United Way of America and Subsidiaries

Consolidating Financial Statements

Years ended December 31, 2002 and 2001 with Report of Independent Auditors

0301-0389828-MCL

United Way of America and Subsidiaries

Consolidating Financial Statements

Years ended December 31, 2002 and 2001

Contents

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Report of Independent Auditors

Board of Governors
United Way of America

We have audited the accompanying consolidating statement 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, 2002, and the related consolidating statements of activities and cash flows for the year then ended. These consolidating financial statements 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 based on our audit. The consolidating financial statements of United Way of America for the year ended December 31, 2001, were audited by other auditors who have ceased operations and whose report dated February 15, 2002, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2002 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, 2002, and the individual and consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the 2002 basic financial statements taken as a whole. Financial statements for the year ended December 31, 2001 were audited by other auditors as discussed above. 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. Such information, except for that pertaining to the year ended December 31, 2001 on which other auditors have expressed an unqualified opinion, has been subjected to the auditing procedures applied in our audit of the 2002 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.

Ernst & Young LLP

February 14, 2003

United Way of America and Subsidiaries

Consolidating Statements of Financial Position

(In Thousands)

	2002					2001				
	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**
Assets										
Current assets:										
Cash and cash equivalents	**$ 14,735**	**$ 1,730**	**$ 253**	**$ –**	**$ 16,718**	$ 12,835	$ 1,833	$ 382	$ –	$ 15,050
Custodial Funds	**3,905**	**–**	**14,835**	**–**	**18,740**	8,173	–	12,161	–	20,334
Membership support receivables, net	**3,206**	**–**	**–**	**–**	**3,206**	2,352	–	–	–	2,352
Contributions receivable	**10,884**	**–**	**–**	**–**	**10,884**	11,633	–	–	–	11,633
Other receivables, net	**761**	**254**	**–**	**(152)**	**863**	773	297	25	(257)	838
Inventory	**–**	**880**	**–**	**–**	**880**	–	862	–	–	862
Prepaid expenses and other current assets	**305**	**162**	**–**	**–**	**467**	164	114	–	–	278
Total current assets	**33,796**	**3,026**	**15,088**	**(152)**	**51,758**	35,930	3,106	12,568	(257)	51,347
Noncurrent assets:										
Endowment and other long-term investments	**2,500**	**–**	**–**	**–**	**2,500**	2,500	–	–	–	2,500
Contributions receivable	**–**	**–**	**–**	**–**	**–**	10,236	–	–	–	10,236
Custodial assets	**1,017**	**–**	**–**	**–**	**1,017**	575	–	–	–	575
Land, building, equipment and leasehold improvements, net	**9,607**	**126**	**–**	**–**	**9,733**	10,057	187	4	–	10,248
Deferred compensation	**55**	**–**	**–**	**–**	**55**	112	–	–	–	112
Investment in subsidiary	**1,527**	**–**	**–**	**(1,527)**	**–**	1,527	–	–	(1,527)	–
Other noncurrent assets	**–**	**22**	**–**	**–**	**22**	–	32	–	–	32
Total noncurrent assets	**14,706**	**148**	**–**	**(1,527)**	**13,327**	25,007	219	4	(1,527)	23,703
Total assets	**$ 48,502**	**$ 3,174**	**$ 15,088**	**$ (1,679)**	**$ 65,085**	$ 60,937	$ 3,325	$ 12,572	$ (1,784)	$ 75,050

United Way of America and Subsidiaries

Consolidating Statements of Financial Position (continued)

(In Thousands)

	2002					2001				
	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**
Liabilities and net assets and equity										
Current liabilities:										
Accounts payable and accrued liabilities	**$ 3,236**	**$ 524**	**$ 67**	**$ (152)**	**$ 3,675**	$ 1,324	$ 446	$ 135	$ (257)	$ 1,648
Custodial funds	**3,905**	**–**	**14,835**	**–**	**18,740**	8,173	–	12,161	–	20,334
Postretirement benefits	**205**	**–**	**–**	**–**	**205**	199	–	–	–	199
Income taxes payable	**–**	**94**	**–**	**–**	**94**	–	65	–	–	65
Deferred revenue:										
Membership support and other	**56**	**–**	**–**	**–**	**56**	115	–	–	–	115
Training programs, conference, and service fees	**2,945**	**–**	**–**	**–**	**2,945**	2,652	–	–	–	2,652
Total current liabilities	**10,347**	**618**	**14,902**	**(152)**	**25,715**	12,463	511	12,296	(257)	25,013
Noncurrent liabilities:										
Deferred compensation	**55**	**–**	**–**	**–**	**55**	112	–	–	–	112
Custodial liability	**1,017**	**–**	**–**	**–**	**1,017**	575	–	–	–	575
Accrued pension	**5,447**	**110**	**20**	**–**	**5,577**	4,270	61	22	–	4,353
Postretirement benefits, net of current portion	**4,784**	**–**	**–**	**–**	**4,784**	4,409	–	–	–	4,409
Total noncurrent liabilities	**11,303**	**110**	**20**	**–**	**11,433**	9,366	61	22	–	9,449
Total liabilities	**21,650**	**728**	**14,922**	**(152)**	**37,148**	21,829	572	12,318	(257)	34,462
Commitments and contingencies										
Net assets and equity:										
Unrestricted										
Land building, equipment, and leasehold improvements, net	**9,607**	**–**	**–**	**–**	**9,607**	10,057	–	–	–	10,057
Minimum pension liability	**(6,786)**	**–**	**(7)**	**–**	**(6,793)**	(4,168)	–	–	–	(4,168)
General/operating	**2,849**	**–**	**173**	**–**	**3,022**	2,208	–	254	–	2,462
Total unrestricted	**5,670**	**–**	**166**	**–**	**5,836**	8,097	–	254	–	8,351
Temporarily restricted	**18,682**	**–**	**–**	**–**	**18,682**	28,511	–	–	–	28,511
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	**–**	**1,068**	**–**	**–**	**1,068**	–	1,302	–	–	1,302
Accumulated other comprehensive income (loss)	**–**	**(149)**	**–**	**–**	**(149)**	–	(76)	–	–	(76)
Total net assets and equity	**26,852**	**2,446**	**166**	**(1,527)**	**27,937**	39,108	2,753	254	(1,527)	40,588
Total liabilities and net assets and equity	**$ 48,502**	**$ 3,174**	**$ 15,088**	**$ (1,679)**	**$ 65,085**	$ 60,937	$ 3,325	$ 12,572	$ (1,784)	$ 75,050

See accompanying notes.

United Way of America and Subsidiaries

Consolidating Statement of Activities

Year ended December 31, 2002

(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	$ 22,728	$ –	$ –	$ 22,728	$ –	$ –	$ –	$ 22,728
Contributions	457	7,227	–	7,684	–	–	–	7,684
Total public support	23,185	7,227	–	30,412	–	–	–	30,412
Other revenue:								
Promotional material sales	722	–	–	722	6,104	–	(21)	6,805
Program service fees	1,609	–	–	1,609	–	–	(334)	1,275
Investment income	371	200	–	571	13	243	(300)	527
Conferences	1,906	–	–	1,906	–	–	–	1,906
Rental and service income	217	–	–	217	–	144	(57)	304
Federal grants	223	–	–	223	–	–	–	223
Miscellaneous and other	53	–	–	53	–	–	–	53
Resolution of pension obligation	–	–	–	–	–	–	–	–
Total other revenue	5,101	200	–	5,301	6,117	387	(712)	11,093
Net assets released from restrictions	17,256	(17,256)	–	–	–	–	–	–
Total revenues	45,542	(9,829)	–	35,713	6,117	387	(712)	41,505
Expenses								
Program services:								
Philanthropic & volunteer leadership	6,323	–	–	6,323	–	–	–	6,323
Civic labs	17,163	–	–	17,163	–	–	(21)	17,142
Training/conferences	4,104	–	–	4,104	–	–	–	4,104
External services	5,249	–	–	5,249	–	–	–	5,249
Brand strategy & marketing	6,830	–	–	6,830	–	–	–	6,830
Field relations	3,462	–	–	3,462	–	–	–	3,462
Cost of goods sold	–	–	–	–	3,308	–	(334)	2,974
Selling expenses	–	–	–	–	1,402	–	–	1,402
Funds distribution	–	–	–	–	–	468	(57)	411
Total program services	43,131	–	–	43,131	4,710	468	(412)	47,897
Supporting services:								
General and administrative	2,143	–	–	2,143	1,301	–	–	3,444
Fund-raising	77	–	–	77	–	–	–	77
Provision for income taxes	–	–	–	–	40	–	–	40
Total supporting services	2,220	–	–	2,220	1,341	–	–	3,561
Total expenses	45,351	–	–	45,351	6,051	468	(412)	51,458
Changes in net assets before minimum pension liability	191	(9,829)	–	(9,638)	66	(81)	(300)	(9,953)
Minimum pension liability charge, net of tax	(2,618)	–	–	(2,618)	(73)	(7)	–	(2,698)
Changes in net assets	(2,427)	(9,829)	–	(12,256)	(7)	(88)	(300)	(12,651)
Net assets, retained earnings, and accumulated other comprehensive income beginning of year	8,097	28,511	2,500	39,108	1,226	254	–	40,588
Dividend to United Way of America	–	–	–	–	(300)	–	300	–
Net assets, retained earnings, and accumulated other comprehensive income end of year	$ 5,670	$ 18,682	$ 2,500	$ 26,852	$ 919	$ 166	$ –	$ 27,937

See accompanying notes.

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United Way of America and Subsidiaries

Consolidating Statement of Activities (continued)

Year ended December 31, 2001

(In Thousands)

	United Way of America: Unrestricted	United Way of America: Temporarily Restricted	United Way of America: Permanently Restricted	United Way of America: 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:								
Philanthropic and volunteer leadership	5,438	–	–	5,438	–	–	–	5,438
Civic labs	18,217	–	–	18,217	–	–	–	18,217
Training/conferences	3,832	–	–	3,832	–	–	–	3,832
External services	4,944	–	–	4,944	–	–	–	4,944
Brand strategy and marketing	5,337	–	–	5,337	–	–	(26)	5,311
Field relations	3,469	–	–	3,469	–	–	–	3,469
Cost of goods sold	–	–	–	–	3,657	–	(385)	3,272
Selling expenses	–	–	–	–	1,429	–	–	1,429
Funds distribution	–	–	–	–	–	577	(178)	399
Total program services	41,237	–	–	41,237	5,086	577	(589)	46,311
Supporting services:								
General and administrative	2,773	–	–	2,773	1,202	–	–	3,975
Fund-raising	75	–	–	75	–	–	–	75
Provision for income taxes	–	–	–	–	191	–	–	191
Total supporting services	2,848	–	–	2,848	1,393	–	–	4,241
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	(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

See accompanying notes.

United Way of America and Subsidiaries

Consolidating Statements of Cash Flows

(In Thousands)

	2002					2001				
	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	$ (12,256)	$ 66	$ (88)	$ (300)	$ (12,578)	$ (11,148)	$ 312	$ 106	$ (850)	$ (11,580)
Adjustments to reconcile changes in net assets to net cash flows provided by (used in) operating activities:										
Depreciation and amortization	1,233	98	4	–	1,335	1,133	107	4	–	1,244
Custodial fund receipts	147,543	–	147,603	(6,604)	288,542	157,301	–	163,748	(4,860)	316,189
Custodial fund disbursements	(151,811)	–	(144,929)	6,604	(290,136)	(153,064)	–	(165,113)	4,860	(313,317)
Deferred tax provision	–	11	–	–	11					
Changes in assets and liabilities:						–	–	–	–	–
Custodial funds	4,268	–	(2,675)	–	1,593	(4,237)	–	1,365	–	(2,872)
Membership support receivable, net	(854)	–	–	–	(854)	1,774	–	–	–	1,774
Other receivables, net	12	43	25	152	232	2,345	83	61	257	2,746
Contributions receivable	10,985	–	–	–	10,985	8,906	–	–	–	8,906
Inventory	–	(17)	–	–	(17)	–	126	–	–	126
Prepaid expenses and other current assets	(141)	2	–	–	(139)	131	59	4	–	194
Other noncurrent assets	–	4	–	–	4	–	(8)	–	–	(8)
Notes payable	–	–	–	–	–	–	–	–	–	–
Accounts payable and accrued liabilities	1,912	72	5	(70)	1,919	(1,455)	(1,248)	115	(257)	(2,845)
Contributions payable	–	–	–	–	–	(34)	–	–	–	(34)
Deferred revenue	234	–	–	–	234	599	–	–	–	599
Postretirement benefits	381	–	–	–	381	310	–	–	–	310
Net accrued/prepaid pension	1,177	(73)	(1)	–	1,103	5,883	4	2	–	5,889
Other liabilities	–	29	(73)	(82)	(126)	–	65	–	–	65
Net cash flows provided by (used in) operating activities	2,683	235	(129)	(300)	2,489	8,444	(500)	292	(850)	7,386
Cash flows from investing activities										
Sales and maturities of investments	–	–	–	–	–	1,270	–	–	–	1,270
Purchases of equipment, net	(783)	(38)	–	–	(821)	(972)	(10)	–	–	(982)
Net cash flows provided by (used in) investing activities	(783)	(38)	–	–	(821)	298	(10)	–	–	288
Cash flows from financing activities										
Principal payments under capital lease	–	–	–	–	–	–	(11)	–	–	(11)
Dividend to UWA	–	(300)	–	300	–	–	(350)	(500)	850	–
Net cash flows used in financing activities	–	(300)	–	300	–	–	(361)	(500)	850	(11)
Net increase (decrease) in cash and cash equivalents	1,900	(103)	(129)	–	1,668	8,742	(871)	(208)	–	7,663
Cash and cash equivalents:										
Beginning of year	12,835	1,833	382	–	15,050	4,093	2,704	590	–	7,387
End of year	$ 14,735	$ 1,730	$ 253	$ –	$ 16,718	$ 12,835	$ 1,833	$ 382	$ –	$ 15,050
Supplementary disclosures of cash flow information										
Cash payments for income taxes	$ –	$ –	$ –	$ –	$ –	$ –	$ 56	$		$ 56

See accompanying notes.

United Way of America and Subsidiaries

Schedule of Functional Expenses

For the year ended December 31, 2002, With Comparative Totals for the year ended December 31, 2001
(In Thousands)

	Program Services							Supporting Services				
	Philanthropic & Volunteer Leadership	**Civic Labs**	**Training/ Conferences**	**External Services**	**Brand Strategy & Marketing**	**Field Relations**	**Total Program Services**	**General and Administrative**	**Fund-Raising**	**Total Supporting Services**	**2002**	**2001**
Salaries	$3,034	$ 2,205	$1,263	$2,359	$1,927	$1,890	$12,678	$1,088	$32	$1,120	$13,798	$12,355
Employee benefits and payroll taxes	902	608	361	644	567	566	3,648	216	9	225	3,873	3,825
Professional fees and contract services payments	793	1,415	845	1,213	3,610	110	7,986	292	19	311	8,297	9,423
Conferences and travel	736	336	1,256	274	121	331	3,054	43	7	50	3,104	3,142
Subscriptions and membership dues	20	65	60	35	12	7	199	14	–	14	213	280
Scholarships, grants, and awards	12	11,884	3	13	7	6	11,925	4	–	4	11,929	11,027
Supplies	100	69	90	82	124	127	592	23	2	25	617	654
Telephone	132	62	29	130	52	71	476	27	1	28	504	370
Postage and shipping	42	14	20	13	16	17	122	15	–	15	137	247
Occupancy	240	138	81	178	172	179	988	104	3	107	1,095	1,217
Other expenses	24	200	1	77	19	–	321	229	1	230	551	412
Depreciation and amortization	288	167	95	231	203	158	1,142	88	3	91	1,233	1,133
Total expenses	$6,323	$ 17,163	$4,104	$5,249	$6,830	$3,462	$43,131	$2,143	$77	$2,220	$45,351	$44,085

See accompanying notes.

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 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. 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:

Philanthropic and Volunteer Leadership—Support for system-wide programs including National Corporate Leadership, major gifts and Alexis de Tocqueville program, planned giving, and community and public sector campaigns.

Civic Labs—Grant distribution services, community building, national agencies' support, volunteer development, Mobilization for America's Children, housing, and literacy programs, 2-1-1 initiative and crisis response.

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

External Services—Specific services provided to local United Ways including executive search and professional referral, personnel consultation, career counseling, government relations, quality programs, campaign management software, internet initiatives and volunteer solutions.

1. Organization and Purpose (continued)

Brand Strategy and Marketing—Branding and promotion, printing, publishing and production of film and campaign materials, teleconferencing, and production of the National Football League television spots.

Field Relations—Consultative support to local United Ways and regional councils, labor relations and member services.

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% of SS/A's sales in 2002 and 2001.

SS/A earned administrative fees from UWA relating to the sales of films and publications sold on UWA's behalf. These fees were $20,752 and $25,552 in 2002 and 2001, respectively. SS/A declared dividends of $300,000 and $350,000 to UWA in 2002 and 2001, respectively, which are included in investment income at UWA. SS/A also accrued royalties to UWA of $334,000 and $384,944 in 2002 and 2001, respectively, which are included in program services revenue at UWA and in cost of goods sold at SS/A. At December 31, 2002 and 2001, SS/A had a liability to UWA of $93,574 and $125,323, 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 semimonthly basis.

CFT pays rental and service fees to UWA. These rental and service fees were $57,048 and $178,232 in 2002 and 2001, respectively. As of December 31, 2002 and 2001, CFT had a liability to UWA of $53,860 and $127,162, respectively, for rent and services provided. CFT also paid dividends of $0 and $500,000 to UWA in 2002 and 2001, 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 amounts have been reclassified to conform to the 2002 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.

2. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

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

Type of Restriction	2002	2001
Recognition of outstanding community service	**$ 90**	$ 92
Literacy initiatives	**101**	113
Initiatives to benefit children, youth, and families	**11,846**	21,642
Initiatives to generate major donations to local United Way member organizations	**294**	530
Scholarships	**115**	114
Energy conservation initiatives	**–**	24
Initiatives to assist communities in determining their social needs	**325**	423
Disaster preparedness	**2,169**	3,513
Technology initiatives	**697**	1,737
National corporate leadership expansion	**162**	–
September 11th	**181**	–
Economic self-sufficiency	**248**	–
Strengthening access and engaging in civic life	**15**	–
Organizational transformation	**2,413**	–
Other	**26**	323
Total temporarily restricted net assets	**$ 18,682**	$ 28,511

Cash and Cash Equivalents

Cash equivalents consist of investments with original maturities of three months or less. As of December 31, 2002 and 2001, cash equivalents included $9.1 million and $6.5 million, respectively of cash restricted or designated for specific purposes.

Custodial Funds

Custodial funds at December 31, 2002 and 2001, included cash held by UWA for Emergency Food and Shelter ($3.9 million and $4.6 million, respectively), disaster relief ($0 and $3.5 million, respectively), and CFT ($14.8 million and $12.1 million, respectively). (See Note 3.)

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are reported at market value. Cash and cash equivalents include funds to be used to fulfill the purpose of temporarily restricted contributions. Endowment and other long-term investments represent the endowment (permanently restricted) 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 collateralized at 100% of the repurchase price.

Investment income for the years ended December 31, 2002 and 2001, consisted of the following (in thousands):

			2002		
	UWA	**SS/A**	**CFT**	**Eliminations**	**Total**
Interest income	**$ 173**	**$ 13**	**$ 170**	**$ –**	**$ 356**
Dividend income	**372**	**–**	**73**	**(300)**	**145**
Realized gain	**1**	**–**	**–**	**–**	**1**
Realized investment income	**546**	**13**	**243**	**(300)**	**502**
Unrealized gain (loss)	**25**	**–**	**–**	**–**	**25**
Net investment income	**$ 571**	**$ 13**	**$ 243**	**$ (300)**	**$ 527**

			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

2. Summary of Significant Accounting Policies (continued)

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):

	2002	2001
Membership support receivable	**$ 3,323**	$ 2,514
Reserve for doubtful accounts	**(117)**	(162)
Membership support receivable, net	**$ 3,206**	$ 2,352

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 $3,160,172 in 2002 and $3,303,275 in 2001. 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 2002 and 2001, UWA had received no conditional promises to give.

2. Summary of Significant Accounting Policies (continued)

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):

	2002	2001
Amounts due in:		
Less than one year	**$ 10,884**	$ 11,633
One to five years	**–**	10,750
Less: Discount	**–**	(514)
Total	**$ 10,884**	$ 21,869

Inventory

Inventory is accounted for at the lower of cost or net realizable value. Costs applicable to inventory on hand are determined principally using 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 $2.33 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 in both 2002 and 2001). During 2002 and 2001, approximately $140 million and $138 million, respectively, were disbursed in the form of grants to other charitable organizations. As of December 31, 2002 and 2001, undistributed balances of $3.9 million and $4.6 million, respectively, were included in custodial funds, with a corresponding liability in the accompanying consolidating statements of financial position.

At December 31, 2002 and 2001, CFT's custodial funds included $14.8 million and $12.2 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 2002 and 2001, UWA received approximately $6.6 million and $4.9 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.

3. Custodial Funds (continued)

In 2001, UWA received disaster relief funds designated for the September Fund. Through December 31, 2002 and 2001, $3.5 million and $8.4 million, respectively, had been transferred to these organizations. At December 31, 2002 and 2001, $0 and $3.5 million, respectively, was still held by UWA. 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, 2002 and 2001, approximately $1 million and $575,000, respectively, of such annuities are 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, 2002 and 2001, land, building, equipment, and leasehold improvements, at cost, were as follows (in thousands):

	UWA		**SS/A**		**CFT**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Land	**$ 2,102**	$ 2,102	**$ –**	$ –	**$ –**	$ –
Building/building improvements	**12,578**	12,346	**–**	–	**–**	–
Leasehold improvements	**–**	–	**38**	38	**–**	–
Furniture and equipment	**4,294**	3,744	**741**	704	**76**	76
Equipment under capital lease	**–**	–	**–**	–	**–**	–
Less: Accumulated depreciation and amortization	**(9,367)**	(8,135)	**(653)**	(555)	**(76)**	(72)
Net totals	**$ 9,607**	$10,057	**$ 126**	$ 187	**$ –**	$ 4

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.

5. Income Taxes (continued)

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):

	2002	2001
Current tax provision:		
Federal	**$ 23**	$ 162
State	**6**	30
Total current provision	**29**	192
Deferred tax (benefit) provision:		
Federal	**11**	(1)
State	**–**	–
Total deferred (benefit) provision	**11**	(1)
Total provision for income taxes	**$ 40**	$ 191

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, 2002 and 2001, were as follows (in thousands):

	2002	2001
Tax depreciation and amortization	**$(17)**	$(17)
Accrued pension	**(35)**	(23)
Accounts receivable allowances	**37**	37
Inventory reserve	**24**	24
Minimum pension liability	**95**	47
Other	**20**	19
Net deferred tax assets	**124**	87
Current deferred tax asset	**130**	80
Noncurrent deferred tax asset (liability)	**$ (6)**	$ 7

5. Income Taxes (continued)

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):

	2002	**2001**
Federal taxes at statutory rate	**$ 36**	$ 171
State income taxes, net of federal tax benefit	**4**	20
Provision for income taxes	**$ 40**	$ 191

6. Debt

On June 30, 2002, UWA renewed 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%. The line is unsecured and expires on August 30, 2003. There were no borrowings outstanding on the line at December 31, 2002.

SS/A has a $250,000 line-of-credit agreement. The interest rate on the line is prime plus 1%, payable monthly. The line expires on June 30, 2003. 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 2002 and 2001.

UWA incurred no interest expense in 2002 and 2001. Interest expense for SS/A (capital leases) for 2002 and 2001 was $0 and $182, respectively.

CFT incurred no interest expense in 2002 and 2001.

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 $11,659 and $9,860 for the plan in 2002 and 2001, 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.

7. Pension and Other Postretirement Benefits (continued)

In fiscal year 2002, UWA changed its plan measurement date from December 31 to October 31. 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 October 31, 2002 and December 31, 2001 (in thousands):

	Pension Benefits		Other Benefits	
	2002	**2001**	**2002**	**2001**
Benefit obligation	**$ 22,625**	$ 23,155	**$ 4,275**	$ 4,524
Fair value of plan assets[a]	**12,808**	15,687	**–**	–
Funded status	**(9,817)**	(7,468)	**(4,275)**	(4,524)
(Accrued) prepaid benefit cost recognized in the consolidating statements of financial position, net as of December 31	**(5,577)**	(4,353)	**(4,989)**	(4,608)

[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, 2002 and 2001, the accumulated benefit obligation of $18,148,616 and $18,276,163, respectively, 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 $2,618,203 in 2002 and $4,167,995 in 2001 at UWA, $7,000 at CFT in 2002 and accumulated other comprehensive loss, net of tax, of $149,000 in 2002 and $76,000 in 2001 at SS/A.

7. Pension and Other Postretirement Benefits (continued)

The amounts of contributions, benefit payments, and benefit cost reflected in the consolidating statements of activities for the years ended December 31, 2002 and 2001, were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2002	**2001**	**2002**	**2001**
Benefit cost	**$ 1,517**	$ 963	**$ 556**	$ 439
Employer contribution	**1,567**	648	**174**	155
Benefits paid	**(2,493)**	(1,579)	**(174)**	(155)

UWA's share of expense in the pension plans for 2002 and 2001 was approximately $1,355,000 and $660,000, respectively ($59,000 and $45,000 of which was allocated to EF&S — see Note 3). SS/A's share of expense in the pension plans for 2002 and 2001 was $148,000 and $96,000, respectively. CFT's share of expense in the pension plans for 2002 and 2001 was $14,000 and $2,600, respectively.

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

	Pension Benefits		Other Benefits	
	2002	**2001**	**2002**	**2001**
Discount rate	**6.75%**	7.0%	**6.75%**	6.5%
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 2002 annual rates of increase in the per capita cost of covered health care claims assumed for 2002 were as follows:

Age under 65	8.5%
Age 65 and older	7.0%

The rate was assumed to decrease gradually from 10% to 5.5% for medical coverage through 2012 and remain at that level thereafter and increase 5.5% per year for dental coverage.

7. Pension and Other Postretirement Benefits (continued)

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 $55,040 and $112,000, at December 31, 2002 and 2001, 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 $3,633.

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 $274,940 and $201,030 in 2002 and 2001, 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 2002 and 2001.

9. Commitments (continued)

Future minimum lease payments under operating leases as of December 31, 2002, are as follows (in thousands):

	UWA	SS/A
2003	$ 190	$ 101
2004	152	110
2005	150	114
2006	140	117
2007	121	121
Thereafter	121	110
Total future minimum lease payments	$ 874	$ 673

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 US. 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.