment spending rate	-	165,671	-	165,671
Employee retirement plan loss	<u>(452,265)</u>	<u>-</u>	<u>-</u>	<u>(452,265)</u>
CHANGE IN NET ASSETS	392,904	(570,962)	-	(178,058)
NET ASSETS - BEGINNING OF YEAR	<u>2,995,255</u>	<u>11,166,769</u>	<u>7,600,605</u>	<u>21,762,629</u>
NET ASSETS - END OF YEAR	<u>\$ 3,388,159</u>	<u>\$ 10,595,807</u>	<u>\$ 7,600,605</u>	<u>\$ 21,584,571</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services			Supporting Services			Total
	Community Building	Grants and Initiatives	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	
Salaries	1,105,232	747,434	\$ 1,852,666	794,895	1,066,989	\$ 1,861,884	\$ 3,714,550
Payroll taxes	73,350	55,619	128,969	41,064	70,667	111,731	240,700
Employee benefits	81,362	82,500	163,862	96,038	88,609	184,647	348,509
Total personnel costs	<u>1,259,944</u>	<u>885,553</u>	<u>2,145,497</u>	<u>931,997</u>	<u>1,226,265</u>	<u>2,158,262</u>	<u>4,303,759</u>
Professional and contract fees	88,258	242,290	330,548	235,314	115,543	350,857	681,405
Supplies	10,372	40,202	50,574	5,826	3,658	9,484	60,058
Telephone	16,019	15,359	31,378	17,538	18,905	36,443	67,821
Postage and shipping	5,218	2,444	7,662	6,443	7,533	13,976	21,638
Occupancy	54,698	46,803	101,501	40,418	38,248	78,666	180,167
Maintenance and equipment rental	42,819	4,883	47,702	48,527	67,685	116,212	163,914
Printing and promotional	202,118	71,184	273,302	8,758	127,165	135,923	409,225
Travel	22,373	32,425	54,798	19,537	18,063	37,600	92,398
Events and meetings	37,686	21,963	59,649	14,057	50,648	64,705	124,354
Dues and memberships	87,384	-	87,384	61,811	80,771	142,582	229,966
Miscellaneous	557	-	557	54,296	4,688	58,984	59,541
Total other operating expenses	<u>567,502</u>	<u>477,553</u>	<u>1,045,055</u>	<u>512,525</u>	<u>532,907</u>	<u>1,045,432</u>	<u>2,090,487</u>
Depreciation of property and equipment	<u>20,437</u>	<u>6,594</u>	<u>27,031</u>	<u>(1,974)</u>	<u>12,679</u>	<u>10,705</u>	<u>37,736</u>
Total operating expenses	<u>1,847,883</u>	<u>1,369,700</u>	<u>3,217,583</u>	<u>1,442,548</u>	<u>1,771,851</u>	<u>3,214,399</u>	<u>6,431,982</u>
Program grants to direct service providers	<u>-</u>	<u>6,487,272</u>	<u>6,487,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,487,272</u>
	<u>\$ 1,847,883</u>	<u>\$ 7,856,972</u>	<u>9,704,855</u>	<u>\$ 1,442,548</u>	<u>\$ 1,771,851</u>	<u>\$ 3,214,399</u>	<u>12,919,254</u>
Net program investments (shown separately on the statement of activities)			<u>7,463,687</u>				<u>7,463,687</u>
			<u>\$ 17,168,542</u>				<u>\$ 20,382,941</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services			Supporting Services			Total
	Community Building	Grants and Initiatives	Total Program Services	Management and General	Fundraising and Marketing	Total Supporting Services	
Salaries	\$ 1,069,910	\$ 528,880	\$ 1,598,790	\$ 746,542	\$ 1,119,081	\$ 1,865,623	\$ 3,464,413
Payroll taxes	74,137	39,295	113,432	39,930	77,221	117,151	230,583
Employee benefits	87,846	60,000	147,846	96,946	97,921	194,867	342,713
Total personnel costs	<u>1,231,893</u>	<u>628,175</u>	<u>1,860,068</u>	<u>883,418</u>	<u>1,294,223</u>	<u>2,177,641</u>	<u>4,037,709</u>
Professional and contract fees	85,238	127,398	212,636	165,613	146,635	312,248	524,884
Supplies	4,402	11,603	16,005	8,227	6,190	14,417	30,422
Telephone	12,938	13,853	26,791	18,219	21,694	39,913	66,704
Postage and shipping	3,679	2,115	5,794	5,861	8,049	13,910	19,704
Occupancy	48,099	25,962	74,061	34,007	49,286	83,293	157,354
Maintenance and equipment rental	36,633	7,878	44,511	-	91,191	91,191	135,702
Printing and promotional	246,055	38,968	285,023	7,106	172,870	179,976	464,999
Travel	41,073	15,162	56,235	20,445	12,165	32,610	88,845
Events and meetings	34,952	5,963	40,915	20,083	180,920	201,003	241,918
Dues and memberships	79,170	100	79,270	60,099	73,664	133,763	213,033
Miscellaneous	49	-	49	576	489	1,065	1,114
Total other operating expenses	<u>592,288</u>	<u>249,002</u>	<u>841,290</u>	<u>340,236</u>	<u>763,153</u>	<u>1,103,389</u>	<u>1,944,679</u>
Depreciation of property and equipment	<u>17,681</u>	<u>3,881</u>	<u>21,562</u>	<u>11,463</u>	<u>16,557</u>	<u>28,020</u>	<u>49,582</u>
Total operating expenses	<u>1,841,862</u>	<u>881,058</u>	<u>2,722,920</u>	<u>1,235,117</u>	<u>2,073,933</u>	<u>3,309,050</u>	<u>6,031,970</u>
Program grants to direct service providers	<u>-</u>	<u>3,454,283</u>	<u>3,454,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,454,283</u>
	<u>\$ 1,841,862</u>	<u>\$ 4,335,341</u>	<u>6,177,203</u>	<u>\$ 1,235,117</u>	<u>\$ 2,073,933</u>	<u>\$ 3,309,050</u>	<u>9,486,253</u>
Net program investments (shown separately on the statement of activities)			<u>7,494,008</u>				<u>7,494,008</u>
			<u>\$ 13,671,211</u>				<u>\$ 16,980,261</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,359,429	\$ (178,058)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	37,736	49,582
Realized gain on sale of investments	(1,249,148)	(215,250)
Unrealized gain on investments	(1,181,510)	(613,078)
(Increase) decrease in assets:		
Pledges receivable	46,818	864,437
Grants receivable	(532,235)	(213,968)
Prepaid and other	194,594	(90,200)
Cash surrender value of donor life insurance policies	(22,156)	(23,769)
Increase (decrease) in liabilities:		
Designations, allocations and grant payments due to subrecipients	111,728	(191,289)
Accounts payable, accrued expenses and other	62,948	(63,893)
Net pension liability	(243,088)	415,258
TOTAL ADJUSTMENTS	<u>(2,774,313)</u>	<u>(82,170)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>585,116</u>	<u>(260,228)</u>
INVESTING ACTIVITIES		
Purchase of investments	(4,128,102)	(1,959,206)
Proceeds from sale of investments	4,597,159	2,146,086
Proceeds from donor life insurance policy	-	43,060
Purchase of property and equipment	(51,860)	(8,057)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>417,197</u>	<u>221,883</u>
NET INCREASE (DECREASE) IN CASH	1,002,313	(38,345)
CASH - BEGINNING OF YEAR	<u>3,441,475</u>	<u>3,479,820</u>
CASH - END OF YEAR	<u>\$ 4,443,788</u>	<u>\$ 3,441,475</u>

See accompanying notes to financial statements.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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

Basis of Presentation

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

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

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

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions, Pledges Receivable, Grants, Campaign Expenses and Program Investments

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

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

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

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

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

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

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with banks with maturities of three months or less.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Property and Equipment

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

Program and Supporting Services

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

Program Services:

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

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

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

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

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

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Supporting Services:

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

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

Allocation of Functional Expenses

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

Fair Value Measurements

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

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

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

Investments - Fair values for investments (level 1) are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for investments in U.S. Treasury securities, debt obligations and mortgage-backed securities are based primarily on other observable values, such as interest rates and yield curves.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Alternative Investments - A portion of the Organization's portfolio of investments (level 3) consists of private securities (limited partnership and hedge fund) which are in inactively traded markets. These securities are reported at the net asset value (or its equivalent) of the Organization's share in the fund as calculated in the fund's audited financial statements, which approximates fair value. Non-traditional and alternative investment value reflects the most current data provided as of December 31, 2017 and 2016, respectively.

Employee Retirement Plan Investments - Assets valued at the purchase or redemption price of the units of participation, based on the formula in the contract. The quoted market prices of the underlying securities comprising such accounts are first determined and then adjusted to apply the expense factor disclosed in the annuity contract. The unit value is determined by dividing the net assets by the number of units outstanding.

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

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

Service Fees

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

Printing and Promotional

Advertising costs are expensed as incurred. Included in printing and promotional expense is an allocated value of donated media of \$149,358 in 2017 and \$159,292 in 2016, respectively. This donated media is the result of relationships maintained by United Way Worldwide ("UWW") with the National Football League and Ad Council who promote the work of United Way and its volunteers in local communities.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 value volunteer time has been recorded in the financial statements. 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.

Income Taxes

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

The Organization files a U.S. Federal Form 990 for organizations exempt from income tax and a U.S. Federal Form 990-T for organizations exempt from income tax with unrelated business income. Income tax expense relates to operations that result in unrelated business income. In addition, the Organization files an income tax return in the State of Tennessee.

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

Use of Estimates

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

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact of the adoption of this guidance will have on its financial statements.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year’s presentation. The effects of such reclassifications have no effect on the change in net assets previously reported.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between December 31, 2017 and June 7, 2018, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CONCENTRATION OF CREDIT RISK

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

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

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 3 - FAIR VALUE MEASUREMENTS

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

	2017			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Short-term investments	\$ 182,940	\$ -	\$ -	\$ 182,940
Equity securities:				
Large Cap funds	7,313,469	-	-	7,313,469
Mid Cap funds	809,338	-	-	809,338
Small Cap funds	742,737	-	-	742,737
International funds	3,241,956	-	-	3,241,956
Fixed income mutual funds	3,397,913	-	-	3,397,913
Alternative investments	-	-	960,168	960,168
Total investments at fair value	<u>\$ 15,688,353</u>	<u>\$ -</u>	<u>\$ 960,168</u>	<u>\$ 16,648,521</u>
	2016			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Short-term investments	\$ 147,355	\$ -	\$ -	\$ 147,355
Equity securities:				
Large Cap funds	7,414,675	-	-	7,414,675
Mid Cap funds	736,838	-	-	736,838
Small Cap funds	664,548	-	-	664,548
International funds	2,321,030	-	-	2,321,030
Fixed income mutual funds	2,476,792	-	-	2,476,792
Alternative investments	-	-	925,682	925,682
Total investments at fair value	<u>\$ 13,761,238</u>	<u>\$ -</u>	<u>\$ 925,682</u>	<u>\$ 14,686,920</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth a summary of changes in fair value of the Organization's Level 3 alternative investments for the year ended December 31, 2017:

Balance, beginning of year	\$ 925,682
Unrealized gain on investments	<u>34,486</u>
Balance, end of year	<u>\$ 960,168</u>

Fair value of level 3 investments in certain entities that calculate net asset value per share (or its equivalent):

Investment	Fair Value at December 31, 2017	Fair Value at December 31, 2016	Unfunded Commitment at December 31, 2017	Redemption Frequency	Redemption Notice Period
Pine Grove Alternative Institutional Fund	\$ 477,858	\$ 464,145	\$ -	Quarterly	95 days
Voyager Partners Offshore LTD	\$ 482,310	\$ 461,537	\$ -	Quarterly	95 days

The unobservable inputs of the underlying securities in the funds include appraisals based on the closing value, the mean between bid and ask, or a matrix on interest rates for similar securities.

The investment objectives of the limited partnerships and hedge funds are as follows:

The Pine Grove Alternative Institutional Fund seeks long-term capital appreciation. The Fund seeks to achieve its investment objective by generating attractive long-term risk-adjusted returns as compared to those offered by traditional public equity and fixed income markets. The Fund seeks to accomplish its objective by investing substantially all its assets in investment funds, often referred to as hedge funds managed by unaffiliated third-party investment managers that specialize in a variety of investment strategies and types of investments.

The Voyager Partners Offshore LTD engages in investment activities through its investment in Voyager Partners, L.P. The investment allocates its assets among multiple professional managers for the purpose of achieving capital appreciation. The professional managers are accessed through private investment companies and other investment entities that invest and trade in a variety of securities and other financial instruments.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 4 - INVESTMENTS

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

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 182,940	\$ 182,940	\$ 147,355	\$ 147,355
Equity securities	12,107,500	8,342,298	11,137,091	8,461,977
Fixed income mutual funds	3,397,913	3,342,734	2,476,792	2,521,258
Alternative investments	960,168	1,000,000	925,682	1,000,000
	<u>\$ 16,648,521</u>	<u>\$ 12,867,972</u>	<u>\$ 14,686,920</u>	<u>\$ 12,130,590</u>

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

	2017	2016
Return on investments:		
Interest and dividend income	\$ 287,199	\$ 256,057
Investment fees	(59,795)	(54,850)
Gain on investments:		
Realized gain on sale of investments	1,249,148	215,250
Increase (decrease) in accumulated unrealized gain on investments	1,181,510	613,078
Total return on investments	<u>\$ 2,658,062</u>	<u>\$ 1,029,535</u>

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

	2017	2016
Non-endowment investment income	\$ 1,075,331	\$ 403,864
Endowment spending rate	475,000	460,000
Endowment gain, net of endowment spending rate	1,107,731	165,671
Total return on investments	<u>\$ 2,658,062</u>	<u>\$ 1,029,535</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Current year campaign	\$ 9,407,095	\$ 9,166,852
Prior years' campaigns	<u>2,186,358</u>	<u>3,046,685</u>
	<u>11,593,453</u>	<u>12,213,537</u>
Less allowance for uncollectible pledges:		
Current year campaign	773,855	911,991
Prior years' campaigns	<u>1,242,601</u>	<u>1,677,731</u>
	<u>2,016,456</u>	<u>2,589,722</u>
Total pledges receivable	<u>\$ 9,576,997</u>	<u>\$ 9,623,815</u>

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

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Land	\$ 272,715	\$ 272,715
Building and improvements	1,670,661	1,670,661
Furniture and equipment	<u>1,331,232</u>	<u>1,279,372</u>
	3,274,608	3,222,748
Less accumulated depreciation	<u>2,895,477</u>	<u>2,857,741</u>
Total property and equipment, net	<u>\$ 379,131</u>	<u>\$ 365,007</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 7 - EMPLOYEE RETIREMENT PLANS

The Organization sponsors a Section 403(b) retirement plan. The plan requires the Organization to match 50% of an employee's deferral amount up to a maximum of 3% of each eligible employee's annual compensation. Employees are eligible to participate in the plan starting the first day of the month following employment. Participants' employer match accounts become vested incrementally over three years of service. Effective January 1, 2012, the Organization amended this plan to also allow for discretionary contributions. Total employer contributions to this plan were \$72,507 in 2017 (\$72,497 in 2016).

The Organization had a defined benefit pension plan ("Plan") covering substantially all salaried employees who had completed one year of service and were at least 21 years of age. During 2011, the Plan adopted an amendment that froze the Plan effective December 31, 2011, thus no additional benefits will accrue under the Plan. No employee is eligible to become a participant in the Plan on or after December 31, 2011 and all participants in the Plan became fully vested as of December 31, 2011. There are no estimated contributions to be made to the Plan in 2017.

The following tables present the Plan's funded status and the accumulated benefit obligation as of and for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Benefit obligation	\$ (2,507,263)	\$ (2,367,766)
Fair value of plan assets	<u>2,502,436</u>	<u>2,119,851</u>
Net pension liability - end of year	<u>\$ (4,827)</u>	<u>\$ (247,915)</u>

The entire balance of the net pension liability is included on the statement of financial position.

Amounts recognized as non-operating items in the statement of activities consisted of the following for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Loss recognized due to settlement	\$ -	\$ 688,898
Net (gain) loss previously not recognized in unrestricted net assets and in periodic pension cost	<u>19,834</u>	<u>(236,633)</u>
Total employee retirement plan loss	<u>\$ 19,834</u>	<u>\$ 452,265</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

The following tables present the Plan's change in benefit obligations, changes in plan assets and funded status recognized in the accompanying financial statements as of and for the years ended December 31:

	2017	2016
Benefit obligation - beginning of year	\$ 2,367,766	\$ 3,716,964
Service cost	8,580	11,085
Interest cost	87,905	139,594
Change in assumptions	101,663	51,961
Actuarial loss	5,793	415,803
Benefits paid (including expense charges)	(64,444)	(1,967,641)
Benefit obligation - end of year	\$ 2,507,263	\$ 2,367,766
Fair value of plan assets - beginning of year	\$ 2,119,851	\$ 3,884,307
Actual return on plan assets	182,905	203,185
Employer contributions	264,124	-
Benefits paid (including expense charges)	(64,444)	(1,967,641)
Fair value of plan assets - end of year	\$ 2,502,436	\$ 2,119,851

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31:

	2017			
	Level 1	Level 2	Level 3	Total
Conservative Allocation Fund	\$ -	\$ 2,502,436	\$ -	\$ -
	2016			
	Level 1	Level 2	Level 3	Total
Conservative Allocation Fund	\$ -	\$ 2,119,851	\$ -	\$ -

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

Fair value of investments in certain entities that calculate net asset value per share (or its equivalent):

Investment	Fair Value at December 31, 2017	Fair Value at December 31, 2016	Unfunded Commitment	Redemption Frequency*	Redemption Notice Period*
Conservative Allocation Fund	\$ 2,502,436	\$ 2,119,851	\$ -	Immediate	30 days

*Information noted in these columns is the same for each investment type for 2017 and 2016.

Significant investment strategies for the Conservative Allocation Fund include investment choices that seek the realization of current income to the extent consistent with the maintenance of liquidity, investment quality and stability of capital through investment in money market instruments and other short-term securities. Over the long term, the Organization's plan investment policy has a target allocation percentage of 35% equity and 65% fixed income. At December 31, 2017, the plan assets by category were 29% bond fund, 34% mid-term bond fund, 27% equity index fund, 5% mid-cap equity index fund, and 5% international fund.

The following table summarizes the pension benefits expected to be paid over the next ten fiscal years ending:

Ending December 31,

2018	\$ 439,000
2019	191,000
2020	18,000
2021	201,000
2022	94,000
2023-2027	<u>722,000</u>
	<u>\$ 1,665,000</u>

The following table summarizes the Company's net periodic pension costs for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 8,580	\$ 11,085
Interest cost	87,905	139,594
Expected return on plan assets	(133,182)	(232,725)
Actuarial losses recognized	<u>37,899</u>	<u>45,039</u>
Total recognized in net periodic pension cost	<u>\$ 1,202</u>	<u>\$ (37,007)</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 7 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

The estimated effect on net assets for items not yet reflected in net periodic benefit costs are as follows:

	<u>January 1, 2018</u>	<u>Estimated Amounts to be Reclassified as Net Periodic Benefit Cost</u>
Transition obligation	\$ -	\$ -
Prior service cost	-	-
Net loss	<u>853,518</u>	<u>41,174</u>
	<u>\$ 853,518</u>	<u>\$ 41,174</u>

The following weighted average assumptions were used to determine the net periodic benefit costs as of December 31:

	<u>2017</u>	<u>2016</u>
Discount rate	3.75%	3.75%
Expected return on plan assets	6.00%	6.00%
Rate of compensation increase	0.00%	0.00%

Assumptions used to determine pre-retirement discount rate as of December 31:

	<u>2017</u>	<u>2016</u>
Discount rate	3.30%	3.75%

The expected long-term rate of return on plan assets assumption of 6.0% (6.0% as of December 31, 2016) 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 the inflation based on the Organization’s historic 30-year period rolling averages. The rate is reviewed annually and adjusted as appropriate to reflect changes in the expected long-term market performance or in the targeted asset allocation ranges.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS

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

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

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

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

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

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

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

Asset allocations are targeted at 80% equities, 15% fixed income and 5% alternative investments. Limits are in place as to the amount of stock that is invested in a single company to reduce the potential impact of losses on individual investments. Investment allocations are spread between cash equivalents, fixed income portfolios, equities and alternative investments.

Permanently restricted net assets at December 31, 2017 and 2016 consist entirely of endowment funds. Income from such endowment funds is temporarily restricted until the funds have been appropriated for expenditure.

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 8 - ENDOWMENT FUNDS (CONTINUED)

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

	2017			
	Board	Donor Designated		Total
	Designated Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, January 1	\$ 1,409,968	\$ 976,547	\$ 7,600,605	
Contributions	323	-	-	323
Investment income	27,930	168,260	-	196,190
Investment fees	(5,783)	(35,464)	-	(41,247)
Net appreciation (realized and unrealized)	238,837	1,449,936	-	1,688,773
Amounts appropriated for expenditure	-	(475,000)	-	(475,000)
Endowment net assets, December 31	<u>\$ 1,671,275</u>	<u>\$ 2,084,279</u>	<u>\$ 7,600,605</u>	<u>\$ 11,356,159</u>
	2016			
	Board	Donor Designated		
	Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1	\$ 1,259,386	\$ 810,876	\$ 7,600,605	\$ 9,670,867
Contributions	55,178	-	-	55,178
Investment income	23,300	152,815	-	176,115
Investment fees	(4,953)	(31,977)	-	(36,930)
Net appreciation (realized and unrealized)	77,057	504,833	-	581,890
Amounts appropriated for expenditure	-	(460,000)	-	(460,000)
Endowment net assets, December 31	<u>\$ 1,409,968</u>	<u>\$ 976,547</u>	<u>\$ 7,600,605</u>	<u>\$ 9,987,120</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 9 - NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Contributions to support the Restore the Dream fund	\$ 275,528	\$ 232,732
Contributions to support the Read to Succeed program	-	155,613
Contributions to support allocations and operations of future periods	10,045,337	9,102,548
Imagination library	126,347	61,301
Deferred revenue for future campaigns, net of designations	39,091	67,066
Net unappropriated gains on permanently restricted endowment since inception	<u>2,084,278</u>	<u>976,547</u>
Total temporarily restricted net assets	<u>\$ 12,570,581</u>	<u>\$ 10,595,807</u>

Permanently restricted net assets at December 31, 2017 and 2016 consist entirely of endowment funds. Income from such endowment funds is temporarily restricted until the funds have been appropriated for expenditure.

NOTE 10 - OPERATING LEASES

The Organization is obligated on noncancelable operating leases for various office equipment that expire at various dates through December 2019. Total rental expense in the amount of \$51,040 was incurred for the year ended December 31, 2017 (\$55,831 for the year ended December 31, 2016).

Future minimum lease payments required under all noncancelable leases as of December 31, 2017 are:

Year Ending December 31,

2018	\$ 50,585
2019	<u>37,073</u>
	<u>\$ 87,658</u>

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 11 - SUPPORTING SERVICES

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

United Way Worldwide has 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 total revenues. The principal differences between total revenues reported per the financial statements and the Form 990 is the inclusion of donor designations, endowments gains, employee retirement plan losses and unrealized gains on investments. Form 990 allows for reporting the total campaign results as revenue. The table below details the overhead rate calculation and also reconciles revenue per Form 990 to the financial statements for the year ended December 31, 2017:

	<u>Statement of Activities</u>
Total support and revenue	\$ 22,654,473
Plus:	
Donor designations	3,811,348
Unrealized gain on investments, net	(1,181,510)
Less:	
Donated services	(142,358)
Employee retirement plan loss	(19,834)
Endowment losses, exclusive of spending rate	<u>1,107,731</u>
Adjusted total revenue per Form 990	<u>\$ 26,229,850</u>
Total supporting services costs	\$ 3,214,399
Percent of adjusted total revenue	12.25%

OTHER INFORMATION

UNITED WAY OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2017

FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	(ACCRUED)	1/1/17 - 12/31/17		(ACCRUED)	PASSED THROUGH TO SUBRECIPIENTS
			DEFERRED REVENUE 1/1/2017	RECEIPTS	EXPENDITURES	DEFERRED REVENUE 12/31/2017	
<u>U.S. Department of Agriculture</u>							
Passed Through Tennessee Department of Human Services:							
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	43651	10/01/16-9/30/17	\$ (28,716)	\$ 107,513	\$ 78,797	\$ - \$ 73,010
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	43651	11/1/17-9/30/18	-	10,000	29,338	(19,338) 18,371
Total CFDA 10.651				(28,716)	117,513	108,135	(19,338) 91,381
<u>U.S. Department of Treasury</u>							
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009	17VITA0283	8/1/16-7/31/17	(33,774)	184,274	150,500	- 49,214
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009	17VITA0283	8/1/17-7/31/18	-	-	55,356	(55,356) 508
Total CFDA 21.009				(33,774)	184,274	205,856	(55,356) 49,722
<u>U.S. Department of Health and Human Services</u>							
Passed Through Tennessee Department of Health:							
HIV Care Formula Grants	93.917	* GR-15-44842-00	4/1/16-3/31/17	(580,001)	1,965,159	1,385,158	- 1,269,552
HIV Care Formula Grants	93.917	* GR-17-52405-02	1/1/17-12/31/17	-	3,164,370	4,130,754	(966,384) 3,583,804
Total CFDA 93.917				(580,001)	5,129,529	5,515,912	(966,384) 4,853,356
HIV Prevention Activities-Health Department Based HIV Prevention Grant	93.940	GR-13-34333-00	1/1/16-12/31/16	(89,349)	89,349	-	- -
HIV Prevention Activities-Health Department Based HIV Prevention Grant	93.940	GR-17-52405-02	1/1/17-12/31/17	-	570,553	718,473	(147,920) 647,084
Total CFDA 93.940				(89,349)	659,902	718,473	(147,920) 647,084
2Gen for TN Grant	93.558	02-16-17GR	5/15/17-6/30/19	-	93,380	199,853	(106,473) 70,217
Total CFDA 93.558				-	93,380	199,853	(106,473) 70,217
Total Passed Through Tennessee Department of Health				(669,350)	5,882,811	6,434,238	(1,220,777) 5,570,657
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ (731,840)	\$ 6,184,598	\$ 6,748,229	\$ (1,295,471) \$ 5,711,760

*Considered a major program under Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards .

UNITED WAY OF MIDDLE TENNESSEE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity, respectively, of the Organization and is presented on the accrual basis of accounting. The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The organization has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

OTHER REPORTS

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

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

We have audited, 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, the financial statements of the United Way of Middle Tennessee, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated June 7, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Kraft CPA, PLLC

Nashville, Tennessee
June 7, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited United Way of Middle Tennessee, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with federal statutes, regulations, contracts and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, United Way of Middle Tennessee, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Kraft CPA, PLLC

Nashville, Tennessee
June 7, 2018

UNITED WAY OF MIDDLE TENNESSEE, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Financial Statement Findings:

Finding Number	Finding Title	Status
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There were no prior year findings reported.

Federal Award Findings and Questioned Costs:

Finding Number	Finding Title	Status
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There were no prior year findings reported.