

**UNITED WAY OF GREATER  
CHATTANOOGA**

**Chattanooga, Tennessee**

**FINANCIAL STATEMENTS**

**December 31, 2010 and 2009**

**JOHNSON, HICKEY & MURCHISON, P.C.**  
Certified Public Accountants  
Chattanooga, Tennessee

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

United Way of Greater Chattanooga:

We have audited the accompanying statements of financial position of United Way of Greater Chattanooga (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities, changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Way of Greater Chattanooga, as of December 31, 2010 and 2009, 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.

*Johnson, Hickey & Murchison, P.C.*

June 28, 2011

**UNITED WAY OF GREATER CHATTANOOGA**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2010 AND 2009**

	2010	2009
<b><u>ASSETS</u></b>		
Cash and cash equivalents:		
Operating	\$ 1,990,860	\$ 1,857,801
Securities purchased under agreement to resell	842,000	801,000
Accounts receivable	104,710	51,020
Prepaid expenses	1,954	31,364
Contributions receivable	6,679,398	7,023,785
Cash surrender value of life insurance	394,465	352,756
Land, building, and equipment	3,043,902	3,165,364
Fund functioning as endowment	19,979,720	19,675,455
	\$ 33,037,009	\$ 32,958,545
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 142,974	\$ 249,752
Allocations payable	5,657,055	5,711,641
Direct designations	1,413,383	1,765,532
Designations to other United Ways	97,885	51,860
Contingencies	39,546	72,345
Accrued employee benefits	561,588	526,854
Funds held for services	26,566	22,927
	7,938,997	8,400,911
<b>NET ASSETS:</b>		
Unrestricted net assets	15,401,370	15,585,322
Temporarily restricted net assets	8,081,036	7,360,382
Permanently restricted net assets	1,615,604	1,611,930
	25,098,010	24,557,634
	\$ 33,037,007	\$ 32,958,545

(The accompanying notes are an integral part of these statements.)

**UNITED WAY OF GREATER CHATTANOOGA**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010 AND 2009**

	2010		
	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>RESOURCES GENERATED:</b>			
Total resources	\$ -	\$ 11,950,731	\$ -
Donor-designated contributions	-	(1,123,581)	-
Grants awarded	-	(818,013)	-
Provision for uncollectible contributions	-	(548,592)	-
Generated income	-	(622,415)	-
Investment return designated for next period's operation	-	(1,250,000)	-
	-	7,588,130	-
Net resources	-	7,588,130	-
Investment return designated for current operations	1,250,000	-	-
Investment return in excess (deficient) of amounts designated for current operations	587,561	-	-
Other interest income	8,552	-	-
Combined Federal Campaign administrative fee	158,661	-	-
Endowment contributions - lasting impact	-	-	3,674
Contributions - planned giving fund	-	27,250	-
Grant revenue earned	178,850	-	-
Other income	381,453	-	-
Net assets released from restrictions:			
Prior-year campaign contributions	6,894,726	(6,894,726)	-
Provision for uncollectible contributions	115,393	-	-
	9,575,196	720,654	3,674
Total resources generated	9,575,196	720,654	3,674
<b>ALLOCATION AND EXPENSES:</b>			
Allocations to member agencies	5,582,008	-	-
United Way of America dues	101,518	-	-
	5,683,526	-	-
Program services:			
Center For Non-Profits	232,889	-	-
Invest in Children	1,131,234	-	-
Building stable lives	656,877	-	-
Other direct services	268,855	-	-
Supporting services:			
Fund raising	991,453	-	-
Management and general	794,314	-	-
	4,075,622	-	-
Total allocation and expenses	9,759,148	-	-
Increase (decrease) in net assets	\$ (183,952)	\$ 720,654	\$ 3,674

(The accompanying notes are an integral part of these statements.)

2009

<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 11,950,731	\$ -	\$ 11,635,723	\$ -	\$ 11,635,723
(1,123,581)	-	(1,675,249)	-	(1,675,249)
(818,013)	-	(494,507)	-	(494,507)
(548,592)	-	(683,898)	-	(683,898)
(622,415)	-	(637,343)	-	(637,343)
<u>(1,250,000)</u>	<u>-</u>	<u>(1,250,000)</u>	<u>-</u>	<u>(1,250,000)</u>
7,588,130	-	6,894,726	-	6,894,726
1,250,000	1,350,000	-	-	1,350,000
587,561	1,434,960	-	-	1,434,960
8,552	16,937	-	-	16,937
158,661	156,182	-	-	156,182
3,674	-	-	4,387	4,387
27,250	-	66,877	-	66,877
178,850	45,473	-	-	45,473
381,453	366,341	-	-	366,341
-	7,897,501	(7,897,501)	-	-
<u>115,393</u>	<u>(320,134)</u>	<u>-</u>	<u>-</u>	<u>(320,134)</u>
<u>10,299,524</u>	<u>10,947,260</u>	<u>(935,898)</u>	<u>4,387</u>	<u>10,015,749</u>
5,582,008	5,780,353	-	-	5,780,353
<u>101,518</u>	<u>103,394</u>	<u>-</u>	<u>-</u>	<u>103,394</u>
<u>5,683,526</u>	<u>5,883,747</u>	<u>-</u>	<u>-</u>	<u>5,883,747</u>
232,889	257,740	-	-	257,740
1,131,234	1,028,919	-	-	1,028,919
656,877	841,349	-	-	841,349
268,855	230,342	-	-	230,342
991,453	935,183	-	-	935,183
<u>794,314</u>	<u>731,398</u>	<u>-</u>	<u>-</u>	<u>731,398</u>
<u>4,075,622</u>	<u>4,024,931</u>	<u>-</u>	<u>-</u>	<u>4,024,931</u>
<u>9,759,148</u>	<u>9,908,678</u>	<u>-</u>	<u>-</u>	<u>9,908,678</u>
<u>\$ 540,376</u>	<u>\$ 1,038,582</u>	<u>\$ (935,898)</u>	<u>\$ 4,387</u>	<u>\$ 107,071</u>

(The accompanying notes are an integral part of these statements.)

**UNITED WAY OF GREATER CHATTANOOGA  
STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2008	\$ 14,546,740	\$ 8,296,280	\$ 1,607,543	\$ 24,450,563
Increase (decrease) in net assets	<u>1,038,582</u>	<u>(935,898)</u>	<u>4,387</u>	<u>107,071</u>
December 31, 2009	15,585,322	7,360,382	1,611,930	24,557,634
Increase (decrease) in net assets	<u>(183,952)</u>	<u>720,654</u>	<u>3,674</u>	<u>540,376</u>
December 31, 2010	<u>\$ 15,401,370</u>	<u>\$ 8,081,036</u>	<u>\$ 1,615,604</u>	<u>\$ 25,098,010</u>

(The accompanying notes are an integral part of these statements.)

**UNITED WAY OF GREATER CHATTANOOGA**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 540,376	\$ 107,071
Adjustments to reconcile increase in net assets to net cash used by operating activities -		
Depreciation	131,929	135,864
Provision for uncollectible contributions	43,595	54,509
Net realized and unrealized gains on investments	(1,627,138)	(2,670,643)
Net (increase) decrease in operating assets -		
Accounts receivable	(53,690)	153,198
Prepaid expenses	29,410	6,893
Contributions receivable	300,792	517,838
Net increase (decrease) in operating liabilities -		
Accounts payable	(106,779)	75,844
Allocations payable	(54,586)	(433,617)
Direct designations	(352,149)	348,062
Special allocations		(55,018)
Designations to other United Ways	46,025	6,457
Contingencies	(32,799)	10,316
Accrued employee benefits	34,734	-
Funds held for services	3,639	(4,957)
	<u>(1,096,641)</u>	<u>(1,748,183)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for equipment	(10,466)	(81,902)
Purchase of investments	(8,545,792)	(861,935)
Proceeds from sale of investments	9,868,665	1,772,793
Increase in cash surrender value of life insurance	(41,709)	(41,801)
	<u>1,270,698</u>	<u>787,155</u>

(The accompanying notes are an integral part of these statements.)

	<u>2010</u>	<u>2009</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	\$ 174,057	\$ (961,028)
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning	<u>2,658,801</u>	<u>3,619,829</u>
Ending	<u>\$ 2,832,858</u>	<u>\$ 2,658,801</u>

(The accompanying notes are an integral part of these statements.)

**UNITED WAY OF GREATER CHATTANOOGA  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Program Services</u>			
	<u>Center For Non-Profits</u>	<u>Invest In Children</u>	<u>Building Stable Lives</u>	<u>Other Direct Services</u>
<b>Direct costs -</b>				
Salaries	\$ 107,558	\$ 260,123	\$ 327,238	\$ 126,522
Employee benefits	22,328	53,127	97,019	39,498
Payroll taxes	8,289	20,199	25,033	8,782
Retiree benefits	-	-	-	2,202
Contract labor	-	8,850	-	2,260
Professional fees	19,905	208,284	34,884	14,752
Supplies	-	818	49	2,678
Telephone	-	617	2,590	4,398
Postage	-	-	597	3,379
Occupancy	-	-	174	6,487
Building maintenance	-	-	-	3,576
Rental and maintenance of equipment	23	2,076	-	3,208
Printing and publications	8,551	68,607	3,008	10,357
Travel and automobile	1,062	3,487	634	1,026
Parking	-	-	-	2,919
Conferences	14,375	25,609	3,295	1,582
Meetings	1,065	6,163	3,717	4,819
Membership dues and subscriptions	524	636	820	2,673
Parent/child services	-	388,287	50,663	-
Miscellaneous	-	965	401	12,275
	<u>183,680</u>	<u>1,047,848</u>	<u>550,122</u>	<u>253,393</u>
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,462</u>
	183,680	1,047,848	550,122	268,855
<b>Allocation of support service</b>	<u>49,209</u>	<u>83,386</u>	<u>106,755</u>	<u>-</u>
	<u>\$ 232,889</u>	<u>\$ 1,131,234</u>	<u>\$ 656,877</u>	<u>\$ 268,855</u>

(The accompanying notes are an integral part of these statements.)

Supporting Services

<u>Fund Raising</u>	<u>Management and General</u>	<u>Total</u>	<u>2009 Total</u>
\$ 466,575	\$ 486,438	\$ 1,774,454	\$ 1,744,615
145,656	151,857	509,485	444,060
32,386	33,764	128,453	122,555
8,120	8,466	18,788	17,294
8,333	8,688	28,131	18,417
54,400	56,716	388,941	402,747
9,875	10,296	23,716	19,250
16,220	16,911	40,736	38,815
12,462	12,992	29,430	33,671
23,921	24,939	55,521	63,022
13,189	13,751	30,516	27,943
			-
11,832	12,336	29,475	30,373
			-
38,194	39,820	168,537	95,499
3,782	3,943	13,934	12,597
10,764	11,223	24,906	24,786
5,833	6,082	56,776	32,896
17,770	18,526	52,060	51,924
			-
9,856	10,276	24,785	27,706
-	-	438,950	448,397
45,266	47,193	106,100	232,501
934,434	974,217	3,943,694	3,889,068
57,019	59,447	131,928	135,863
991,453	1,033,664	4,075,622	4,024,931
-	(239,350)	-	-
\$ 991,453	\$ 794,314	\$ 4,075,622	\$ 4,024,931

(The accompanying notes are an integral part of these statements.)

**UNITED WAY OF GREATER CHATTANOOGA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

Program Services

	<u>Center For Non-Profits</u>	<u>Invest In Children</u>	<u>Building Stable Lives</u>	<u>Other Direct Services</u>
<b>Direct costs -</b>				
Salaries	\$ 116,534	\$ 118,870	\$ 384,004	\$ 115,430
Employee benefits	19,379	15,390	113,759	30,647
Payroll taxes	8,963	9,120	28,083	7,922
Retiree benefits	-	-	-	1,793
Contract labor	-	-	-	1,910
Professional fees	31,356	251,842	7,035	11,668
Supplies	-	36	170	1,975
Telephone	-	809	1,528	3,783
Postage	-	5,835	962	2,787
Occupancy	-	-	11,104	5,384
Building maintenance	-	-	-	2,898
Rental and maintenance of equipment	89	-	-	3,140
Printing and publications	6,287	5,201	2,837	8,090
Travel and automobile	1,378	631	1,543	938
Parking	-	-	-	2,570
Conferences	5,798	2,903	7,193	2,075
Meetings	481	400	3,450	4,935
Membership dues and subscriptions	2,575	-	4,989	2,355
Parent/child services	-	448,397	-	-
Miscellaneous	-	20,423	147,539	5,953
	<u>192,840</u>	<u>879,857</u>	<u>714,196</u>	<u>216,253</u>
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,089</u>
	192,840	879,857	714,196	230,342
<b>Allocation of support services:</b>	<u>64,900</u>	<u>149,062</u>	<u>127,153</u>	<u>-</u>
	<u>\$ 257,740</u>	<u>\$ 1,028,919</u>	<u>\$ 841,349</u>	<u>\$ 230,342</u>

(The accompanying notes are an integral part of these statements.)

Supporting Services

<u>Fund Raising</u>	<u>Management and General</u>	<u>Total</u>
\$ 470,406	\$ 539,371	\$ 1,744,615
123,562	141,323	444,060
31,938	36,529	122,555
7,231	8,270	17,294
7,700	8,807	18,417
47,042	53,804	402,747
7,962	9,107	19,250
15,251	17,444	38,815
11,236	12,851	33,671
21,707	24,827	63,022
11,683	13,362	27,943
12,662	14,482	30,373
34,092	38,992	95,499
3,782	4,325	12,597
10,363	11,853	24,786
8,365	6,562	32,896
19,899	22,759	51,924
9,496	8,291	27,706
-	-	448,397
<u>24,002</u>	<u>34,584</u>	<u>232,501</u>
878,379	1,007,543	3,889,068
<u>56,804</u>	<u>64,970</u>	<u>135,863</u>
935,183	1,072,513	4,024,931
<u>-</u>	<u>(341,115)</u>	<u>-</u>
<u>\$ 935,183</u>	<u>\$ 731,398</u>	<u>\$ 4,024,931</u>

(The accompanying notes are an integral part of these statements.)

**UNITED WAY OF GREATER CHATTANOOGA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization -**

United Way of Greater Chattanooga, a non-profit organization, provides supporting services to member agencies in the Chattanooga, Tennessee area. The supporting services include conducting an annual federated fund-raising campaign, collecting contributions from donors, and distributing funds to member agencies. The Organization also provides information and referral services to individuals in need through its program service 211 Call Center. The Organization also promotes economic independence to lower income families who are financially unstable through their program called Building Stable Lives. Additionally, the Organization promotes literacy throughout its service area through its Invest in Children Program. The Organization is a not-for-profit corporation and has obtained approval for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

The Organization has unrelated business income under Section 511 of the Internal Revenue Code. This income arises from investment activities.

**Estimates -**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Basis of presentation -**

The financial statements of United Way of Greater Chattanooga have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. In accordance with current guidance, the Organization is reporting information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Contributions receivable -**

Contributions are recognized when the donor makes a promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily

**UNITED WAY OF GREATER CHATTANOOGA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**Contributions receivable** (continued) -

restricted net assets. When a donor restriction expires, that is when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction. United Way of Greater Chattanooga considers the pledges received under the current year community-wide campaign, including any actual cash payments, to be temporarily restricted for payment to participating agencies in the following year.

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on historical experience and management's analysis of specific promises made.

Because the majority of the contributors reside in and around Chattanooga, Tennessee, collection of these pledges is substantially dependent upon the economic stability of the Chattanooga area.

**Expense allocation** -

The costs of providing The Center for Non-Profits, the Invest in Children Program, Building Stable Lives and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among The Center for Non-Profits, Invest in Children and supporting services.

**Donated assets and services** -

Assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair market values at the date received. The value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

**Land, building, and equipment** -

Land, building, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective classes of assets. Additions and major renewals are capitalized while repairs, maintenance, and minor renewals are charged to operating expense as incurred.

**UNITED WAY OF GREATER CHATTANOOGA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**Cash and cash equivalents -**

For purposes of the statement of cash flows, the Organization considers cash and all highly-liquid debt instruments with an original maturity of three months or less to be cash equivalents, except for cash and investments held in the fund functioning as endowment.

**Fund functioning as endowment -**

The fund functioning as endowment represents investments designated by the Board of Directors to function as an endowment and are, at the discretion of the Board of Directors, available for transfer to operations. The investments consist of corporate bonds and notes, U.S. Government and agency bonds, common stocks, and other alternative investments. The investments are stated at fair value. Determination of market values is more fully described in Note 6.

**Recent accounting pronouncements -**

The Organization adopted the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on January 1, 2009. Under ASC 740-10-25, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of ASC 740-10-25 had no impact on the Organization's financial statements. The Organization does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of January 1, 2009, as a result of the adoption of ASC 740-10-25. For the year ended December 31, 2010, there were no interest or penalties recorded or included in its financial statements.

**(2) SECURITIES PURCHASED UNDER AGREEMENT TO RESELL:**

The Organization invests funds in U.S. Government or U.S. Government agency securities which are purchased under an agreement to resell (reverse repurchase agreement). The securities are purchased from a bank, but do not constitute deposits at the bank and are not insured by the Federal Deposit Insurance Corporation. The bank maintains possession of the securities but title passes to the Organization according to the terms of the agreement.

**UNITED WAY OF GREATER CHATTANOOGA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**(2) SECURITIES PURCHASED UNDER AGREEMENT TO RESELL (Continued):**

The bank repurchases the securities the business day immediately following the Organization's purchase date. Risk of market value deterioration is mitigated by the short-term nature of the transaction and the type of securities purchased. Amounts outstanding under the agreements were \$842,000 and \$801,000 at December 31, 2010 and 2009, respectively.

**(3) CONTRIBUTIONS RECEIVABLE:**

Contributions receivable at December 31, 2010 and 2009, consist of the following -

	<u>2010</u>	<u>2009</u>
Contributions receivable in less than one year	\$ 8,219,097	\$ 8,519,889
Allowance for uncollectible pledges	<u>(1,539,699)</u>	<u>(1,496,104)</u>
Contributions receivable, net	<u>\$ 6,679,398</u>	<u>\$ 7,023,785</u>

Contributions to be received after one year are recorded at the present value of estimated future cash flows using an appropriate discount rate.

**(4) LAND, BUILDING, AND EQUIPMENT:**

Land, building, and equipment at December 31, 2010 and 2009, consist of the following -

	<u>2010</u>	<u>2009</u>
Land	\$ 227,782	\$ 227,782
Building	2,799,347	2,799,347
Furniture, fixtures and equipment	694,878	684,412
Less accumulated depreciation	<u>678,105</u>	<u>546,177</u>
	<u>\$ 3,043,902</u>	<u>\$ 3,165,364</u>

**UNITED WAY OF GREATER CHATTANOOGA**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**(5) FUND FUNCTIONING AS ENDOWMENT:**

The fund functioning as endowment consists of investments that are held in agency accounts at Regions Bank, First Tennessee Bank, SunTrust Bank and several investment limited partnerships and money market accounts. The investments are carried at their fair market value.

A summary of investments held in these accounts at December 31, 2010 and 2009, is as follows -

	<u>2010</u>	<u>2009</u>
Short term investments	\$ 659,964	\$ 721,076
Corporate bonds and notes	905,076	717,584
U. S. Government and agency bonds	1,344,485	307,095
Common stocks	8,495,365	9,621,140
Alternative investments	8,574,830	7,122,940
Real estate investment trust	<u>-</u>	<u>1,185,620</u>
 Total	 <u>\$19,979,720</u>	 <u>\$19,675,455</u>

The net return on investments for the years ended December 31, 2010 and 2009, is summarized as follows -

	<u>2010</u>	<u>2009</u>
Net realized and unrealized gains on investments	\$ 1,627,138	\$ 2,670,643
Interest and dividends	268,678	181,317
Investment expenses and fees	<u>(58,255)</u>	<u>(67,000)</u>
 Total net return on investments	 1,837,561	 2,784,960
 Investment return designated for current operations	 <u>(1,250,000)</u>	 <u>(1,350,000)</u>
 Investment return in excess (deficient) of amounts designated for current operations	 <u>\$ 587,561</u>	 <u>\$ 1,434,960</u>

The average annual yield, exclusive of net capital gains, was 1.16% and 0.61% for the years ending December 31, 2010 and 2009, respectively. The total annual return for the same periods was 9.27% and 14.82%. Yields are computed using market values.

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**(6) FAIR VALUE OF INVESTMENTS:**

The Organization has adopted recent professional guidance on *Fair Value Measurements*. Referred to as ASC 820-10 (SFAS 157) and subsections, this guidance clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

The framework established by ASC 820-10 for measuring fair value provides a three-tier hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets and for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows -

Level 1:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2:

Inputs to the valuation methodology include (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted market prices that are observable for the asset or liability; (4) inputs that are derived principally from corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The 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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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**(6) FAIR VALUE OF INVESTMENTS** (Continued):

Following is a description of the valuation methodologies used for assets at fair value -

Market approach - Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

Cost approach - Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

Income approach - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets itemized below were measured at fair value during the year ended December 31, 2010, using the market approach.

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

As required by fair value measurement guidelines, at December 31, 2010, the Organization's investment portfolio was classified as follows, based on fair values -

**Investments as of December 31, 2010 -**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments	\$ 659,964	\$ -	\$ -	\$ 659,964
Corporate bond & notes	905,076	-	-	905,076
Government notes	1,344,485	-	-	1,344,485
Common stocks	8,495,365	-	-	8,495,365
Alternative investments	-	-	8,574,830	8,574,830
Total	<u>\$11,404,890</u>	<u>\$ -</u>	<u>\$ 8,574,830</u>	<u>\$19,979,720</u>

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**(6) FAIR VALUE OF INVESTMENTS (Continued):**

Fair value measurements using  
significant unobservable outputs (Level 3)-

	<u>Alternative &amp; Real estate Investment Trust</u>
January 1, 2009	\$ 8,754,980
Total gains or losses (realized/unrealized) included in earnings	215,760
Purchases, issuance, and settlement	(662,180)
Redemptions of Level 3	<u>-</u>
December 31, 2009	8,308,560
Total gains or losses (realized/unrealized) included in earnings	(452,382)
Purchases, issuance, and settlement	(725,000)
Redemptions of Level 3	<u>1,443,652</u>
December 31, 2010	<u>\$ 8,574,830</u>

**Investments as of December 31, 2009 -**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-term investments	\$ 721,076	\$ -	\$ -	\$ 721,076
Corporate bond & notes	717,584	-	-	717,584
Government notes	307,095	-	-	307,095
Common stocks	9,621,140	-	-	9,621,140
Alternative investments	-	-	7,122,940	7,122,940
Real estate investment trust	<u>-</u>	<u>-</u>	<u>1,185,620</u>	<u>1,185,620</u>
Total	<u>\$11,366,895</u>	<u>\$ -</u>	<u>\$ 8,308,560</u>	<u>\$19,675,455</u>

The following table classifies the Organization's investments owned as of December 31, 2010, by industry sector concentration:

	<u>Percent of Investments</u>	<u>Fair Value</u>
Cash equivalents	3.0%	\$ 659,964
Corporate bonds and notes	4.5%	905,076
Government notes	7.0%	1,344,485

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**(6) FAIR VALUE OF INVESTMENTS (Continued):**

Common stocks	42.5%	\$ 8,495,365
Alternative investments	43.0%	<u>8,574,830</u>
 Total investments (cost \$16,559,507)	 <u>100.0%</u>	 <u>\$19,979,720</u>

**(7) ENDOWMENT:**

The Organization's endowment consists of approximately 11 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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**(7) ENDOWMENT** (Continued):

- (1) The duration and preservation of the fund.
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

**Endowment Net Assets Composition**

by type of fund as of December 31, 2010 -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,615,604	\$ 1,615,604
Board-designated Endowment funds	<u>18,364,116</u>	<u>-</u>	<u>-</u>	<u>18,364,116</u>
Total funds	<u>\$18,364,116</u>	<u>\$ -</u>	<u>\$ 1,615,604</u>	<u>\$19,979,720</u>

**Endowment Net Assets Composition**

by type of fund as of December 31, 2009 -

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,611,930	\$ 1,611,930
Board-designated Endowment funds	<u>18,063,525</u>	<u>-</u>	<u>-</u>	<u>18,063,525</u>
Total funds	<u>\$18,063,525</u>	<u>\$ -</u>	<u>\$ 1,611,930</u>	<u>\$19,675,455</u>

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**(7) ENDOWMENT (Continued):**

**Changes in Endowment Net Assets for  
the fiscal year ended December 31, 2010 -**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$18,063,525	\$ -	\$ 1,611,930	\$19,675,455
Investment return:				
Investment income	212,020	-	21,356	233,376
Gains (losses)	1,604,185	-	-	1,604,185
Total investment return	1,816,205	-	21,356	1,837,561
Appropriation of endowment Assets for expenditure (1,228,644)		-	(21,356)	(1,250,000)
Other changes:				
Additions (subtractions) To endowment funds	(286,970)	-	3,674	(283,296)
<b>Endowment net assets, end of year</b>	<b>\$18,364,116</b>	<b>\$ -</b>	<b>\$ 1,615,604</b>	<b>\$19,979,720</b>

**Changes in Endowment Net Assets for  
the fiscal year ended December 31, 2009 -**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, Beginning of year	\$16,308,127	\$ -	\$ 1,607,543	\$17,915,670
Investment return:				
Investment income	107,118	-	18,785	125,903
Gains (losses)	2,659,057	-	-	2,659,057
Total investment return	2,766,175	-	18,785	2,784,960
Appropriation of endowment Assets for expenditure (1,331,215)		-	(18,785)	(1,350,000)
Other changes:				
Additions to endowment funds	320,438	-	4,387	324,825
<b>Endowment net assets, end of year</b>	<b>\$18,063,525</b>	<b>\$ -</b>	<b>\$ 1,611,930</b>	<b>\$19,675,455</b>

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**(8) EMPLOYEE BENEFIT PLANS:**

Accrued employee benefits consist of the following -

	<u>2010</u>	<u>2009</u>
Post-retirement benefits liability	\$ 530,734	\$ 496,000
Sick leave liability	<u>30,854</u>	<u>30,854</u>
Total accrued employee benefits	<u>\$ 561,588</u>	<u>\$ 526,854</u>

**Defined contribution plan -**

The Organization maintains a defined contribution plan, which covers all employees who have met minimum service and age requirements. The Organization's contributions to the plan are discretionary but are anticipated to equal 8.00% of each participant's annual compensation. The Organization contributed \$116,848 and \$123,435 to the plan in 2010 and 2009, respectively.

**Other benefits -**

The Organization provides a health insurance supplement at retirement for employees who have completed at least ten years of service upon normal retirement age of 65. The estimated liability recognized in the statement of financial position for these benefits was \$530,734 and \$496,000 at December 31, 2010 and 2009, respectively. The liability is recorded at the present value of estimated future cash flows using a discount rate of 6.00%. The future cash flows for payment of insurance coverage are estimated based on current costs adjusted for annual inflation of 5.00%.

**(9) INFORMATION ABOUT NET ASSETS:**

At December 31, 2010 and 2009, temporarily restricted net assets are available for the following purposes or periods -

	<u>2010</u>	<u>2009</u>
Time restrictions:		
Campaign pledges received for next period	\$7,588,130	\$6,894,726
Campaign pledges received for planned giving fund	98,441	112,901
Purpose restrictions:		
Cash surrender value of life insurance	<u>394,465</u>	<u>352,755</u>
Temporarily restricted net assets	<u>\$8,081,036</u>	<u>\$7,360,382</u>

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**(9) INFORMATION ABOUT NET ASSETS** (Continued):

As of December 31, 2010, the board has designated \$173,322, \$15,140 and \$398,493 of unrestricted net assets to be used for The Center For Non-Profits, Building Stable Lives and the Invest in Children programs, respectively. The board has also designated \$363,056 of unrestricted net assets to be used for the administrative budget.

**(10) LEASE COMMITMENTS:**

United Way of Greater Chattanooga leases equipment under noncancelable operating lease agreements which expire at various dates through 2014. Rental expense under such lease agreements for the years ended December 31, 2010 and 2009, was \$4,162 and \$3,456, respectively.

Future minimum lease payments are as follows -

For the year ending December 31, 2011	\$ 3,418
2012	3,418
2013	3,418
2014	<u>2,564</u>
	<u>\$ 12,818</u>

**(11) CONCENTRATION OF CREDIT RISK:**

The Organization has deposits at various banks with balances that exceed federal insurance coverage. At December 31, 2010 and 2009, the uninsured balances amount to approximately \$1,002,500 and \$1,231,900, respectively.

**(12) SUBSEQUENT EVENTS:**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 28, 2011, the date which these statements were available for issue.

