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United Way of America and Subsidiaries

Consolidating financial statements
As of December 31, 2001 and 2000
Together with report of independent public accountants

Report of independent public accountants

To the Board of Governors of
United Way of America:

We have audited the accompanying consolidating statements of financial position of United Way of America (the National Association, a New York not-for-profit corporation) and its subsidiaries, Sales Service/America, Inc. (a Virginia corporation) and Charities Funds Transfer, Inc. (a Virginia not-for-profit corporation), as of December 31, 2001 and 2000, and the related consolidating statements of activities and cash flows for the years then ended. These consolidating financial statements and the schedule referred to below are the responsibility of the managements of United Way of America, Sales Service/America, Inc., and Charities Funds Transfer, Inc. Our responsibility is to express an opinion on these consolidating financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of United Way of America and its subsidiaries, Sales Service/America, Inc., and Charities Funds Transfer, Inc., as of December 31, 2001 and 2000, and the individual and consolidated changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses of United Way of America is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vienna, Virginia
February 15, 2002

United Way of America and Subsidiaries

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United Way of America and Subsidiaries

Consolidating statements of financial position
As of December 31, 2001 and 2000

In thousands

	2001					2000				
	United Way of America	**Sales Service/ America**	**Charities Funds Transfer**	**Consolidation eliminations**	**Consolidated**	**United Way of America**	**Sales Service/ America**	**Charities Funds Transfer**	**Consolidation eliminations**	**Consolidated**
Current assets:										
Cash and cash equivalents	$ 15,335	$ 1,833	$ 382	$ —	$ 17,550	$ 4,093	$ 2,704	$ 590	$ —	$ 7,387
Custodial funds	8,173	—	12,161	—	20,334	3,936	—	13,526		17,462
Short-term investments	—	—	—	—	—	152	—	—	—	152
Membership support receivable, net	2,352	—	—	—	2,352	4,126	—	—	—	4,126
Contributions receivable	11,633	—	—	—	11,633	11,053	—	—	—	11,053
Other receivables, net	773	297	25	(257)	838	3,118	380	86	(1,323)	2,261
Inventory	—	862	—	—	862	—	988	—	—	988
Prepaid expenses and other current assets	164	114	—	—	278	295	178	4	—	477
Total current assets	38,430	3,106	12,568	(257)	53,847	26,773	4,250	14,206	(1,323)	43,906
Noncurrent assets:										
Endowment and other long-term investments	—	—	—	—	—	3,618	—	—	—	3,618
Contributions receivable	10,236	—	—	—	10,236	19,722	—	—	—	19,722
Custodial assets	575	—	—	—	575	—	—	—	—	—
Land, building, equipment, and leasehold improvements, net	10,057	187	4	—	10,248	10,218	284	8	—	10,510
Deferred compensation	112	—	—	—	112	174	—	—	—	174
Investment in subsidiary	1,527	—	—	(1,527)	—	1,527	—	—	(1,527)	—
Prepaid pension	—	—	—	—	—	2,669	65	—	—	2,734
Other noncurrent assets	—	32	—	—	32	—	18	—	—	18
Total noncurrent assets	22,507	219	4	(1,527)	21,203	37,928	367	8	(1,527)	36,776
Total assets	$ 60,937	$ 3,325	$ 12,572	$ (1,784)	$ 75,050	$ 64,701	$ 4,617	$ 14,214	$ (2,850)	$ 80,682

The accompanying notes are an integral part of these consolidating statements.

United Way of America and Subsidiaries

Consolidating statements of financial position
As of December 31, 2001 and 2000
(Continued)

In thousands

	2001					2000				
	United Way of America	Sales Service/ America	Charities Funds Transfer	Consolidation eliminations	Consolidated	United Way of America	Sales Service/ America	Charities Funds Transfer	Consolidation eliminations	Consolidated
Current liabilities:										
Accounts payable and accrued liabilities	$ 1,324	$ 446	$ 135	$ (257)	$ 1,648	$ 2,779	$ 1,694	$ 20	$ (1,323)	$ 3,170
Custodial funds	8,173	—	12,161	—	20,334	3,936	—	13,526	—	17,462
Contributions payable	—	—	—	—	—	34	—	—	—	34
Postretirement benefits	199	—	—	—	199	188	—	—	—	188
Income taxes payable	—	65	—	—	65	—	—	—	—	—
Capital lease obligation	—	—	—	—	—	—	11	—	—	11
Deferred revenue–										
Membership support and other	115	—	—	—	115	62	—	—	—	62
Training programs, conference, and service fees	2,652	—	—	—	2,652	2,106	—	—	—	2,106
Total current liabilities	12,463	511	12,296	(257)	25,013	9,105	1,705	13,546	(1,323)	23,033
Noncurrent liabilities:										
Deferred compensation	112	—	—	—	112	174	—	—	—	174
Custodial liability	575	—	—	—	575	—	—	—	—	—
Accrued pension	4,270	61	22	—	4,353	1,056	—	20	—	1,076
Postretirement benefits, net of current portion	4,409	—	—	—	4,409	4,110	—	—	—	4,110
Other liabilities	—	—	—	—	—	—	45	—	—	45
Total noncurrent liabilities	9,366	61	22	—	9,449	5,340	45	20	—	5,405
Total liabilities	21,829	572	12,318	(257)	34,462	14,445	1,750	13,566	(1,323)	28,438
Commitments and contingencies										
Net assets and equity:										
Unrestricted–										
Land, building, equipment, and leasehold improvements, net	10,057	—	—	—	10,057	10,218	—	—	—	10,218
Minimum pension liability	(4,168)	—	—	—	(4,168)	—	—	—	—	—
General/operating	2,208	—	254	—	2,462	(150)	—	648	—	498
Total unrestricted	8,097	—	254	—	8,351	10,068	—	648	—	10,716
Temporarily restricted	28,511	—	—	—	28,511	37,688	—	—	—	37,688
Permanently restricted	2,500	—	—	—	2,500	2,500	—	—	—	2,500
Common stock	—	10	—	(10)	—	—	10	—	(10)	—
Additional paid-in capital	—	1,517	—	(1,517)	—	—	1,517	—	(1,517)	—
Retained earnings – SS/A	—	1,302	—	—	1,302	—	1,340	—	—	1,340
Accumulated other comprehensive income (loss)	—	(76)	—	—	(76)	—	—	—	—	—
Total net assets and equity	39,108	2,753	254	(1,527)	40,588	50,256	2,867	648	(1,527)	52,244
Total liabilities and net assets and equity	$ 60,937	$ 3,325	$ 12,572	$ (1,784)	$ 75,050	$ 64,701	$ 4,617	$ 14,214	$ (2,850)	$ 80,682

The accompanying notes are an integral part of these consolidating statements.

United Way of America and Subsidiaries

Consolidating statement of activities
For the year ended December 31, 2001

In thousands

	United Way of America							
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Sales Service/ America	Charities Funds Transfer	Consolidation eliminations	Consolidated
Revenues:								
Public support–								
Membership support, net	$ 22,325	$ —	$ —	$ 22,325	$ —	$ —	$ —	$ 22,325
Contributions	260	6,232	—	6,492	—	—	—	6,492
Total public support	22,585	6,232	—	28,817	—	—	—	28,817
Other revenue–								
Promotional material sales	544	—	—	544	6,738	—	(26)	7,256
Program service fees	1,400	—	—	1,400	—	—	(385)	1,015
Investment income	1,151	571	—	1,722	53	683	(850)	1,608
Conferences	2,060	—	—	2,060	—	—	—	2,060
Rental and service income	212	—	—	212	—	—	(178)	34
Federal grants	546	—	—	546	—	—	—	546
Miscellaneous and other	86	—	—	86	—	—	—	86
Resolution of pension obligation (Note 10)	1,718	—	—	1,718	—	—	—	1,718
Total other revenue	7,717	571	—	8,288	6,791	683	(1,439)	14,323
Net assets released from restrictions	15,980	(15,980)	—	—	—	—	—	—
Total revenues	46,282	(9,177)	—	37,105	6,791	683	(1,439)	43,140
Expenses:								
Program services–								
Campaign/resource development	8,043	—	—	8,043	—	—	—	8,043
Communications/advertising	4,809	—	—	4,809	—	—	(26)	4,783
Community impact	19,646	—	—	19,646	—	—	—	19,646
External services	3,956	—	—	3,956	—	—	—	3,956
Training/conferences	3,201	—	—	3,201	—	—	—	3,201
Field relations	1,994	—	—	1,994	—	—	—	1,994
Cost of goods sold	—	—	—	—	3,657	—	(385)	3,272
Selling expenses	—	—	—	—	1,429	—	—	1,429
Funds distribution	—	—	—	—	—	577	(178)	399
Total program services	41,649	—	—	41,649	5,086	577	(589)	46,723
Supporting services–								
General and administrative	2,361	—	—	2,361	1,202	—	—	3,563
Fund-raising	75	—	—	75	—	—	—	75
Provision for income taxes	—	—	—	—	191	—	—	191
Total supporting services	2,436	—	—	2,436	1,393	—	—	3,829
Total expenses	44,085	—	—	44,085	6,479	577	(589)	50,552
Changes in net assets before minimum pension liability	2,197	(9,177)	—	(6,980)	312	106	(850)	(7,412)
Minimum pension liability charge, net of tax	(4,168)	—	—	(4,168)	(76)	—	—	(4,244)
Changes in net assets after minimum pension liability	(1,971)	(9,177)	—	(11,148)	236	106	(850)	(11,656)
Net assets and retained earnings, beginning of year	10,068	37,688	2,500	50,256	1,340	648	—	52,244
Dividend to United Way of America	—	—	—	—	(350)	(500)	850	—
Net assets and retained earnings, end of year	$ 8,097	$ 28,511	$ 2,500	$ 39,108	$ 1,226	$ 254	$ —	$ 40,588

The accompanying notes are an integral part of this consolidating statement.

United Way of America and Subsidiaries

Consolidating statement of activities
For the year ended December 31, 2000

In thousands

	United Way of America							
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Sales Service/ America	Charities Funds Transfer	Consolidation eliminations	Consolidated
Revenues:								
Public support–								
Membership support, net	$ 21,747	$ —	$ —	$ 21,747	$ —	$ —	$ —	$ 21,747
Contributions	679	3,628	—	4,307	—	—	—	4,307
Total public support	22,426	3,628	—	26,054	—	—	—	26,054
Other revenue–								
Promotional material sales	604	—	—	604	7,572	—	—	8,176
Program service fees	888	—	—	888	—	—	(461)	427
Investment income	1,863	660	—	2,523	115	1,064	(1,550)	2,152
Conferences	2,353	—	—	2,353	—	—	—	2,353
Rental and service income	196	—	—	196	—	—	(39)	157
Federal grants	1,344	—	—	1,344	—	—	—	1,344
Miscellaneous and other	781	—	—	781	—	—	—	781
Total other revenue	8,029	660	—	8,689	7,687	1,064	(2,050)	15,390
Net assets released from restrictions	12,497	(12,497)	—	—	—	—	—	—
Total revenues	42,952	(8,209)	—	34,743	7,687	1,064	(2,050)	41,444
Expenses:								
Program services–								
Campaign/resource development	8,835	—	—	8,835	—	—	—	8,835
Communications/advertising	5,714	—	—	5,714	—	—	—	5,714
Community impact	18,478	—	—	18,478	—	—	—	18,478
External services	4,209	—	—	4,209	—	—	—	4,209
Training/conferences	4,092	—	—	4,092	—	—	—	4,092
Field relations	1,868	—	—	1,868	—	—	—	1,868
Cost of goods sold	—	—	—	—	4,127	—	(461)	3,666
Selling expenses	—	—	—	—	1,245	—	—	1,245
Funds distribution	—	—	—	—	—	407	(39)	368
Total program services	43,196	—	—	43,196	5,372	407	(500)	48,475
Supporting services–								
General and administrative	3,341	—	—	3,341	1,107	—	—	4,448
Fund-raising	75	—	—	75	—	—	—	75
Provision for income taxes	—	—	—	—	450	—	—	450
Total supporting services	3,416	—	—	3,416	1,557	—	—	4,973
Total expenses	46,612	—	—	46,612	6,929	407	(500)	53,448
Changes in net assets	(3,660)	(8,209)	—	(11,869)	758	657	(1,550)	(12,004)
Net assets and retained earnings, beginning of year	13,728	45,897	2,500	62,125	1,382	741	—	64,248
Dividend to United Way of America	—	—	—	—	(800)	(750)	1,550	—
Net assets and retained earnings, end of year	$ 10,068	$ 37,688	$ 2,500	$ 50,256	$ 1,340	$ 648	$ —	$ 52,244

The accompanying notes are an integral part of this consolidating statement.

United Way of America and Subsidiaries

Consolidating statements of cash flows
For the years ended December 31, 2001 and 2000

In thousands

	2001					2000				
	United Way of America	Sales Service/ America	Charities Funds Transfer	Consolidation eliminations	Consolidated	United Way of America	Sales Service/ America	Charities Funds Transfer	Consolidation eliminations	Consolidated
Cash flows from operating activities:										
Changes in net assets/net income	$ (11,148)	$ 312	$ 106	$ (850)	$ (11,580)	$ (11,869)	$ 758	$ 657	$ (1,550)	$ (12,004)
Adjustments to reconcile changes in net assets to net cash flows provided by (used in) operating activities–										
Depreciation and amortization	1,133	107	4	—	1,244	1,030	116	5	—	1,151
Unrealized gain on investments	—	—	—	—	—	(99)	—	—	—	(99)
Custodial fund receipts	157,301	—	163,748	(4,860)	316,189	124,049	—	144,845	(5,600)	263,294
Custodial fund disbursements	(153,064)	—	(165,113)	4,860	(313,317)	(122,519)	—	(142,661)	5,600	(259,580)
Changes in assets and liabilities:	—	—	—	—	—	—	—	—	—	—
Custodial funds	(4,237)	—	1,365	—	(2,872)	(1,530)	—	(2,183)	—	(3,713)
Membership support receivable, net	1,774	—	—	—	1,774	745	—	—	—	745
Other receivables, net	2,345	83	61	257	2,746	(429)	8	(26)	1,323	876
Contributions receivable	8,906	—	—	—	8,906	12,420	—	—	—	12,420
Inventory	—	126	—	—	126	—	(100)	—	—	(100)
Prepaid expenses and other current assets	131	59	4	—	194	97	(49)	(3)	—	45
Other noncurrent assets	—	(8)	—	—	(8)	—	60	—	—	60
Notes payable	—	—	—	—	—	—	—	—	—	—
Accounts payable and accrued liabilities	(1,455)	(1,248)	115	(257)	(2,845)	(108)	1,099	(2)	(1,323)	(334)
Contributions payable	(34)	—	—	—	(34)	(214)	—	—	—	(214)
Deferred revenue	599	—	—	—	599	111	—	—	—	111
Postretirement benefits	310	—	—	—	310	357	—	—	—	357
Net accrued/prepaid pension	5,883	4	2	—	5,889	(562)	(70)	(4)	—	(636)
Other liabilities	—	65	—	—	65	—	(190)	—	—	(190)
Net cash flows provided by (used in) operating activities	8,444	(500)	292	(850)	7,386	1,479	1,632	628	(1,550)	2,189
Cash flows from investing activities:										
Purchases of investments	—	—	—	—	—	(762)	—	—	—	(762)
Sales and maturities of investments	3,770	—	—	—	3,770	—	—	—	—	—
Purchases of equipment, net	(972)	(10)	—	—	(982)	(651)	(90)	—	—	(741)
Net cash flows provided by (used in) investing activities	2,798	(10)	—	—	2,788	(1,413)	(90)	—	—	(1,503)
Cash flows from financing activities:										
Principal payments under capital lease	—	(11)	—	—	(11)	—	(26)	—	—	(26)
Dividend to UWA	—	(350)	(500)	850	—	—	(800)	(750)	1,550	—
Net cash flows used in financing activities	—	(361)	(500)	850	(11)	—	(826)	(750)	1,550	(26)
Net increase (decrease) in cash and cash equivalents	11,242	(871)	(208)		10,163	66	716	(122)	—	660
Cash and cash equivalents:										
Beginning of year	4,093	2,704	590	—	7,387	4,027	1,988	712	—	6,727
End of year	$ 15,335	$ 1,833	$ 382	$ —	$ 17,550	$ 4,093	$ 2,704	$ 590	$ —	$ 7,387
Supplementary disclosures of cash flow information:										
Cash payments for interest	$ —	$ —	$		$	$ 7	$ 2	$ —		$ 9
Cash payments for income taxes	$ —	$ 56	$		$	$ —	$ 674	$ —		$ 674

The accompanying notes are an integral part of these consolidating statements.

United Way of America

Schedule of functional expenses
For the year ended December 31, 2001, with comparative totals for the year ended December 31, 2000

In thousands

	Program services							Supporting Services				
	Campaign/ resource development	Communications/ advertising	Community impact	External services	Training/ conferences	Field relations	Total program services	General and administrative	Fund- raising	Total supporting services	2001	2000
Salaries	$ 3,300	$ 864	$ 4,037	$ 1,413	$ 554	$ 1,100	$ 11,268	$ 1,085	$ 2	$ 1,087	$ 12,355	$ 12,018
Employee benefits and payroll taxes	1,036	217	1,263	462	139	276	3,393	431	1	432	3,825	3,195
Professional fees and contract services payments	1,884	3,147	1,614	1,367	782	93	8,887	469	67	536	9,423	11,569
Conferences and travel	882	165	384	210	1,277	188	3,106	36	—	36	3,142	4,176
Subscriptions and membership dues	78	24	92	37	28	11	270	10	—	10	280	285
Scholarships, grants, and awards	15	5	10,990	7	3	5	11,025	2	—	2	11,027	10,599
Rental and maintenance of equipment	136	58	131	55	20	42	442	42	1	43	485	489
Supplies	177	111	143	60	87	48	626	27	1	28	654	745
Telephone	90	67	105	33	13	47	355	15	—	15	370	400
Postage and shipping	74	30	64	26	24	14	232	15	—	15	247	277
Occupancy	121	41	190	82	190	56	680	51	1	52	732	671
Other expenses	4	—	239	17	22	—	282	130	—	130	412	1,160
Depreciation and amortization	246	80	394	187	62	114	1,083	48	2	50	1,133	1,028
Total expenses	$ 8,043	$ 4,809	$ 19,646	$ 3,956	$ 3,201	$ 1,994	$ 41,649	$ 2,361	$ 75	$ 2,436	$ 44,085	$ 46,612

The accompanying notes are an integral part of this schedule.

Notes to consolidating financial statements
December 31, 2001 and 2000

1. Organization and purpose:

United Way of America (UWA) is a national organization supported primarily by local United Ways through membership dues. UWA serves the United Way system by being an exemplary leader in American philanthropy and an outstanding mobilizer of resources, helping to shape the nation's health and human services agenda and creating a better quality of life for all Americans. UWA's mission is to improve lives by mobilizing the caring power of communities.

UWA has received an exemption from the Internal Revenue Service from federal income taxes under Section 501(a), as an entity described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. No provision for income taxes is provided in UWA's financial statements.

UWA receives annual membership support through a licensing arrangement with local United Ways to use the name and service marks owned by UWA. Membership support calculations are performed by all member organizations and payments are made from donors' contributions. If any local United Way does not remit membership support, the organization's right to use the name and service mark may be revoked.

UWA uses the following program service categories for reporting purposes:

Campaign/resource development – Marketing, consultation, resource development programs, corporate development, labor, and diversity.

Communications/advertising – Branding and promotion, publishing and production of film and campaign materials, teleconferencing, and production of the National Football League television spots.

Community impact – Fund distribution services, community building, national agencies' support, volunteer development, Mobilization for America's Children, AIDS, housing, and literacy programs.

External services – Specific services provided to local United Ways including executive search and professional referral, personnel consultation, career counseling, government relations, quality programs, pledge and information processing, and campaign management software.

Training/conferences – Training programs for volunteers and staff, national conferences, and National Academy of Volunteerism.

Field relations – Consultative support to local United Ways and regional councils.

Sales Service/America, Inc. (SS/A) is a wholly owned for-profit subsidiary of UWA. SS/A's purpose is to provide sales fulfillment services to UWA and other organizations. Sales to UWA and local United Ways and sales of products with the United Way trademark accounted for more than 95 percent of SS/A's sales in 2001 and 2000.

SS/A earned administrative fees from UWA relating to the sales of films and publications sold on UWA's behalf. These fees were $25,552 and $28,840 in 2001 and 2000, respectively. SS/A declared dividends of $350,000 and $800,000 to UWA in 2001 and 2000, respectively, which are included in investment income at UWA. SS/A also accrued royalties to UWA of $384,944 and $431,888 in 2001 and 2000, respectively, which are included in program services revenue at UWA and in cost of goods sold at SS/A. At December 31, 2001 and 2000, SS/A had a liability to UWA of approximately $125,323 and $1,290,000, respectively.

Charities Funds Transfer, Inc. (CFT) is a national service center used to simplify and speed the distribution of corporate, employee, retiree, and foundation donations throughout the local United Way system. CFT is a Virginia not-for-profit organization with the sole member being UWA. CFT has received an exemption from federal income taxes under Section 501(c)(3), as an entity described in Section 509(a)(3) of the Internal Revenue Code of 1986, as amended.

CFT also distributes funds designated by participating federal government employees for the UWA federation as part of the Combined Federal Campaign (CFC). Funds received as part of the CFC are initially deposited in a UWA bank account as mandated by an Act of Congress. UWA distributes these funds daily to CFT for distribution to specified recipient charitable organizations on a semi-monthly basis.

CFT pays rental and service fees to UWA. These rental and service fees were $178,232 and $51,403 in 2001 and 2000, respectively. As of December 31, 2001 and 2000, CFT had a liability to UWA of $127,162 and $19,868, respectively, for rent and services provided. CFT also paid dividends of $500,000 and $750,000 to UWA in 2001 and 2000, respectively, which are included in investment income at UWA.

2. Summary of significant accounting policies:

Consolidation

The accompanying consolidating financial statements include UWA, SS/A, and CFT (the Companies). All intercompany transactions are eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Reclassifications

Certain prior-year balances have been reclassified to be consistent to the 2001 presentation.

Net assets

Net assets are classified into three categories: unrestricted, temporarily restricted, or permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets are contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the contributions are used for their restricted purposes, at which time they are reported in the statements of activities as net assets released from restrictions. All permanently restricted net assets represent an endowment to be held in perpetuity. Investment income earned on this endowment is temporarily restricted for programs that benefit children, youth, and families.

Temporarily restricted net assets are restricted by the donors as follows (in thousands):

Type of restriction	2001	2000
Recognition of outstanding community service	$ 92	$ 89
Literacy initiatives	113	135
Initiatives to benefit children, youth, and families	21,642	29,061
Initiatives to generate major donations to local United Way member organizations	530	628
Scholarships	114	113
Energy conservation initiatives	24	24
Initiatives to assist communities in determining their social needs	423	27
Disaster preparedness	3,513	4,391
Initiatives to measure outcomes of local community programs	1	16
Technology initiatives	1,737	2,989
Other	322	215
Total temporarily restricted net assets	$ 28,511	$ 37,688

Cash and cash equivalents

Cash equivalents consist of investments with original maturities of three months or less.

Custodial funds

Custodial funds at December 31, 2001 and 2000, included cash held by UWA for Emergency Food and Shelter ($4.6 million and $3.5 million, respectively), disaster relief ($3.5 million and $0, respectively), CFT ($12.1 million and $13.5 million, respectively) and other ($0 and $0.4 million, respectively). (See Note 3.)

Investments

Investments are reported at market value. Cash and cash equivalents and short-term investments (original maturities of three months to one year) include funds held to be used to fulfill the purpose of restricted contributions. Endowment and other long-term investments represent the endowment portion of the investment portfolio (including cash equivalents and short-term investments) and government agency bonds in the investment portfolio with maturities greater than one year.

UWA's investment policy authorizes investments in U.S. Treasury issues, U.S. government agency issues, certificates of deposit, bankers acceptances, commercial paper, corporate notes and debentures, repurchase agreements, foreign bank certificates of deposit, foreign bankers acceptances, foreign commercial paper, Eurodollar certificates of deposit and time deposits of select banks, and money market funds. Repurchase agreements are backed by U.S. Treasury or U.S. government agency issues and are to be collateralized at 102 percent of the repurchase price.

Investments as of December 31, 2000, consisted of short-term and long-term debt instruments.

Investment income for the years ended December 31, 2001 and 2000, consisted of the following (in thousands):

	2001				
	UWA	SS/A	CFT	Eliminations	Total
Interest income	$ 687	$ 53	$ 725	$ —	$ 1,465
Dividend income	850	—	—	(850)	—
Realized gain	185	—	—	—	185
Realized investment income	1,722	53	725	(850)	1,650
Unrealized gain (loss)	—	—	(42)	—	(42)
Net investment income	$ 1,722	$ 53	$ 683	$ (850)	$ 1,608

	2000				
	UWA	SS/A	CFT	Eliminations	Total
Interest income	$ 874	$ 115	$ 1,064	$ —	$ 2,053
Dividend income	1,550	—	—	(1,550)	—
Realized investment income	2,424	115	1,064	(1,550)	2,053
Unrealized gain	99	—	—	—	99
Net investment income	$ 2,523	$ 115	$ 1,064	$ (1,550)	$ 2,152

Membership support receivable and revenue

Membership support receivable is recorded in the year in which pledges from local United Ways are received. Membership support revenue from amounts pledged for future years is deferred and is recognized as revenue in the year to which the pledge relates.

A reserve for doubtful accounts is maintained, and the membership support receivable is shown net of this reserve in the accompanying consolidating statements of financial position. The major components of membership support receivable at December 31 was as follows (in thousands):

	2001	2000
Membership support receivable	$ 2,514	$ 4,366
Membership support pledged for the following year	—	61
Reserve for doubtful accounts	(162)	(301)
Membership support receivable, net	$ 2,352	$ 4,126

Membership support revenue in the accompanying consolidating statements of activities is net of a credit provided for future training of members. The amount of the credit was $3,303,275 in 2001 and $2,983,114 in 2000. Credits are reflected as deferred revenue in the accompanying consolidating statements of financial position until used or expired, at which time program service fee revenue or expired credit revenue is recognized, respectively.

Contributions

UWA recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions received are reported as unrestricted support, temporarily restricted support, or permanently restricted support. Temporarily restricted contributions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as temporarily restricted contributions and are reclassified as net assets released from restrictions in the same year. Promises to contribute that stipulate conditions to be met before the contribution is made are not accrued until the conditions are met. As of December 2001 and 2000, UWA had received no conditional promises to give.

Contributions receivable

Unconditional promises to give are recorded at their net realizable values. Unconditional promises to give that are expected to be collected in future years are discounted to their estimated present values using a risk-free interest rate.

Contributions receivable in the accompanying consolidating statements of financial position included the following unconditional promises to give (in thousands):

	2001	2000
Amounts due in:		
Less than one year	$ 11,633	$ 12,359
One to five years	10,750	21,750
Less– Discount	(514)	(3,334)
Total	$ 21,869	$ 30,775

Inventory

Inventory is accounted for at the lower of cost or net realizable value. Costs applicable to inventory on hand are determined principally on the weighted-average cost method.

Land, building, equipment, and leasehold improvements

The Companies capitalize expenditures for land, building, equipment, and leasehold improvements in excess of certain thresholds specified below. Depreciation is calculated using the straight-line method over the following useful life for each entity:

	UWA	SS/A	CFT
Building	35 years	N/A	N/A
Furniture and equipment	5 years	5 – 7 years	3 – 5 years
Leasehold improvements, and/or building improvements, and capital leases	5 – 15 years	The lesser of the term of the lease or the life of the asset	N/A
Capitalization threshold	$2,500	$250	$200

3. Custodial funds:

Since 1983, Congress has allocated $2.19 billion to the Federal Emergency Management Agency (FEMA) to provide emergency food and shelter to needy individuals throughout the country. In 1983, a national board was convened to distribute these funds through the Emergency Food and Shelter (EF&S program), a separate congressionally authorized program of FEMA, which is not consolidated into the UWA financial statements. UWA was appointed the fiscal agent for the EF&S program. In addition to UWA, other members of the national board include the Salvation Army, the National Council of the Churches of Christ, Catholic Charities USA, the Council of Jewish Federations, Inc., the American Red Cross, and FEMA.

As fiscal agent, UWA is the custodian of the funds and is responsible for the administration and disbursement of grants as directed by the national board. UWA charged certain administrative expenses to EF&S (approximately $170,000 and $100,000 in 2001 and 2000, respectively). During 2001 and 2000, approximately $138 million and $108 million, respectively, were disbursed in the form of grants to other charitable organizations. As of December 31, 2001 and 2000, undistributed balances of $4.6 million and $3.5 million, respectively, were included in custodial funds, with a corresponding liability in the accompanying consolidating statements of financial position.

At December 31, 2001 and 2000, CFT's custodial funds included $12.2 million and $13.5 million, respectively, of cash restricted for distribution to specified recipient charitable organizations.

During 1989, UWA entered into an agreement with CFT that provides for distribution of funds by CFT designated for the United Way of America Federation (the Federation) as part of the CFC. The Federation, created by UWA, is a group of approximately 25 voluntary charitable human health and welfare organizations that supply common fund-raising, administration, and management services to its constituent members. UWA receives funds designated for members of the Federation and transfers those funds to CFT for distribution to the members. In 2001 and 2000, UWA received approximately $4.9 million and $5.6 million, respectively, in custodial funds to be distributed by CFT, all of which were transferred to CFT by year-end. The funds received by UWA and transferred to CFT were primarily raised by the CFC and designated for members of the Federation.

In 2001, UWA received disaster relief funds designated for the September 11th Fund. Before year-end, $8.4 million had been transferred to these organizations. At December 31, 2001, $3.5 million was still held by UWA and awaiting transfer. The funds are reported in the consolidating statement of financial position as custodial funds.

Certain planned giving annuities are held by UWA, which acts as trustee. Annuity payments are made to the donor, and the residual is restricted by the donor to go to local United Ways. As of December 31, 2001, approximately $575,000 of such annuities is reflected in the consolidating statement of financial position as noncurrent custodial assets and custodial liabilities.

4. Land, building, equipment, and leasehold improvements:

At December 31, 2001 and 2000, land, building, equipment, and leasehold improvements, at cost, were as follows (in thousands):

	UWA		SS/A		CFT	
	2001	2000	2001	2000	2001	2000
Land	$ 2,102	$ 2,102	$ —	$ —	$ —	$ —
Building/building improvements	12,346	11,859	—	—	—	—
Leasehold improvements	—	—	38	38	—	—
Furniture and equipment	3,744	4,006	704	621	76	76
Equipment under capital lease	—	—	—	72	—	—
Less– Accumulated depreciation and amortization	(8,135)	(7,749)	(555)	(447)	(72)	(68)
Net totals	$ 10,057	$ 10,218	$ 187	$ 284	$ 4	$ 8

5. Income taxes:

SS/A follows Statement of Financial Accounting Standards (SFAS) No. 109, “Accounting for Income Taxes.” This statement requires the recognition of deferred tax liabilities and deferred tax assets, net of applicable valuation allowances, for certain temporary differences and net operating loss carryforwards.

The provision (benefit) for income taxes includes federal and state income taxes and those deferred as a result of temporary differences in the recognition of income and expenses for financial accounting and income tax purposes. The provision (benefit) for income taxes included the following components (in thousands):

	2001	2000
Current tax provision:		
Federal	$ 162	$ 335
State	30	63
Total current provision	192	398
Deferred tax (benefit) provision:		
Federal	(1)	53
State	—	(1)
Total deferred (benefit) provision:	(1)	52
Total provision for income taxes	$ 191	$ 450

Deferred income taxes result from timing differences in the recognition of revenues and expenses for tax return and financial reporting purposes. The sources of these differences and the tax effect of each at December 31, 2001 and 2000, were as follows (in thousands):

	2001	2000
Tax depreciation and amortization	$ (17)	$ (19)
Accrued pension	(23)	(26)
Accounts receivable allowances	37	37
Inventory reserve	24	26
Minimum pension liability	47	—
Other	19	20
Net deferred tax assets	87	38
Current deferred tax asset	80	83
Noncurrent deferred tax asset (liability)	$ 7	$ (45)

The reconciliation of taxes at the U.S. statutory federal income tax rate to SS/A's effective income tax rate was as follows (in thousands):

	2001	2000
Federal taxes at statutory rate	$ 171	$ 411
State income taxes, net of federal tax benefit	20	41
Other	—	(2)
Provision for income taxes	$ 191	$ 450

6. Debt:

At December 31, 2000, UWA maintained two line-of-credit agreements. Both of these agreements expired on October 5, 2001.

On August 1, 2001, UWA obtained an unsecured line-of-credit agreement for $5 million. Borrowings under this line are payable on demand, are subject to certain conditions, and bear interest at LIBOR plus 1.2 percent. The line is unsecured and expires on June 30, 2002. The line includes restrictive covenants including, among others, unrestricted liquid asset requirements. There were no borrowings outstanding on the line at December 31, 2001.

SS/A has a $250,000 line-of-credit agreement. The interest rate on the line is prime plus 1 percent, payable monthly. The line expires on June 30, 2002. SS/A has pledged a first security interest in all of its assets as collateral on the line. There were no borrowings under the line of credit in 2001 and 2000.

UWA incurred interest expense of $0 and $6,685 in 2001 and 2000, respectively. Interest expense for SS/A (capital leases) for 2001 and 2000 was $182 and $1,633, respectively.

CFT incurred no interest expense in 2001 and 2000.

7. Pension and other postretirement benefits:

UWA has a qualified, noncontributory defined benefit pension plan, which includes SS/A and CFT, covering employees who have reached the age of 21 and have completed one year of employment. An employee's interest becomes fully vested upon the completion of three years or five years of service, depending on date of hire, and is nonforfeitable upon attainment of early retirement age. Contributions to the plan are based on actuarially determined amounts.

UWA has established a nonqualified, noncontributory defined benefit pension plan (Plan No. 1) to restore the pension benefits lost under the qualified plan due to the limitations arising from Section 415 of the Tax Equity and Fiscal Responsibility Act of 1982 and to restore the pension benefits lost, if any, from the definition of compensation under the qualified plan.

UWA has established another nonqualified plan (Plan No. 3) for senior vice president-grade employees and above. The plan was designed to restore benefits eliminated by a change in the qualified plan formula required by the Tax Reform Act of 1986.

During 2000, UWA established a Replacement Plan to replace benefits in the qualified plan for participants affected by IRS salary limits, as well as benefit limits.

In 1997, SS/A approved a 401(k) plan for all employees. SS/A accrued contributions of $9,860 and $8,700 for the plan in 2001 and 2000, respectively.

Employees retiring from UWA on or after attaining age 55 and with five years of credited service are entitled to postretirement life insurance and medical and dental benefit coverage. These benefits are subject to deductibles, co-payment provisions, and other limitations. UWA may amend or change the plan periodically. UWA does not fund this plan in advance.

The following table summarizes the actuarially determined benefit obligations, the fair value of plan assets, and the funded status of the pension and other postretirement benefit plans at December 31, 2001 and 2000 (in thousands):

	Pension benefits		**Other benefits**	
	2001	**2000**	**2001**	**2000**
Benefit obligation at December 31	$ 23,155	$ 21,014	$ 4,524	$ 4,239
Fair value of plan assets at December 31 [a]	15,687	20,904	—	—
Funded status	(7,468)	(110)	(4,524)	(4,239)
(Accrued) prepaid benefit cost recognized in the consolidating statements of financial position, net	(4,353)	1,658	(4,608)	(4,298)

[a]Plan assets consist of investments in funds administered by Mutual of America Life Insurance Company and State Street Bank. Mutual of America investments consist of a general account, a pooled separate account (pooled common stock fund), and a pooled mid-term bond account. State Street Bank investments consist of a Russell 3000 Index-Fund, a SSGA EAFE Fund, a SSGA Bond Market Fund, and cash and cash equivalents.

At December 31, 2001, the accumulated benefit obligation of $18,276,163 of the UWA noncontributory defined benefit plan exceeded the fair value of plan assets. As a result, a minimum pension liability adjustment was required to be recorded, which resulted in a reduction of net assets of $4,167,995 at UWA and an other comprehensive income charge, net of tax of $76,000 at SS/A.

The amounts of contributions, benefit payments, and benefit cost reflected in the consolidating statements of activities for the years ended December 31, 2001 and 2000, were as follows (in thousands):

	Pension benefits		Other benefits	
	2001	**2000**	**2001**	**2000**
Benefit cost	$ 963	$ 177	$ 439	$ 547
Employer contribution	648	1,335	155	169
Benefits paid	(1,579)	(824)	(155)	(169)

UWA's share of expense in the pension plans for 2001 and 2000 was approximately $660,000 and $640,000, respectively ($45,000 and $46,000 of which was allocated to EF&S – see Note 3). SS/A's share of expense in the pension plans for 2001 and 2000 was $96,000 and $46,000, respectively. CFT's share of expense in the pension plans for 2001 and 2000 was $2,600 and $400, respectively.

The weighted-average assumptions used in the measurement of the benefit obligations are shown in the following table:

	Pension benefits		Other benefits	
	2001	**2000**	**2001**	**2000**
Discount rate	7.0%	7.5%	6.5%	7.75%
Expected return on plan assets	8.0	8.0	N/A	N/A
Rate of compensation increase	5.0	5.0	N/A	N/A

For measurement purposes, the 2001 annual rates of increase in the per capita cost of covered health care claims assumed for 2001 were as follows:

Age under 65	8.5%
Age 65 and older	7%

The rate was assumed to decrease gradually to 5.5 percent for medical coverage and 5.5 percent for dental coverage through 2006 and remain at that level thereafter.

Certain former UWA executives have chosen to defer portions of their eligible pension benefits to future periods. The amount of this deferred compensation asset and liability was $112,000 and $174,000, at December 31, 2001 and 2000, respectively. Annuity contracts have been purchased to fund this liability.

8. Licensees:

United Way International (UWI) is a separate entity with a distinct board and is not controlled by UWA. UWI was incorporated as a District of Columbia not-for-profit corporation in 1974. The purpose of UWI is to promote voluntary charitable services through united fund-raising, fund allocation, leadership, and planning activities in countries and territories outside the United States. The functions and funding of UWI are complementary to, but not a part of, UWA's mission. UWA does not provide any financial support to UWI. UWI purchases services and parking from UWA, as available to other charitable organizations. UWA leases office space to UWI at a monthly rent of $3,541.

9. Commitments:

UWA has entered into operating lease arrangements for office space and office equipment. Office space rentals include leases for its regional offices and local storage in Alexandria, Virginia. Leased office equipment includes the telephone system and computer components. The leases for office space and equipment expire over the next two years. Rent expense was approximately $201,030 and $172,203 in 2001 and 2000, respectively.

SS/A moved its main office to a leased facility in November 1993. The original 60-month lease was extended through November 2003. Rent expense amounted to approximately $94,000 for 2001 and 2000.

In 1998, SS/A entered into a long-term capital lease for computer equipment. In 2001, SS/A paid off its capital lease obligation.

Future minimum lease payments under operating leases as of December 31, 2001, are as follows (in thousands):

	UWA	SS/A
2002	$ 169	$ 97
2003	113	89
2004	82	—
Total future minimum lease payments	$ 364	$ 186

10. Resolution of pension obligation:

In October 1998, the U.S. District Court for the Southern District of New York (the Court) ruled that UWA was liable for certain nonqualified pension benefits plus interest, totaling $4.4 million to a former employee. The Court also held that this former employee breached various duties to UWA and must reimburse salary to UWA, in addition to certain other damages and interest, totaling $2 million. The judgment was appealed by both parties. In September 1999, the United States Court of Appeals for the second district affirmed UWA's judgment against this former employee in all respects and vacated one component of the judgment that was in the former employee's favor. The Court of Appeals remanded the case back to the District Court for a ruling on the single issue that had been vacated. The District Court again found for the former employee, and the original judgment from the October 1998 ruling (net $2.4 million liability to UWA) was reinstated. This judgment was appealed by UWA and overturned by the U.S. Court of Appeals in June 2001, and no further appeal is possible. In 2001, UWA received amounts previously funded to the benefit plan and recognized a gain of $1.7 million.