

UNITED WAY OF ESSEX AND WEST HUDSON

Consolidated Financial Statements and Schedule

June 30, 2007

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
United Way of Essex and West Hudson:

We have audited the accompanying consolidated statement of financial position of United Way of Essex and West Hudson (the Organization) as of June 30, 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements, and in our report dated October 20, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Way of Essex and West Hudson as of June 30, 2007 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 5 to the consolidated financial statements, the Organization adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the schedule is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

November 27, 2007

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Notes to Consolidated Financial Statements

June 30, 2007

(with comparative financial information for June 30, 2006)

(1) Organization and Summary of Significant Accounting Policies

Organization

United Way of Essex and West Hudson (UWEWH) is a not-for-profit corporation whose purpose is to serve as the premier community builder in New Jersey by focusing on critical community problems and solutions that are measurable, attainable, and sustainable. UWEWH raises funds that are directed to other charitable organizations working in collaboration with UWEWH to attain its community impact goals, as well as to support its own programs and initiatives. UWEWH is an organization described under Section 501(c) (3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes under Section 501(a) of the Code.

Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared to focus on UWEWH as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by UWEWH. Generally, the donors of these assets permit UWEWH to use all or part of the income earned on related investments for general purposes.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that will be met by actions of UWEWH and/or by the passage of time.
- Unrestricted net assets – net assets not subject to any donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets is reported as net assets released from restrictions.

(b) Principles of Consolidation

The consolidated financial statements of UWEWH include the accounts of Aurora Foundation (the Foundation), which is controlled by UWEWH. Intercompany balances and transactions have been eliminated in consolidation.

(c) Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents except for those that are designated for long-term investment.

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(d) Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history and type of contribution. Contributions receivable of \$784,901 are scheduled to be collected during the year ended June 30, 2008.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment without such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Donors can choose to designate that their contributions be distributed to a specific organization or another United Way. Such contributions are referred to as donor choice. The collection of these contributions and distribution to specified agencies or United Ways are transactions in which UWEWH is acting as an agent. These transactions are not reported in the consolidated statement of activities as revenue and expense, but are included in campaign contributions in the consolidated statement of activities and then deducted as donor-designated campaign contributions before arriving at campaign contributions revenue.

(e) Beneficial Interest in Trust

Beneficial interests in trusts are arrangements whereby a donor establishes and funds a trust, and the assets are held in perpetuity with the income distributed annually to UWEWH. UWEWH recognizes the contribution and an asset as permanently restricted net assets in the period the trust is established at its present value, which equals the fair value of the underlying assets. The fair value is determined based upon quoted market prices. Adjustments to the asset to reflect changes in fair value are recognized as additional contributions to permanently restricted net assets.

(f) Allocations to Agencies

Allocations to agencies are recorded as expenses when they are approved by the board of directors and communicated to the respective agencies and are generally payable within one year.

(g) Funds Held for Others

UWEWH holds cash and cash equivalents as custodian for restricted designations.

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(h) *Donated Goods and Services*

Donated goods are reflected as unrestricted campaign contributions in the accompanying consolidated financial statements at their estimated fair value at the date of donation and as allocations to agencies upon distribution. Donated goods received, but not yet distributed as of June 30, 2007 and 2006, are included in prepaid expenses and other assets in the consolidated statement of financial position at their estimated fair value.

A substantial number of volunteers have donated their time to UWEWH's program services and its fund-raising and administrative functions. No amounts have been included in the accompanying consolidated financial statements for donated services since such services do not meet recognition criteria specified in Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*.

(i) *Functional Allocation of Expenses*

The costs of providing the program and support services of UWEWH have been summarized on a functional basis in the consolidated financial statements. Accordingly, certain costs have been allocated among the program and support services benefited. Program services include allocations to agencies, other allocations, community, fund distribution and information, and referral.

(j) *Prior Year Summarized Financial Information*

The consolidated financial statements are presented with certain summarized comparative 2006 information. In the consolidated statement of activities, such prior year information is not presented by net asset class and, in the consolidated statement of functional expenses, 2006 expenses by object are presented in total rather than by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with UWEWH's consolidated financial statements for the year ended June 30, 2006, from which the summarized information was derived.

(k) *Use of Estimates*

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

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(2) Investments

Investments include marketable securities that are valued at fair values obtained from investment managers based on quoted market prices. The cost and fair values of investments by investment type were as follows for the years ended June 30, 2007 and 2006:

	2007		2006	
	Cost	Fair value	Cost	Fair value
Marketable equity securities	\$ 3,865,418	4,688,862	3,959,632	4,331,315
Debt securities	3,668,769	4,001,307	4,154,238	4,287,258
	\$ 7,534,187	8,690,169	8,113,870	8,618,573

(3) Campaign Contributions

UWEWH is a participant in United Way of Tri-State, Inc. (Tri-State), which was formed to consolidate and coordinate fund-raising for the charitable activities of autonomous local United Ways in New Jersey, New York, and Connecticut.

In June 2005, United Way of Tri-State's Board entered into an agreement with United Way of America (UWA) to manage the day-to-day operations of United Way of Tri-State to achieve greater coordination, reduce costs, and focus on lasting community impact. As a result:

- UWA maintains a small regional office and works with local United Ways, donor companies, individual contributors, and other key stakeholders.
- Marketing, fund-raising, finance, and administrative activities in the region are now being coordinated among local United Ways and UWA with governance and fiduciary responsibility remaining with the volunteer Board of United Way of Tri-State.
- The Regional distribution formula continues to be used to ensure funds are equitably distributed to the 31 local United Ways throughout the tri-state region. This formula takes into account (1) relative health and human needs across the region, (2) where the funds are raised, and (3) the necessity of maintaining stability in agencies and programs that have been historically funded by United Way.
- The regional United Way campaign among major companies and their employees will continue under the auspice of United Way of Tri-State/United Way of American Regional Office in cooperation with local United Ways.

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The amounts presented as campaign contributions in the consolidated statement of activities that include UWEWH's portion of net Tri-State campaign revenue under the distribution formula described above, as well as donations restricted to the organization from Tri-state companies, were \$730,054 and \$879,728 for the years ended June 30, 2007 and 2006, respectively.

Campaign contributions consisted of the following for the years ended June 30, 2007 and 2006:

	2007	2006
Tri-State campaigns	\$ 730,054	879,728
Local campaigns	2,531,758	2,708,213
Donor-designated contributions	2,017,338	2,095,640
Donated goods	2,291,841	3,787,972
	\$ 7,570,991	9,471,553

(4) Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets, which range from 10 to 33 years for building and building improvements and 3 to 10 years for furniture and fixtures. Property and equipment consisted of the following as of June 30, 2007 and 2006:

	2007	2006
Land	\$ 217,805	217,805
Building and building improvements	1,822,302	1,762,603
Furniture and fixtures	1,242,341	1,192,989
	3,282,448	3,173,397
Less accumulated depreciation	(2,264,339)	(2,106,429)
	\$ 1,018,109	1,066,968

(5) Pension Benefits

UWEWH has a defined benefit pension plan covering all full-time permanent employees. The benefits are based on years of service and the average of the three highest years of the employee's compensation during the last ten years of employment. UWEWH's funding policy is to contribute annual amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as UWEWH may determine to be appropriate from time to time. UWEWH uses a June 30 measurement date.

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Effective June 30, 2007, UWEWH adopted the recognition and disclosure provisions of SFAS Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (Statement 158). Statement 158 requires organizations to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through a separate line within the change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic cost. The funded status reported on the statement of financial position as of June 30, 2007, under Statement 158 was measured as the difference between the fair value of plan assets and the benefit obligation.

The following table sets forth the plan's benefit obligation, fair value of plan assets, and funded status as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Benefit obligation	\$ 2,150,562	1,905,751
Fair value of plan assets	<u>2,236,493</u>	<u>1,777,578</u>
Funded status	<u>\$ 85,931</u>	<u>(128,173)</u>
Prepaid benefit cost recognized in the consolidated statement of financial position	\$ 85,931	64,830
Weighted average assumptions used to determine benefit obligations as of June 30, 2007 and 2006:		
Discount rate	6.00%	6.00%
Expected rate of return on plan assets	9.0	9.0
Rate of increase in compensation level	4.0	4.0
Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30, 2007 and 2006:		
Discount rate	6.00%	5.25%
Expected rate of return on plan assets	9.0	9.0
Rate of increase in compensation level	4.0	4.0

The effect of the adoption of Statement 158 was a decrease in unrestricted net assets in the consolidated statement of activities of \$148,256 for the year ended June 30, 2007 which represented the unrecognized net actuarial loss. The impact of the adoption on the consolidated statement of financial position was a \$148,256 decrease in prepaid expenses and other assets.

There will be no net actuarial loss amortized into net periodic benefit cost in 2008.

The expected long-term rate of return for the Plan's total assets is based on both the historical rate of return and the expected rate of return on UWEWH's asset classes, weighted based on target allocations for each class. The typical asset allocation consists of approximately 60% of the funds to be invested in equity securities and approximately 40% of the funds to be invested in fixed income securities.

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The pension plan's assets are managed under a total return investment philosophy. The portfolio managers strive to produce a total annual real rate of return at least 4% above inflation and to exceed the annualized total return of certain benchmark indices. The pension plan's weighted average asset allocations as of June 30, 2007 and 2006 by asset category are as follows:

Asset category:	2007		2006	
	<u>Target allocation</u>	<u>Percentage of plan assets</u>	<u>Target allocation</u>	<u>Percentage of plan assets</u>
Equity securities	55%-65%	61%	55%-65%	60%
Fixed income securities	35%-45%	39	35%-45%	39
Cash and cash equivalents	—	—	—	1
		<u>100%</u>		<u>100%</u>

The following table sets forth the plan's benefit cost, employer contributions, and benefits paid for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Benefit cost	\$ 44,961	90,786
Employer contributions	214,318	194,655
Benefits paid	51,375	16,569

UWEWH expects to contribute approximately \$126,800 to its pension plan in fiscal year 2008. The following pension benefit payments, which reflect expected future service as appropriate, are expected to be paid as follows:

	<u>Amount</u>
Year ending June 30:	
2008	\$ 33,100
2009	43,800
2010	44,700
2011	61,800
2012	63,400
2013-2016	400,200

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(6) Postretirement Benefits

UWEWH provides health insurance benefits to certain retired employees who have previously retired at age 60 or later. Costs of retiree health insurance benefits are recognized over the retired employees' period of service. The monthly benefit amount is capped for all retirees. The accrued postretirement benefit obligation was \$174,376 and \$179,605 as of June 30, 2007 and 2006, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position. The full disclosure of this postretirement benefit plan is not considered material to the consolidated financial statements as a whole. As discussed in note 5, UWEWH adopted the provisions of Statement 158 as of June 30, 2007.

(7) Net Assets Designated for Aurora Foundation

In November 1998, the board of directors of UWEWH approved the formation of Aurora Foundation (the Foundation) and the designation of a portion of UWEWH's net assets for the Foundation. The Foundation, which is controlled by UWEWH, performs fund-raising and administrative tasks for the Family Village program, a community-based initiative that targets the needs of children and their families and provides solutions. As of June 30, 2007 and 2006, net assets designated for the Foundation were \$3,622,178 and \$3,420,344, respectively.

(8) Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets of \$220,517 and \$280,216 as of June 30, 2007 and 2006, respectively, are restricted for construction and improvement of facilities.

Permanently restricted net assets of \$476,900 and \$471,945 as of June 30, 2007 and 2006, respectively, are to remain in perpetuity, the income from which is unrestricted.