

UNITED WAY OF AMERICA AND SUBSIDIARIES

Consolidated Financial Statements

Years ended December 31, 2003 and 2002 with Report of Independent Auditors

United Way of America and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 2003 and 2002

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Report of Independent Auditors

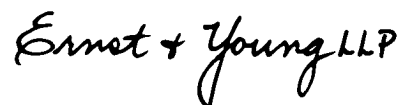
Board of Trustees
United Way of America

We have audited the accompanying consolidated statements of financial position of United Way of America (a New York not-for-profit corporation) and its subsidiaries, Sales Service/America, Inc. (a Virginia for-profit corporation); Charities Funds Transfer, Inc. (a Virginia not-for-profit corporation); and United eWay.Org (an Arizona not-for-profit corporation) as of December 31, 2003 and 2002, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of United Way of America. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial position of United Way of America and its subsidiaries, Sales Service/America, Inc.; Charities Funds Transfer, Inc.; and United eWay.org as of December 31, 2003 and 2002, and the 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The consolidating details appearing in conjunction with the consolidated financial statements and the schedules of functional expenses of United Way of America are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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.



May 7, 2004

United Way of America and Subsidiaries
Consolidated Statements of Financial Position—with Consolidating Details

(In Thousands)

	December 31, 2003					December 31, 2002					
	United Way of America	Sales Service/ America	Charities Funds Transfer	eWay	Consolidation Eliminations	Consolidated	United Way of America	Sales Service/ America	Charities Funds Transfer	Consolidation Eliminations	Consolidated
Assets											
Current assets:											
Cash and cash equivalents	\$ 11,790	\$ 1,922	\$ —	\$ 4	\$ —	\$ 13,716	\$ 14,735	\$ 1,730	\$ 253	\$ —	\$ 16,718
Custodial funds	2,201	—	14,355	—	—	16,556	3,905	—	14,835	—	18,740
Membership support receivables, net	2,705	—	—	—	—	2,705	3,206	—	—	—	3,206
Contributions receivable	1,200	—	—	—	—	1,200	10,884	—	—	—	10,884
Other receivables, net	861	199	—	462	—	1,522	667	250	—	—	917
Inventory	—	549	—	—	—	549	—	880	—	—	880
Prepaid expenses and other current assets	463	109	—	—	—	572	251	162	—	—	413
Due from affiliates	66	3	33	—	(102)	—	148	4	—	(152)	—
Total current assets	19,286	2,782	14,388	466	(102)	36,820	33,796	3,026	15,088	(152)	51,758
Noncurrent assets:											
Endowment and other long-term investments	2,500	—	—	—	—	2,500	2,500	—	—	—	2,500
Custodial assets	1,182	—	—	—	—	1,182	1,017	—	—	—	1,017
Land, building, equipment and leasehold improvements, net	8,815	80	—	1,104	—	9,999	9,607	126	—	—	9,733
Deferred compensation	—	—	—	—	—	—	55	—	—	—	55
Investment in subsidiary	1,527	—	—	—	(1,527)	—	1,527	—	—	(1,527)	—
Other noncurrent assets	—	17	—	—	—	17	—	22	—	—	22
Prepaid pension asset	—	206	—	—	—	206	—	—	—	—	—
Due from affiliates	1,028	—	—	—	(1,028)	—	—	—	—	—	—
Total noncurrent assets	15,052	303	—	1,104	(2,555)	13,904	14,706	148	—	(1,527)	13,327
Total assets	\$ 34,338	\$ 3,085	\$ 14,388	\$ 1,570	\$ (2,657)	\$ 50,724	\$ 48,502	\$ 3,174	\$ 15,088	\$ (1,679)	\$ 65,085

See accompanying notes.

United Way of America and Subsidiaries
Consolidated Statements of Financial Position—with Consolidating Details (continued)

(In Thousands)

	December 31, 2003					December 31, 2002					
	United Way of America	Sales Service/ America	Charities Funds Transfer	eWay	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	\$ 5,899	\$ 230	\$ 5	\$ 889	\$ —	\$ 7,023	\$ 3,232	\$ 430	\$ 13	\$ —	\$ 3,675
Custodial funds	2,201	—	14,388	—	—	16,589	3,905	—	14,835	—	18,740
Postretirement benefits	131	—	—	—	—	131	205	—	—	—	205
Income taxes payable	—	69	—	—	—	69	—	94	—	—	94
Deferred revenue:											
Membership support and other	185	—	26	—	—	211	56	—	—	—	56
Training programs, conference and service fees	3,080	—	—	172	—	3,252	2,945	—	—	—	2,945
Due to affiliates	36	66	—	—	(102)	—	4	94	54	(152)	—
Total current liabilities	11,532	365	14,419	1,061	(102)	27,275	10,347	618	14,902	(152)	25,715
Noncurrent liabilities:											
Deferred compensation	—	—	—	—	—	—	55	—	—	—	55
Custodial liability	1,182	—	—	—	—	1,182	1,017	—	—	—	1,017
Accrued pension	3,166	—	6	—	—	3,172	5,447	110	20	—	5,577
Postretirement benefits, net of current portion	3,000	—	—	—	—	3,000	4,784	—	—	—	4,784
Noncurrent deferred tax liability	—	92	—	—	—	92	—	—	—	—	—
Other noncurrent liabilities	30	—	—	—	—	30	—	—	—	—	—
Due to affiliates	—	—	—	1,028	(1,028)	—	—	—	—	—	—
Total noncurrent liabilities	7,378	92	6	1,028	(1,028)	7,476	11,303	110	20	—	11,433
Total liabilities	18,910	457	14,425	2,089	(1,130)	34,751	21,650	728	14,922	(152)	37,148
Commitments and contingencies											
Net assets and equity:											
Unrestricted:											
Land, building, equipment, and leasehold improvements, net	8,815	—	—	—	—	8,815	9,607	—	—	—	9,607
Minimum pension liability	(4,968)	—	(4)	—	—	(4,972)	(6,786)	—	(7)	—	(6,793)
General/operating	4,919	—	(33)	(519)	—	4,367	2,849	—	173	—	3,022
Total unrestricted	8,766	—	(37)	(519)	—	8,210	5,670	—	166	—	5,836
Temporarily restricted	4,162	—	—	—	—	4,162	18,682	—	—	—	18,682
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	—	1,101	—	—	—	1,101	—	1,068	—	—	1,068
Accumulated other comprehensive income (loss)	—	—	—	—	—	—	—	(149)	—	—	(149)
Total net assets and equity	15,428	2,628	(37)	(519)	(1,527)	15,973	26,852	2,446	166	(1,527)	27,937
Total liabilities and net assets and equity	\$ 34,338	\$ 3,085	\$ 14,388	\$ 1,570	\$ (2,657)	\$ 50,724	\$ 48,502	\$ 3,174	\$ 15,088	\$ (1,679)	\$ 65,085

See accompanying notes.

United Way of America and Subsidiaries
Consolidated Statement of Activities—with Consolidating Details

Year ended December 31, 2003

(In Thousands)

	United Way of America			Sales Service/ America	Charities Funds Transfer	eWay	Consolidation Eliminations	Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted					
Revenues								
Public support:								
Membership support, net	\$ 21,992	\$ —	\$ —	\$ 21,992	\$ —	\$ —	\$ —	\$ 21,992
Contributions	168	1,545	—	1,713	—	2,138	(1,556)	2,295
Total public support	22,160	1,545	—	23,705	—	2,138	(1,556)	24,287
Other revenue:								
Promotional material sales	1,476	—	—	1,476	5,561	—	(18)	7,019
Program service fees	1,037	—	—	1,037	—	—	(294)	743
Investment income	161	111	—	272	5	129	(125)	281
Conferences	1,764	—	—	1,764	—	—	—	1,764
Rental and service income	299	—	—	299	—	—	(65)	234
Federal grants	13	—	—	13	—	—	—	13
Transaction fees	—	—	—	—	—	591	—	591
Miscellaneous and other	31	—	—	31	—	—	—	31
Total other revenue	4,781	111	—	4,892	5,566	129	(502)	10,676
Net assets released from restrictions	16,176	(16,176)	—	—	—	—	—	—
Total revenues	43,117	(14,520)	—	28,597	5,566	129	(2,058)	34,963
Expenses								
Program services:								
Philanthropic & volunteer leadership	5,749	—	—	5,749	—	—	—	5,749
Community impact lab	15,098	—	—	15,098	—	—	(18)	15,080
Center for Community Leadership	4,365	—	—	4,365	—	—	—	4,365
External services	2,954	—	—	2,954	—	—	—	2,954
Brand leadership	6,121	—	—	6,121	—	—	—	6,121
Field leadership	3,755	—	—	3,755	—	—	—	3,755
Enterprise services	3,218	—	—	3,218	—	—	(1,556)	1,662
Cost of goods sold	—	—	—	—	3,079	—	(294)	2,785
Selling expenses	—	—	—	—	1,203	—	—	1,203
Pledge processing	—	—	—	—	—	2,558	—	2,558
Funds distribution	—	—	—	—	—	424	(65)	359
Total program services	41,260	—	—	41,260	4,282	424	(1,933)	46,591
Supporting services:								
General and administrative	2,658	—	—	2,658	1,074	—	690	4,422
Fund-raising	75	—	—	75	—	—	—	75
Provision for income taxes	—	—	—	—	52	—	—	52
Total supporting services	2,733	—	—	2,733	1,126	—	690	4,549
Total expenses	43,993	—	—	43,993	5,408	424	(1,933)	51,140
Changes in net assets before postretirement and pension adjustments	(876)	(14,520)	—	(15,396)	158	(295)	(519)	(16,177)
Postretirement benefit curtailment gain	2,244	—	—	2,244	—	—	—	2,244
Minimum pension liability change, net of tax	1,817	—	—	1,817	149	3	—	1,969
Transfer (to) from affiliate	(89)	—	—	(89)	—	89	—	—
Changes in net assets	3,096	(14,520)	—	(11,424)	307	(203)	(519)	(11,964)
Net assets, retained earnings, and accumulated other comprehensive income beginning of year	5,670	18,682	2,500	26,852	919	166	—	27,937
Dividend to United Way of America	—	—	—	—	(125)	—	125	—
Net assets, retained earnings, and accumulated other comprehensive income end of year	\$ 8,766	\$ 4,162	\$ 2,500	\$ 15,428	\$ 1,101	\$ (37)	\$ (519)	\$ 15,973

See accompanying notes.

United Way of America and Subsidiaries
Consolidated Statement of Activities—with Consolidating Details (continued)

Year ended December 31, 2002

(In Thousands)

	United Way of America			Sales Service/ America	Charities Funds Transfer	Consolidation Eliminations	Consolidated	
	Unrestricted	Temporarily Restricted	Permanently Restricted					Total
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	1,549	—	—	1,549	—	—	(334)	1,215
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	283	—	—	283	—	—	—	283
Miscellaneous and other	53	—	—	53	—	—	—	53
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
Community impact lab	17,163	—	—	17,163	—	—	(21)	17,142
Center for Community Leadership	4,104	—	—	4,104	—	—	—	4,104
External services	2,978	—	—	2,978	—	—	—	2,978
Brand leadership	6,830	—	—	6,830	—	—	—	6,830
Field leadership	3,462	—	—	3,462	—	—	—	3,462
Enterprise services	2,271	—	—	2,271	—	—	—	2,271
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 change, 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.

United Way of America and Subsidiaries
Consolidated Statements of Cash Flows—with Consolidating Details

(In Thousands)

	Year Ended December 31, 2003					Year Ended December 31, 2002					
	United Way of America	Sales Service/ America	Charities Funds Transfer	eWay	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	\$ (11,424)	\$ 158	\$ (203)	\$ (519)	\$ (125)	\$ (12,113)	\$ (12,256)	\$ 66	\$ (88)	\$ (300)	\$ (12,578)
Adjustments to reconcile changes in net assets to net cash flows provided by (used in) operating activities:											
Depreciation and amortization	1,208	72	—	249	—	1,529	1,233	98	4	—	1,335
Custodial fund receipts	153,124	—	128,418	—	(4,649)	276,893	147,543	—	147,603	(6,604)	288,542
Custodial fund disbursements	(154,663)	—	(128,865)	—	4,649	(278,879)	(151,811)	—	(144,929)	6,604	(290,136)
Deferred tax provision	—	49	—	—	—	49	—	11	—	—	11
Realized investment loss	25	—	—	—	—	25	—	—	—	—	—
Changes in assets and liabilities:											
Custodial funds	1,539	—	480	—	—	2,019	4,268	—	(2,675)	—	1,593
Membership support receivable, net	501	—	—	—	—	501	(854)	—	—	—	(854)
Other receivables, net	(194)	75	—	(462)	—	(581)	(21)	43	25	—	47
Contributions receivable	9,684	—	—	—	—	9,684	10,985	—	—	—	10,985
Inventory	—	331	—	—	—	331	—	(17)	—	—	(17)
Prepaid expenses and other current assets	(212)	(5)	—	—	—	(217)	(217)	2	—	—	(215)
Other noncurrent assets	—	5	—	—	—	5	—	4	—	—	4
Due to/from affiliates	(914)	(28)	(86)	1,028	—	—	109	(33)	(76)	—	—
Accounts payable and accrued liabilities	2,667	(217)	(9)	889	—	3,330	1,912	105	81	—	2,098
Deferred revenue	264	—	26	172	—	462	234	—	—	—	234
Postretirement benefits	(1,858)	—	—	—	—	(1,858)	381	—	—	—	381
Net accrued/prepaid pension	(2,281)	(73)	(14)	—	—	(2,368)	1,177	(73)	(1)	—	1,103
Other liabilities	30	(24)	—	—	—	6	—	29	(73)	—	(44)
Net cash flows provided by (used in) operating activities	(2,504)	343	(253)	1,357	(125)	(1,182)	2,683	235	(129)	(300)	2,489
Cash flows from investing activities											
Sales and maturities of investments	2,475	—	—	—	—	2,475	—	—	—	—	—
Purchases of equipment, net	(416)	(26)	—	(1,353)	—	(1,795)	(783)	(38)	—	—	(821)
Cash restricted for endowment	(2,500)	—	—	—	—	(2,500)	—	—	—	—	—
Net cash flows provided by (used in) investing activities	(441)	(26)	—	(1,353)	—	(1,820)	(783)	(38)	—	—	(821)
Cash flows from financing activities											
Dividend to UWA	—	(125)	—	—	125	—	—	(300)	—	300	—
Net cash flows used in financing activities	—	(125)	—	—	125	—	—	(300)	—	300	—
Net increase (decrease) in cash and cash equivalents	(2,945)	192	(253)	4	—	(3,002)	1,900	(103)	(129)	—	1,668
Cash and cash equivalents:											
Beginning of year	14,735	1,730	253	—	—	16,718	12,835	1,833	382	—	15,050
End of year	\$ 11,790	\$ 1,922	\$ —	\$ 4	\$ —	\$ 13,716	\$ 14,735	\$ 1,730	\$ 253	\$ —	\$ 16,718

See accompanying notes.

United Way of America
Schedule of Functional Expenses
For the year ended December 31, 2003

(In Thousands)

	Program Services							Supporting Services				Total Expenses
	Philanthropic & Volunteer Leadership	Civic Impact Lab	Center for Community Leadership	External Services	Brand Leadership	Field Leadership	Enterprise Services	Total Program Services	General and Administrative	Fund-raising	Total Supporting Services	
Salaries	\$ 2,781	\$ 2,260	\$ 1,623	\$ 1,395	\$ 1,544	\$ 2,041	\$ 817	\$ 12,461	\$ 1,165	\$ 31	\$ 1,196	\$ 13,657
Employee benefits and payroll taxes	956	790	547	456	520	696	263	4,228	387	11	398	4,626
Professional fees and contract services payments	632	1,540	846	521	3,395	128	262	7,324	542	18	560	7,884
Conferences and travel	592	486	909	83	144	325	98	2,637	41	6	47	2,684
Subscriptions and membership dues	35	59	31	48	9	30	2	214	15	1	16	230
Scholarships, grants, and awards	1	9,397	-	190	-	-	1,556	11,144	-	-	-	11,144
Supplies	71	70	52	26	134	101	47	501	21	1	22	523
Telephone	189	87	50	40	69	94	40	569	40	1	41	610
Postage and shipping	31	16	14	14	18	19	3	115	9	-	9	124
Occupancy	203	172	123	80	126	164	52	920	151	2	153	1,073
Other expenses	4	4	23	1	15	2	1	50	179	1	180	230
Depreciation and amortization	254	217	147	100	147	155	77	1,097	108	3	111	1,208
Total expenses	\$ 5,749	\$ 15,098	\$ 4,365	\$ 2,954	\$ 6,121	\$ 3,755	\$ 3,218	\$ 41,260	\$ 2,658	\$ 75	\$ 2,733	\$ 43,993

See accompanying notes.

United Way of America

Schedule of Functional Expenses (continued)

For the year ended December 31, 2002

(In Thousands)

	Program Services							Supporting Services			Total Expenses	
	Philanthropic & Volunteer Leadership	Civic Impact Lab	Center for Community Leadership	External Services	Brand Leadership	Field Leadership	Enterprise Services	Total Program Services	General and Administrative	Fund-raising		Total Supporting Services
Salaries	\$ 3,034	\$ 2,205	\$ 1,263	\$ 1,215	\$ 1,927	\$ 1,890	\$ 1,144	\$ 12,678	\$ 1,088	\$ 32	\$ 1,120	\$ 13,798
Employee benefits and payroll taxes	902	608	361	323	567	566	321	3,648	216	9	225	3,873
Professional fees and contract services payments	793	1,415	845	776	3,610	110	437	7,986	292	19	311	8,297
Conferences and travel	736	336	1,256	140	121	331	134	3,054	43	7	50	3,104
Subscriptions and membership dues	20	65	60	30	12	7	5	199	14	—	14	213
Scholarships, grants, and awards	12	11,884	3	6	7	6	7	11,925	4	—	4	11,929
Supplies	100	69	90	42	124	127	40	592	23	2	25	617
Telephone	132	62	29	27	52	71	103	476	27	1	28	504
Postage and shipping	42	14	20	10	16	17	3	122	15	—	15	137
Occupancy	240	138	81	149	172	179	29	988	104	3	107	1,095
Other expenses	24	200	1	77	19	—	—	321	229	1	230	551
Depreciation and amortization	288	167	95	183	203	158	48	1,142	88	3	91	1,233
Total expenses	\$ 6,323	\$ 17,163	\$ 4,104	\$ 2,978	\$ 6,830	\$ 3,462	\$ 2,271	\$ 43,131	\$ 2,143	\$ 77	\$ 2,220	\$ 45,351

See accompanying notes.

United Way of America and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2003

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 create 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.

Community Impact Lab—Grant distribution services, community building, national agencies' support, volunteer development, Mobilization for America's Children, housing, and literacy programs, 2-1-1 initiative, crisis response and Success By 6.

Center for Community Leadership—Training programs for volunteers and staff, national conferences, and organizational learning.

External Services—Specific services provided to local United Ways including system business plan implementation, public policy initiatives, research and consultation.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Purpose (continued)

Brand Leadership—Branding and promotion, public relations, publishing and production of campaign films and materials, production of National Football League television spots and internal communication.

Field Leadership—Regional and technical consultative support to local United Ways, coordination of national activities at the regional level and labor relations.

Enterprise Services—Encompasses both the technology assets as well as the alternative service delivery structures associated with specific product groups. The technology assets include the internal technology operations, the national web site and the extranet connecting local United Ways.

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 93% and 98% of SS/A's sales in 2003 and 2002, respectively.

SS/A earned administrative fees from UWA relating to the sales of films and publications sold on UWA's behalf. These fees were \$17,904 and \$20,752 in 2003 and 2002, respectively. SS/A declared dividends of \$125,000 and \$300,000 to UWA in 2003 and 2002, respectively, which are included in investment income at UWA. SS/A also accrued royalties to UWA of \$294,000 and \$334,000 in 2003 and 2002, respectively, which are included in program services revenue at UWA and in cost of goods sold at SS/A. At December 31, 2003 and 2002, SS/A had a liability to UWA of \$65,509 and \$93,733, 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 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 through 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.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Purpose (continued)

CFT pays rental and service fees to UWA. These rental and service fees were \$65,197 and \$57,048 in 2003 and 2002, respectively. As of December 31, 2002, CFT had a liability to UWA of \$53,860 for rent and services provided. During 2003, UWA forgave a receivable from CFT in the amount of \$55,680, which is reported as a transfer (to) from affiliate within the statement of activities. In addition, as of December 31, 2003 CFT had a receivable from UWA for \$33,415 to fund the shortfall between custodial assets held by CFT and the custodial liability, which was also reported as a transfer (to) from affiliate within the statement of activities.

In December of 2003, a Board decision was made to consolidate the operations of CFT into United eWay.org (eWay) and dissolve the CFT Board. CFT customers will use the fund distribution function of eWay (discussed below) beginning in April 2004.

eWay combines advanced online giving with integrated pledge processing and fund distribution services for corporate philanthropic programs. UWA is the sole member of eWay, an Arizona not-for-profit organization. eWay has received an exemption from federal income taxes under Section 501(c)(3), as an entity described in Section 509(a) of the Internal Revenue Code of 1986, as amended. UWA acquired eWay, effective January 1, 2003, and the eWay operations have been consolidated in the UWA statements since that date. The purchase price, \$250,000 (for discounted fees), was allocated to the acquired assets and liabilities using the purchase method of accounting for the combination. During 2003, UWA contributed \$1.5 million to eWay, which was reported by eWay as a contribution within the statement of activities. At December 31, 2003, eWay had a \$1.0 million payable to UWA, which is reflected as due to affiliates in the statement of financial position.

2. Summary of Significant Accounting Policies

Consolidation

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

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 2003 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.

In March of 2004, UWA received communication from the original donor of the \$2.5 million permanently restricted endowment permitting these net assets to be used for certain other purposes, thus relieving the permanent restriction.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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	2003	2002
Recognition of outstanding community service	\$ —	\$ 90
Literacy initiatives	6	101
Initiatives to benefit children, youth, and families	2,220	11,846
Initiatives to generate major donations to local United Way member organizations	242	294
Scholarships	115	115
Initiatives to assist communities in determining their social needs	295	325
Disaster preparedness	431	2,169
Technology initiatives	86	697
National corporate leadership expansion	81	162
September 11 th	—	181
Economic self-sufficiency	51	248
Strengthening access and engaging in civic life	—	15
Organizational transformation	521	2,413
Other	114	26
Total temporarily restricted net assets	\$ 4,162	\$ 18,682

Cash and Cash Equivalents

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

As of December 31, 2003 and 2002, cash equivalents included \$5.8 million and \$9.1 million, respectively, of cash restricted or designated for specific purposes.

Custodial Funds

Custodial funds at December 31, 2003 and 2002, included cash held by UWA for Emergency Food and Shelter (\$2.2 million and \$3.9 million, respectively), and CFT (\$14.4 million and \$14.8 million, respectively). See Note 3.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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 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, 2003 and 2002, consisted of the following (in thousands):

	2003				
	UWA	SS/A	CFT	Eliminations	Total
Interest income	\$ 66	\$ 5	\$ 98	\$ –	\$ 169
Dividend income	231	–	31	(125)	137
Realized (loss)	(25)	–	–	–	(25)
Realized investment income	272	5	129	(125)	281
Unrealized gain (loss)	–	–	–	–	–
Net investment income	\$ 272	\$ 5	\$ 129	\$ (125)	\$ 281

	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

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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 consolidated statements of financial position. The major components of membership support receivable at December 31 was as follows (in thousands):

	<u>2003</u>	<u>2002</u>
Membership support receivable	\$ 2,818	\$ 3,323
Reserve for doubtful accounts	(113)	(117)
Membership support receivable, net	<u>\$ 2,705</u>	<u>\$ 3,206</u>

Membership support revenue in the accompanying consolidated statements of activities is net of a credit provided for future training of members. The amount of the credit was \$3,294,054 in 2003 and \$3,160,172 in 2002. Credits are reflected as deferred revenue in the accompanying consolidated 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 2003 and 2002, UWA had received no conditional promises to give.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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 consolidated statements of financial position included the following unconditional promises to give (in thousands):

	2003	2002
Amounts due in:		
Less than one year	\$ 1,200	\$ 10,884
One to five years	-	-
Less: Discount	-	-
Total	\$ 1,200	\$ 10,884

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	eWay
Building	35 years	N/A	N/A	N/A
Furniture, equipment and software	3 – 5 years	3 – 7 years	3 – 5 years	3 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	N/A
Capitalization threshold	\$2,500	\$250	\$200	\$2,500

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Web Site Development Costs

UWA accounts for its web site development costs as it relates to eWay in accordance with Emerging Issues Task Force 00-02, *Accounting for Web Site Development Costs*. As such, UWA expenses all costs incurred that relate to the planning and post-implementation phases of development. Costs incurred in the development phase are capitalized to the extent their estimated useful life exceeds one year. Any capitalized costs are amortized over the asset's useful life of three years. Costs incurred associated with repairs and maintenance of the existing site or the development of web site content are expensed as incurred.

3. Custodial Funds

Since 1983, Congress has allocated \$2.48 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 2003 and 2002). During 2003 and 2002, approximately \$153 million and \$140 million, respectively, were disbursed in the form of grants to other charitable organizations. As of December 31, 2003 and 2002, undistributed balances of \$2.2 million and \$3.9 million, respectively, were included in custodial funds, with a corresponding liability in the accompanying consolidated statements of financial position.

At December 31, 2003 and 2002, CFT's custodial funds included \$14.4 million and \$14.8 million, respectively, of cash restricted for distribution to specified recipient charitable organizations.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Custodial Funds (continued)

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 2003 and 2002, UWA received approximately \$4.6 million and \$6.6 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.

UWA acts as trustee for certain planned giving investments. Annuity payments are made to the donor, and any residual restricted by the donor benefits local United Ways. As of December 31, 2003 and 2002, approximately \$1.2 and \$1 million, respectively, of such annuities are reflected in the consolidated statement of financial position as noncurrent custodial assets and custodial liabilities.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Land, Building, Equipment, and Leasehold Improvements

At December 31, 2003 and 2002, land, building, equipment, and leasehold improvements, at cost, were as follows (in thousands):

	2003			
	UWA	SS/A	CFT	eWay
Land	\$ 2,102	\$ –	\$ –	\$ –
Building/building improvements	12,472	–	–	–
Leasehold improvements	451	38	–	–
Furniture, equipment and software	4,365	756	76	391
Web site development costs	–	–	–	962
Less: Accumulated depreciation	(10,575)	(714)	(76)	(249)
Net totals	\$ 8,815	\$ 80	\$ –	\$ 1,104

	2002			
	UWA	SS/A	CFT	eWay
Land	\$ 2,102	\$ –	\$ –	\$ –
Building/building improvements	12,578	–	–	–
Leasehold improvements	–	38	–	–
Furniture, equipment and software	4,294	741	76	–
Web site development costs	–	–	–	–
Less: Accumulated depreciation	(9,367)	(653)	(76)	–
Net totals	\$ 9,607	\$ 126	\$ –	\$ –

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.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Income Taxes (continued)

The provision 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 for income taxes included the following components (in thousands):

	2003	2002
Current tax provision:		
Federal	\$ 2	\$ 23
State	1	6
Total current provision	3	29
Deferred tax provision:		
Federal	49	11
State	-	-
Total deferred provision	49	11
Total provision for income taxes	\$ 52	\$ 40

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, 2003 and 2002, were as follows (in thousands):

	2003	2002
Tax depreciation and amortization	\$(17)	\$(17)
Prepaid pension	(76)	(35)
Accounts receivable allowances	27	37
Inventory reserve	24	24
Minimum pension liability	-	95
Other	22	20
Net deferred tax (liabilities) assets	(20)	124
Current deferred tax asset	72	130
Noncurrent deferred tax liability	\$(92)	\$ (6)

The SS/A tax provision varies from the U.S. statutory federal income tax rate as a result of state taxes and, in 2003, a reduction in current taxes payable.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Debt

On August 30, 2003, UWA renewed an unsecured line-of-credit agreement for \$5 million. Borrowings under this line are payable upon expiration of the agreement, are subject to certain conditions, and bear interest at LIBOR plus 1.2%. The line is unsecured and expires on August 30, 2004. There were no borrowings outstanding on the line at December 31, 2003.

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, 2004. 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 2003 and 2002.

UWA, SS/A, CFT and eWay incurred no interest expense in 2003 and 2002.

7. Pension and Other Postretirement Benefits

UWA has a qualified, noncontributory defined benefit pension plan, which includes SS/A and CFT, and covers employees who have reached the age of 21 and 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 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.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension and Other Postretirement Benefits (continued)

UWA has established another nonqualified plan 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 \$10,000 and \$11,659 for the plan in 2003 and 2002, 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. Effective December 31, 2003, UWA amended the postretirement health and life insurance plan to limit benefits to current retirees only and freeze UWA contributions to 50% of the 2003 premiums. UWA recognized a corresponding curtailment gain of \$2,243,709 within the statement of activities related to this change. UWA may amend or change the plan periodically and does not fund this plan in advance.

In fiscal year 2002, UWA changed its defined benefit pension 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, 2003 and 2002, respectively (in thousands):

	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Benefit obligation	\$ 25,133	\$ 22,625	\$ 1,185	\$ 4,275
Fair value of plan assets ^(a)	17,232	12,808	-	-
Funded status	(7,901)	(9,817)	(1,185)	(4,275)
Accrued benefit cost recognized in the consolidated statements of financial position, net as of December 31	(3,172)	(5,577)	(3,131)	(4,989)

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension and Other Postretirement Benefits (continued)

- (a) Plan assets consist of investments in funds administered by State Street Bank and Trust and Mutual of America Life Insurance Company. 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, 2003 and 2002, the accumulated benefit obligation of \$19,588,150 and \$18,148,616, 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 an increase (reduction) of net assets of \$1,817,429 in 2003 and \$(2,618,203) in 2002 for UWA, (\$2,988) in 2003 and \$7,000 in 2002 for CFT and accumulated other comprehensive loss, net of tax, of \$149,000 in 2003 and \$(73,000) in 2002 for SS/A.

The amounts of contributions, benefit payments, and benefit cost reflected in the consolidated statements of activities for the years ended December 31, 2003 and 2002, were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Benefit cost	\$ 1,926	\$ 1,517	\$ 565	\$ 556
Employer contribution	2,865	1,567	190	174
Benefits paid	(516)	(2,493)	(190)	(174)

UWA's share of expense in the pension plans for 2003 and 2002 was approximately \$1,763,000 and \$1,355,000, respectively (\$54,000 and \$59,000 of which was allocated to EF&S—see Note 3). SS/A's share of expense in the pension plans for 2003 and 2002 was \$148,000. CFT's share of expense in the pension plans for 2003 and 2002 was \$15,000 and \$14,000, respectively.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension and Other Postretirement Benefits (continued)

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

	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Discount rate	6.25%	6.75%	6.25%	6.75%
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 2003 annual rates of increase in the per capita cost of covered health care claims assumed for 2003 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 2013 and remain at that level thereafter and increase 5.5% per year for dental coverage.

Certain former UWA executives chose to defer portions of their eligible pension benefits to future periods. The amount of this deferred compensation asset and liability was \$0 and \$55,040 at December 31, 2003 and 2002, respectively. Annuity contracts were purchased to fund this liability, which was paid in full in 2003.

8. Licensees

United Way International (UWI) is a separate charitable organization 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 \$3,786.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Commitments and Contingencies

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 \$255,464 and \$274,940 in 2003 and 2002, respectively.

SS/A moved its main office to a leased facility in November 1993. The original 60-month lease was extended through November 2003 and, during 2002, was additionally extended through November 30, 2008. Rent expense amounted to approximately \$98,000 and \$94,000 for 2003 and 2002, respectively.

Future minimum lease payments under operating leases as of December 31, 2003, are as follows (in thousands):

	<u>UWA</u>	<u>SS/A</u>
2004	\$ 201	\$ 110
2005	200	114
2006	190	117
2007	172	121
2008	172	114
Thereafter	—	—
Total future minimum lease payments	<u>\$ 935</u>	<u>\$ 576</u>