

UNITED WAY OF AMERICA AND SUBSIDIARIES

Consolidated Financial Statements

Years ended December 31, 2005 and 2004 with Report of Independent Auditors

United Way of America and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 2005 and 2004

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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, United Way Store (a Virginia for-profit corporation) and United eWay (a Virginia not-for-profit corporation) as of December 31, 2005 and 2004 and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of United Way of America's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of United Way of America's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of United Way of America's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, United Way Store and United eWay as of December 31, 2005 and 2004, 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.

Ernst & Young LLP

April 21, 2006

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

(In Thousands)

	December 31, 2005					December 31, 2004				
	United Way of America	United Way Store	United eWay	Consolidation Eliminations	Consolidated	United Way of America	United Way Store	United eWay	Consolidation Eliminations	Consolidated
Assets										
Current assets:										
Cash and cash equivalents	\$ 27,264	\$ 1,223	\$ -	\$ -	\$ 28,487	\$ 11,773	\$ 872	\$ 177	\$ -	\$ 12,822
Custodial funds	2,864	-	28,103	-	30,967	3,183	-	24,119	-	27,302
Membership support receivables, net	2,674	-	-	-	2,674	2,075	-	-	-	2,075
Contributions receivable	388	-	-	-	388	231	-	-	-	231
Other receivables, net	915	553	2,399	-	3,867	775	1,195	660	-	2,630
Inventory	-	746	-	-	746	-	625	-	-	625
Prepaid expenses and other current assets	473	69	3	-	545	288	239	-	-	527
Due from affiliates	4,452	-	-	(4,452)	-	2,130	2	-	(2,132)	-
Total current assets	39,030	2,591	30,505	(4,452)	67,674	20,455	2,933	24,956	(2,132)	46,212
Noncurrent assets:										
Custodial assets	1,634	-	-	-	1,634	1,639	-	-	-	1,639
Land, building, equipment, and leasehold improvements, net	7,695	153	864	-	8,712	8,050	161	1,184	-	9,395
Contributions receivable	275	-	-	-	275	176	-	-	-	176
Investment in subsidiary	1,527	-	-	(1,527)	-	1,527	-	-	(1,527)	-
Other noncurrent assets	-	27	-	-	27	-	23	-	-	23
Prepaid pension asset	-	272	-	-	272	-	6	-	-	6
Total noncurrent assets	11,131	452	864	(1,527)	10,920	11,392	190	1,184	(1,527)	11,239
Total assets	\$ 50,161	\$ 3,043	\$ 31,369	\$ (5,979)	\$ 78,594	\$ 31,847	\$ 3,123	\$ 26,140	\$ (3,659)	\$ 57,451

See accompanying notes.

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

(In Thousands)

	December 31, 2005					December 31, 2004				
	United Way of America	United Way Store	United eWay	Consolidation Eliminations	Consolidated	United Way of America	United Way Store	United eWay	Consolidation Eliminations	Consolidated
Liabilities and net assets and equity										
Current Liabilities:										
Accounts payable and accrued liabilities	\$ 4,010	\$ 370	\$ 901	\$ -	\$ 5,281	\$ 3,337	\$ 299	\$ 838	\$ -	\$ 4,474
Custodial funds	2,864	-	28,103	-	30,967	3,183	-	24,119	-	27,302
Postretirement benefits	167	-	-	-	167	188	-	-	-	188
Income taxes payable	-	49	-	-	49	-	103	-	-	103
Deferred revenue:										
Membership support and other	101	-	-	-	101	7	-	-	-	7
Training programs, conference, and service fees	3,039	-	-	-	3,039	2,047	-	-	-	2,047
Due to affiliates	-	69	4,383	(4,452)	-	2	139	1,991	(2,132)	-
Total current liabilities	10,181	488	33,387	(4,452)	39,604	8,764	541	26,948	(2,132)	34,121
Noncurrent liabilities:										
Custodial liability	1,634	-	-	-	1,634	1,639	-	-	-	1,639
Accrued pension	3,553	-	2	-	3,555	3,822	36	2	-	3,860
Postretirement benefits, net of current portion	2,711	-	-	-	2,711	2,805	-	-	-	2,805
Debt	-	-	5,000	-	5,000	-	-	3,850	-	3,850
Noncurrent deferred tax liability	-	2	-	-	2	-	44	-	-	44
Other noncurrent liabilities	120	-	-	-	120	45	-	-	-	45
Total noncurrent liabilities	8,018	2	5,002	-	13,022	8,311	80	3,852	-	12,243
Total liabilities	18,199	490	38,389	(4,452)	52,626	17,075	621	30,800	(2,132)	46,364
Commitments and contingencies (Note 8)										
Net assets and equity:										
Unrestricted:										
Land, building, equipment, and leasehold improvements, net	7,695	-	-	-	7,695	8,050	-	-	-	8,050
Minimum pension liability	(5,646)	-	-	-	(5,646)	(6,127)	-	-	-	(6,127)
General and operating	8,491	-	(7,020)	-	1,471	6,100	-	(4,660)	-	1,440
Total unrestricted	10,540	-	(7,020)	-	3,520	8,023	-	(4,660)	-	3,363
Temporarily restricted	21,422	-	-	-	21,422	6,749	-	-	-	6,749
Permanently restricted	-	-	-	-	-	-	-	-	-	-
Common stock	-	10	-	(10)	-	-	10	-	(10)	-
Additional paid-in capital	-	1,517	-	(1,517)	-	-	1,517	-	(1,517)	-
Retained earnings—SS/A	-	1,026	-	-	1,026	-	1,153	-	-	1,153
Accumulated other comprehensive income (loss)	-	-	-	-	-	-	(178)	-	-	(178)
Total net assets and equity	31,962	2,553	(7,020)	(1,527)	25,968	14,772	2,502	(4,660)	(1,527)	11,087
Total liabilities and net assets and equity	\$ 50,161	\$ 3,043	\$ 31,369	\$ (5,979)	\$ 78,594	\$ 31,847	\$ 3,123	\$ 26,140	\$ (3,659)	\$ 57,451

See accompanying notes.

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

Year ended December 31, 2005

(In Thousands)

	United Way of America			United Way Store	United eWay	Consolidation Eliminations	Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted				
Revenues							
Public support:							
Membership support, net	\$ 28,891	\$ -	\$ -	\$ 28,891	\$ -	\$ 340	\$ 29,231
Contributions	1,555	28,884	-	30,439	-	-	30,439
Total public support	30,446	28,884	-	59,330	-	340	59,670
Other revenue:							
Promotional material sales	713	-	-	713	5,801	-	6,514
Program service fees	1,008	220	-	1,228	-	-	1,228
Investment income	461	17	-	478	21	756	1,055
Conferences	1,830	-	-	1,830	-	62	1,892
Rental and service income	412	234	-	646	-	-	646
Transaction fees	-	-	-	-	-	2,979	2,979
Miscellaneous and other	219	-	-	219	-	22	241
Total other revenue	4,643	471	-	5,114	5,822	3,819	14,555
Net assets released from restrictions	14,682	(14,682)	-	-	-	-	-
Total revenues	49,771	14,673	-	64,444	5,822	4,159	74,225
Expenses							
Program services:							
Investor Relations	5,944	-	-	5,944	-	-	5,944
Community Impact Lab	6,008	-	-	6,008	-	-	6,008
Center for Community Leadership	5,622	-	-	5,622	-	-	5,622
Public Policy	920	-	-	920	-	-	920
Brand Leadership	8,872	-	-	8,872	-	-	8,872
Field Leadership	13,611	-	-	13,611	-	-	13,611
Enterprise Services	2,190	-	-	2,190	-	-	2,190
Cost of goods sold	-	-	-	-	3,226	-	3,226
Selling expenses	-	-	-	-	1,448	-	1,448
Funds distribution	-	-	-	-	-	5,042	5,042
Total program services	43,167	-	-	43,167	4,674	5,042	52,883
Supporting services:							
General and administrative	3,952	-	-	3,952	1,110	1,477	6,539
Fundraising	616	-	-	616	-	-	616
Provision for income taxes	-	-	-	-	(35)	-	(35)
Total supporting services	4,568	-	-	4,568	1,075	1,477	7,120
Total expenses	47,735	-	-	47,735	5,749	6,519	60,003
Changes in net assets before postretirement and pension adjustments	2,036	14,673	-	16,709	73	(2,360)	14,222
Change in additional minimum pension liability, net of tax	481	-	-	481	178	-	659
Changes in net assets	2,517	14,673	-	17,190	251	(2,360)	14,881
Net assets, retained earnings, and accumulated other comprehensive income beginning of year	8,023	6,749	-	14,772	975	(4,660)	11,087
Dividend to United Way of America	-	-	-	-	(200)	-	-
Net assets, retained earnings, and accumulated other comprehensive income end of year	\$ 10,540	\$ 21,422	\$ -	\$ 31,962	\$ 1,026	\$ (7,020)	\$ 25,968

See accompanying notes.

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

Year ended December 31, 2004

(In Thousands)

	United Way of America			Total	United Way Store	United eWay	Consolidation Eliminations	Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted					
Revenues								
Public support:								
Membership support, net	\$ 22,966	\$ —	\$ —	\$ 22,966	\$ —	\$ 49	\$ —	\$ 23,015
Contributions	1,674	7,931	—	9,605	—	167	—	9,772
Total public support	24,640	7,931	—	32,571	—	216	—	32,787
Other revenue:								
Promotional material sales	1,820	—	—	1,820	5,720	—	(15)	7,525
Program service fees	1,076	—	—	1,076	—	—	(301)	775
Investment income	258	18	—	276	10	233	(200)	319
Conferences	1,366	—	—	1,366	—	81	—	1,447
Rental and service income	408	—	—	408	—	—	—	408
Transaction fees	—	—	—	—	—	1,234	—	1,234
Miscellaneous and other	121	—	—	121	—	26	—	147
Total other revenue	5,049	18	—	5,067	5,730	1,574	(516)	11,855
Net assets released from restrictions	7,862	(5,362)	(2,500)	—	—	—	—	—
Total revenues	37,551	2,587	(2,500)	37,638	5,730	1,790	(516)	44,642
Expenses								
Program services:								
Investor Relations	5,446	—	—	5,446	—	—	—	5,446
Community Impact Leadership	9,051	—	—	9,051	—	—	—	9,051
Center for Community Leadership	4,987	—	—	4,987	—	—	(15)	4,972
Public Policy	2,258	—	—	2,258	—	—	—	2,258
Brand Leadership	6,156	—	—	6,156	—	—	—	6,156
Field Leadership	3,683	—	—	3,683	—	—	—	3,683
Enterprise Services	2,927	—	—	2,927	—	—	—	2,927
Cost of goods sold	—	—	—	—	3,241	—	(301)	2,940
Selling expenses	—	—	—	—	1,123	—	—	1,123
Funds distribution	—	—	—	—	—	5,157	—	5,157
Total program services	34,508	—	—	34,508	4,364	5,157	(316)	43,713
Supporting services:								
General and administrative	2,638	—	—	2,638	1,114	737	—	4,489
Fundraising	78	—	—	78	—	—	—	78
Total supporting services	2,716	—	—	2,716	1,114	737	—	4,567
Total expenses	37,224	—	—	37,224	5,478	5,894	(316)	48,280
Changes in net assets before changes in additional minimum pension liability	327	2,587	(2,500)	414	252	(4,104)	(200)	(3,638)
Changes in additional minimum pension liability, net of tax	(1,159)	—	—	(1,159)	(178)	—	—	(1,337)
Transfer from affiliate	89	—	—	89	—	—	—	89
Changes in net assets	(743)	2,587	(2,500)	(656)	74	(4,104)	(200)	(4,886)
Net assets, retained earnings, and accumulated other comprehensive income beginning of year	8,766	4,162	2,500	15,428	1,101	(556)	—	15,973
Dividend to United Way of America	—	—	—	—	(200)	—	200	—
Net assets, retained earnings, and accumulated other comprehensive income end of year	\$ 8,023	\$ 6,749	\$ —	\$ 14,772	\$ 975	\$ (4,660)	\$ —	\$ 11,087

See accompanying notes.

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

(In Thousands)

	Year ended December 31, 2005					Year ended December 31, 2004				
	United Way of America	United Way Store	United eWay	Consolidation Eliminations	Consolidated	United Way of America	United Way Store	United eWay	Consolidation Eliminations	Consolidated
Cash flows from operating activities										
Changes in net assets/net income	\$ 17,190	\$ 73	\$ (2,360)	\$ (200)	\$ 14,703	\$ (656)	\$ 252	\$ (4,104)	\$ (200)	\$ (4,708)
Adjustments to reconcile changes in net assets/net income to net cash flows provided by (used in) operating activities:										
Depreciation and amortization	760	90	781	-	1,631	970	85	598	-	1,653
Custodial fund receipts	173,032	-	215,211	(4,406)	383,837	153,652	-	142,315	(3,853)	292,114
Custodial fund disbursements	(173,356)	-	(211,249)	4,406	(380,199)	(152,213)	-	(132,587)	3,853	(280,947)
Deferred tax provisions	-	141	-	-	141	-	(64)	-	-	(64)
Realized investment loss	-	-	22	-	22	-	-	3	-	3
Changes in assets and liabilities:										
Custodial funds	324	-	(3,984)	-	(3,660)	(1,439)	-	(9,764)	-	(11,203)
Membership support receivable, net	(599)	-	-	-	(599)	630	-	-	-	630
Other receivables, net	(140)	644	(1,742)	-	(1,238)	86	(996)	(198)	-	(1,108)
Contributions receivable	(157)	-	-	-	(157)	793	-	-	-	793
Inventory	-	(121)	-	-	(121)	-	(76)	-	-	(76)
Prepaid expenses and other current assets	(185)	(13)	-	-	(198)	175	(19)	-	-	156
Other noncurrent assets	(99)	(4)	-	-	(103)	-	(6)	-	-	(6)
Due to/from affiliates	(2,324)	(81)	2,392	-	(13)	(1,070)	74	996	-	-
Accounts payable and accrued liabilities	673	81	63	-	817	(2,562)	69	(56)	-	(2,549)
Deferred revenue	1,086	-	-	-	1,086	(1,211)	-	(198)	-	(1,409)
Postretirement benefits	(115)	-	-	-	(115)	(138)	-	-	-	(138)
Net accrued/prepaid pension	(269)	(123)	-	-	(392)	656	(37)	(4)	-	615
Other liabilities	75	(55)	-	-	20	15	34	-	-	49
Net cash flows provided by (used in) operating activities	15,896	632	(866)	(200)	15,462	(2,312)	(684)	(2,999)	(200)	(6,195)
Cash flows from investing activities										
Purchase of equipment	(405)	(81)	(461)	-	(947)	(205)	(166)	(678)	-	(1,049)
Cash restricted for endowments	-	-	-	-	-	2,500	-	-	-	2,500
Net cash flows provided by (used in) investing activities	(405)	(81)	(461)	-	(947)	2,295	(166)	(678)	-	1,451
Cash flow from financing activities										
Dividend to UWA	-	(200)	-	200	-	-	(200)	-	200	-
Proceeds on issuance of debt	-	-	1,150	-	1,150	-	-	3,850	-	3,850
Net cash flows provided by (used in) financing activities	-	(200)	1,150	200	1,150	-	(200)	3,850	200	3,850
Net increase (decrease) in cash and cash equivalents	15,491	351	(177)	-	15,665	(17)	(1,050)	173	-	(894)
Cash and cash equivalents:										
Beginning of year	11,773	872	177	-	12,822	11,790	1,922	4	-	13,716
End of year	\$ 27,264	\$ 1,223	\$ -	\$ -	\$ 28,487	\$ 11,773	\$ 872	\$ 177	\$ -	\$ 12,822

See accompanying notes.

United Way of America and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005

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 movement 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 (IRS) 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. UWA is required to make the appropriate tax payments on any income considered unrelated business taxable income to its exempt purpose.

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 donor contributions. If any local United Way does not remit membership support, the organization's right to use the name and service marks may be revoked.

UWA uses the following program service categories for reporting purposes:

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

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

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

Public Policy—Leads UWA's federal advocacy efforts on behalf of the United Way movement to promote key issues before congress and the White House.

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

1. Organization and Purpose (continued)

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

Enterprise Services—Encompasses both the technology assets as well as the alternative services 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.

United Way Store (UW Store) is a wholly owned, for-profit subsidiary of UWA. To better identify itself with the United Way movement, in 2005, UW Store changed its name from Sales Service/America, Inc. UW Store's purpose is to provide sales fulfillment services to UWA and other organizations. Sales to UWA and local United Way agencies accounted for approximately 60% and 51% of UW Store's sales for 2005 and 2004, respectively.

Charities Funds Transfer, Inc. (CFT) was a national service center used to simplify and speed the distribution of corporate, employee, retiree, and foundation donations throughout the United Way movement. CFT was a Virginia not-for-profit organization with the sole member being UWA. CFT had 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.

In December 2003, the Board decided to consolidate the operations of CFT into United eWay.org (eWay) and dissolve the CFT Board. CFT customers began using the fund distribution services of eWay (discussed below) on April 1, 2004.

eWay combines advanced online giving with integrated pledge processing and fund distribution services for corporate philanthropic programs. eWay is a wholly owned subsidiary of UWA and was originally an Arizona not-for-profit organization (subsequently dissolved) that merged with CFT in November 2004 to become a Virginia not-for-profit organization. eWay has received an exemption 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.

In June 2005, the Executive Committee of UWA's Board of Trustees approved a resolution for UWA to enter into a management agreement to perform the day-to-day operations of United Way of TriState. Under this agreement dated July 1, 2005, the UW of TriState Board of Directors retained fiduciary oversight of the organization and provision was made for the reimbursement of certain expenses incurred by UWA in the performance of its obligations. At June 30, 2005, UW of TriState's audited financials reflect a \$1,198,601 net liability. The future financial and structural implications of these

1. Organization and Purpose (continued)

actions are expected to be determined by September 30, 2006. On January 30, 2006 UWA's Board of Trustees, approved a resolution to assume the net assets of UW of TriState upon its final dissolution. The UW of TriState Board of Directors approved a Plan of Dissolution in March 2006 which will be filed for approval with the New York Attorney General and New York Supreme Court, as required under New York law. Upon the effective date of approval of the dissolution, UW of TriState's assets and liabilities will be deemed assumed by UWA and incorporated into UWA's financial statements.

In June 2005, United eWay completed an Asset Transfer Agreement with UW of TriState whereby assets related to UW of TriState's pledge processing and distribution services would be transferred to eWay. These assets are recorded in the accompanying consolidated financial statements with the exception of \$1,397,000 in custodial funds that, as of December 2005, have not been transferred to eWay.

2. Summary of Significant Accounting Policies

Presentation

The accompanying consolidated financial statements include UWA, UW Store, and eWay (the Companies). All intercompany transactions are eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

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 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.

2. Summary of Significant Accounting Policies (continued)

Net Assets

Net assets are classified in 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 consolidated statements of activities as net assets released from restrictions. Permanently restricted net assets are contributions that may never be spent (i.e. endowment funds). They are provided with donor stipulations that they be invested to provide a permanent source of income. As of December 2005, UWA has no permanently restricted net assets.

In March 2004, UWA received communication from the original donor of a \$2.5 million permanently restricted endowment which relieved the permanent restriction classification and placed no additional restriction on the use of those funds. This release of restriction was reported in the consolidated statements of activities as net assets released from restrictions.

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

Type of Restriction	2005	2004
Disaster preparedness	\$19,523	\$ 4,677
Initiative to benefit children, youth, and families	334	500
Initiatives to generate major donations to local United Way member organizations	641	451
Scholarships	68	75
Initiatives to assist communities in determining their social needs	287	212
Economic self-sufficiency	118	203
Organizational transformation	195	341
Other	256	290
Total temporarily restricted net assets	\$21,422	\$ 6,749

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

As of December 31, 2005 and 2004, cash equivalents include \$21.4 and \$7.5 million, respectively, of cash restricted or designated for specific purposes.

Custodial Funds

Custodial Funds at December 31, 2005 and 2004, included cash held by UWA for Emergency Food and Shelter (\$2.9 and \$3.2 million, respectively) and cash held by eWay (\$28.1 and \$24.1 million, respectively) (see Note 3).

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 of greater than one year.

UWA's investment policy authorizes investment in U.S. Treasury issues, U.S. government agency issues, certificates of deposit, bankers' acceptances, commercial paper, corporate notes and debentures, 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.

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

Investment income for the years ended December 31, 2005 and 2004, consisted of the following (in thousands):

	2005				
	UWA	UW Store	eWay	Eliminations	Total
Interest income	\$ 234	\$ 21	\$ 270	\$ -	\$ 525
Dividend income	243	-	508	(200)	551
Realized investment income	477	21	778	(200)	1,076
Unrealized loss	-	-	(22)	-	(22)
Net investment income	\$ 477	\$ 21	\$ 756	\$ (200)	\$1,054

	2004				
	UWA	UW Store	eWay	Eliminations	Total
Interest income	\$ 52	\$ 10	\$ -	\$ -	\$ 62
Dividend income	224	-	236	(200)	260
Realized investment income	276	10	236	(200)	322
Unrealized loss	-	-	(3)	-	(3)
Net investment income	\$ 276	\$ 10	\$ 233	\$ (200)	\$ 319

Membership Support Receivable and Revenue

Membership support receivable is recorded in the year in which commitments 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.

2. Summary of Significant Accounting Policies (continued)

Membership Support Receivable and Revenue (continued)

The major components of membership support receivable at December 31 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Membership support receivable	\$ 2,754	\$ 2,180
Reserve for doubtful accounts	(80)	(105)
Membership support receivable, net	<u>\$ 2,674</u>	<u>\$ 2,075</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 approximately \$3.7 in 2005 and \$2.1 million in 2004. 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 stipulated conditions to be met before the contribution is made are not accrued until the conditions are met. As of December 31, 2005 and 2004, 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 then current risk-free interest rate. The calculated discount was not material for 2005 and 2004, respectively.

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

	<u>2005</u>	<u>2004</u>
Amounts due in:		
Less than one year	\$ 388	\$ 231
One to five years	275	176
Total	<u>\$ 663</u>	<u>\$ 407</u>

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. Inventory is utilized on a first in first out (FIFO) method.

2. Summary of Significant Accounting Policies (continued)

Land, Building, Equipment, and Leasehold Improvements

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

	<u>UWA</u>	<u>UW Store</u>	<u>eWay</u>
Building	35 years	N/A	N/A
Furniture, equipment, and software	3-5 years	3-7 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
Capitalization threshold	\$2,500	\$250	\$2,500

Web Site Development Costs

UWA accounts for its Web site development costs as it relates to eWay in accordance with Emerging Issues Task Force (EITF) 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 lives of three years. Cost incurred associated with repairs and maintenance of the existing site or the development of Web site content, is expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

Custodial Funds

Since 1983, Congress has allocated \$2.63 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 UWA's financial statements. UWA was appointed 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 \$169,000 in 2005 and \$168,000 in 2004). Approximately \$153 million and \$152 million respectively, were distributed in the form of grants to other charitable organizations. As of December 31, 2005 and 2004, undistributed balances of \$2.9 million and \$3.2 million, respectively, were included in custodial funds, with a corresponding liability in the accompanying consolidated statements of financial position.

At December 31, 2005 and 2004, eWay's custodial funds included approximately \$28.1 million and \$24.1 million, respectively, of cash restricted for distribution to specified recipient charitable organizations.

UWA entered into an agreement that provides for distribution of funds by eWay 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 fundraising, administration, and management services to its constituent members. UWA receives funds designated for members of the Federation and transfers those funds to eWay for distribution to the members. In 2005 and 2004, UWA received approximately \$4.4 million and \$3.8 million, respectively, in custodial funds to be distributed by eWay, all of which were transferred to eWay by year-end.

2. Summary of Significant Accounting Policies (continued)

Custodial Funds (continued)

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, 2005 and 2004, approximately \$1.6 million and \$1.4 million, respectively, of such annuities are reflected in the consolidated statements of financial position as noncurrent custodial assets and custodial liabilities.

3. Land, Building, Equipment, and Leasehold Improvements

At December 31, 2005 and 2004, land, building, equipment, and leasehold improvements, at cost, were as follows (in thousands):

	2005		
	UWA	UW Store	eWay
Land	\$ 2,102	\$ -	\$ -
Building and building improvements	12,360	-	-
Leasehold improvements	952	46	-
Furniture, equipment, and software	4,586	700	494
Web site development costs	-	-	1,979
Less: accumulated depreciation	(12,305)	(593)	(1,610)
	<u>\$ 7,695</u>	<u>\$ 153</u>	<u>\$ 863</u>

3. Land, Building, Equipment, and Leasehold Improvements (continued)

	2004		
	UWA	UW Store	eWay
Land	\$ 2,102	\$ –	\$ –
Building and building improvements	12,360	–	–
Leasehold improvements	681	38	–
Furniture, equipment, and software	4,452	778	487
Web site development costs	–	–	1,543
Less: accumulated depreciation	(11,545)	(655)	(846)
	<u>\$ 8,050</u>	<u>\$ 161</u>	<u>\$ 1,184</u>

4. Income Taxes

UWA is required to file IRS Form 990-T when it incurs taxable income. UWA received approximately \$313,000 and \$321,000 in royalty income from UW Store for the years 2005 and 2004, respectively. The assessment of this revenue as unrelated business taxable income is underway. No provision for income tax is provided in UWA's financial statements.

UW Store 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 carry forwards.

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):

4. Income Taxes (continued)

	<u>2005</u>	<u>2004</u>
Current tax provision:		
Federal	\$ (9)	\$ 83
State	(1)	10
Total current provision	<u>(10)</u>	<u>93</u>
Deferred tax provision:		
Federal	(22)	(93)
State	(3)	-
Total deferred provision	<u>(25)</u>	<u>(93)</u>
Total provision for income taxes	<u><u>\$(35)</u></u>	<u><u>\$ -</u></u>

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, 2005 and 2004 were as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Tax depreciation and amortization	\$ (7)	\$(32)
Prepaid pension	(20)	(11)
Accounts receivable allowances	7	24
Inventory reserve	11	60
Other	7	3
Net deferred tax (liabilities) assets	<u>(2)</u>	<u>44</u>
Current deferred tax asset	-	87
Noncurrent deferred tax liability	<u><u>\$ (2)</u></u>	<u><u>\$(43)</u></u>

The UW Store tax provision varies from the U.S. statutory federal income tax rate as a result of state taxes.

5. Debt

On December 20, 2005, UWA renewed an unsecured line-of-credit agreement for \$5 million. Borrowings under this line are payable upon expiration of the agreement and are subject to certain conditions. The line of credit bears interest at LIBOR plus 1.2%. The line expires on August 31, 2006. There were no borrowings outstanding on the line at December 31, 2005 and 2004, respectively.

5. Debt (continued)

UW Store 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, 2006. UW Store had 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 2005 and 2004.

eWay entered into a \$5.0 million term loan agreement on May 18, 2004. The interest rate on the line is prime plus 2.5%, payable monthly. The loan is due to expire on May 1, 2011. UWA is the guarantor for the entire term loan. Additionally, as a condition of the loan, UWA must maintain a cash balance of \$5.0 million on December 31 of each year. The balance outstanding on the term loan was \$5.0 million \$3.85 million as of December 31, 2005 and 2004, respectively.

UWA and UW Store incurred no interest expense in 2005 and 2004. eWay incurred approximately \$252,000 and \$66,000 interest expense in 2005 and 2004, respectively.

6. Pension and Other Postretirement Benefits

The Pension Plan of the United Way of America is a qualified, noncontributory defined benefit pension plan, which includes UW Store and eWay, 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 the date of hire, and is nonforfeitable upon attainment of early retirement age. Contributions to the plan are based on actuarially determined amounts.

During 2004 the Board approved changes to the above defined benefit pension plan that became effective July 1, 2005. In this change, the benefit levels of participants in the plan were frozen as of the effective date of the change and precluded new employees from participating in the plan.

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.

6. Pension and Other Postretirement Benefits (continued)

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 and accrued benefit costs at October 31, 2005 and 2004, respectively (in thousands):

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
Benefits obligation	\$ 27,735	\$ 29,673	\$ 1,354	\$ 1,449
Fair value of plan assets ^(a)	21,111	19,215	-	-
Funded status	(6,624)	(10,458)	(1,354)	(1,449)
Accrued benefit cost recognized in the consolidated statements of financial position, net as of December 31	(3,555)	(3,860)	(2,878)	(2,993)

(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, 2005 and 2004, the accumulated benefit obligation of \$23,352,175 and \$23,009,166, respectively, of the UWA noncontributory defined benefit plan exceeded the fair value of the plan assets. As a result, an additional minimum pension liability adjustment was required to be recorded, which resulted in a increase (reduction) in net assets of \$480,886 in 2005 and \$(1,158,366) in 2004 for UWA and accumulated other comprehensive gain (loss), net of tax, of \$178,000 in 2005 and \$(178,000) in 2004 for UW Store.

6. Pension and Other Postretirement Benefits (continued)

The amounts of contributions, benefit payments, and benefit cost reflected in the consolidated statements of activities for the years ended December 31, 2005 and 2004, were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
Interest costs	\$ 1,640	\$ 1,563	\$ 80	\$ 70
Service costs	598	1,001	26	—
Expected return on assets	(1,640)	(1,395)	-	—
Amortization of prior service costs	(27)	(54)	(59)	(59)
Amortization of losses (gains)	845	683	(39)	(63)
Amortization of transition obligation	(29)	(29)	-	—
Total benefit cost	\$ 1,387	\$ 1,769	\$ 8	\$ (52)
Employer contribution	\$ 1,924	\$ 2,651	\$ 123	\$ 120
Benefits Paid	(1,329)	(1,211)	(123)	(120)

UWA's share of expenses in the pension plans for 2005 and 2004 was approximately \$1,306,000 and \$1,635,000, respectively. UW Store's share of the expenses in the pension plans for 2005 and 2004 was \$86,000 and \$118,000, respectively.

UWA expects to make no contributions to the pension plan in 2006 and expects to contribute approximately \$120,000 to the postretirement plan during 2006.

6. 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	
	2005	2004	2005	2004
Discount rate	5.75%	5.75%	5.75%	5.75%
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

To develop the expected long-term rate of return on asset assumptions, UWA considered the historical returns and the future expectations for returns for each asset class, as well as target asset allocation of the pension portfolio. This resulted in the selection of the 8% long-term rate of return on assets assumption.

For measurement purposes, the 2005 annual rates of increase in the per capita cost of covered health care claims for 2005 were as follows:

Age under 65	3.4%
Age 65 and older	1.7%

The rate was assumed to decrease gradually from 9.1% to 5.5% for medical coverage through 2013 and remain at that level thereafter and increase 5.5% per year for dental coverage.

The assets held by the pension plan, by category, as of December 31 were:

Asset Category	2005	2004
Equities	62%	63%
Fixed income/cash	38	37
Total	<u>100%</u>	<u>100%</u>

The pension plan assets are diversified to minimize risk and maximize returns. The targeted asset allocation is 60% equities and 40% fixed income/cash. The pension plan assets are managed by professional investment managers and are monitored by management and UWA's Finance, Audit, and Compliance Committee.

6. Pension and Other Postretirement Benefits (continued)

Estimated future benefit payments expected to be paid over the next 10 years under the pension plans and the postretirement plan as of December 31 (in thousands):

	Pension Plans	Postretirement Plan
2006	\$ 584	\$ 114
2007	1,297	110
2008	696	107
2009	2,102	104
2010	2,064	102
2011 to 2015	7,153	478
Total	<u>\$ 13,896</u>	<u>\$ 1,015</u>

The United Way of America 415 Replacement Plan is a non-qualified, noncontributory defined benefit pension plan established 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.

The United Way of America Senior Vice President's Plan is a non-qualified, noncontributory plan established 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.

The United Way of America supplemental Pension Benefit Plan is a non-qualified, noncontributory plan established in 2000. This plan was established to replace benefits in the qualified plan for participants affected by IRS salary limits, as well as benefit limits.

In 1997, UW Store approved a 401(k) plan for all employees. UW Store accrued contributions of \$52,000 and \$10,000 for the plan in 2005 and 2004, respectively.

7. Licenses

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 fundraising, 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 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. Under terms of an annual contract, in 2005 UWA leased office space to UWI at a monthly rent of approximately \$4,000.

8. 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. Rent expense was approximately \$316,000 and \$294,000 in 2005 and 2004, respectively.

The UW Store main office lease expires November 30, 2008. Rent expense for the UW Store amounted to approximately \$117,000 for both years ending 2005 and 2004, respectively.

Future minimum lease payments under the operating leases as of December 31, 2005 are as follows (in thousands):

	<u>UWA</u>	<u>UW Store</u>
2006	\$ 201	\$ 117
2007	201	121
2008	201	114
2009	151	-
2010 and Thereafter	150	-
Total future minimum lease payments	<u>\$ 904</u>	<u>\$ 352</u>

9. In-Kind Donations

UWA received in-kind donations in 2005 and 2004 valued at \$2.7 million and \$0, respectively. These donations are reflected in UWA's Statement of Financial Position.

In addition, UWA has maintained a mutually beneficial relationship with the National Football League (NFL) where UWA underwrites the cost to produce the Public Service Announcements (PSA) for broadcast during televised NFL games. The PSAs promote volunteerism in local United Way communities and feature NFL players involved in various local United Way community volunteer activities. The NFL donates the air time for the PSA to run during NFL games throughout the NFL season. UWA does not record this donation of the air time as an in-kind gift due to the lack of direct benefit to UWA from the ads and UWA's financial inability to purchase such advertising, were it not to be donated. The estimated value of the donated air time is estimated to be \$20 million and \$26 million for the 2005/2006 and 2004/2005 NFL seasons, respectively.

An additional \$27 million in air time was donated by various contributors to promote United Way initiatives and support United Way's mission to improve lives by mobilizing the caring power of communities. Like the NFL PSAs, UWA does not record this donation of air time as an in-kind gift.

Supplemental Schedule

United Way of America
Schedule of Functional Expenses
For the year ended December 31, 2005
(In Thousands)

	Program Services							Supporting Services			Total Expenses	
	Investor Relations	Community Impact Leadership	Center for Community Leadership	Public Policy	Brand Leadership	Field Leadership	Enterprise Services	Total Program Services	General and Administrative	Fundraising		Total Supporting Services
Salaries	\$ 2,976	\$ 2,228	\$ 2,325	\$ 513	\$ 2,743	\$ 1,224	\$ 888	\$ 12,897	\$ 1,661	\$ 245	\$ 1,906	\$ 14,803
Employee benefits and payroll taxes	871	676	712	153	832	317	278	3,839	489	87	576	4,415
Professional fees and contract services payments	814	1,817	994	79	4,417	2,381	326	10,828	765	69	834	11,662
Conferences and travel	583	325	1,131	56	214	617	134	3,060	104	151	255	3,315
Subscriptions, dues, and staff development	36	25	-	25	39	19	3	147	96	4	100	247
Scholarships, grants, and awards	19	300	7	2	20	8,446	22	8,816	6	-	6	8,822
Supplies	101	67	95	12	184	272	419	1,150	57	16	73	1,223
Telephone	132	72	52	14	74	59	34	437	39	40	79	516
Postage and shipping	28	28	24	4	29	15	7	135	14	4	18	153
Occupancy	214	192	168	36	167	143	45	965	166	-	166	1,131
Other expenses	21	169	12	-	6	28	2	238	449	-	449	687
Depreciation and amortization	149	109	102	26	147	90	32	655	106	-	106	761
Total expenses	\$ 5,944	\$ 6,008	\$ 5,622	\$ 920	\$ 8,872	\$ 13,611	\$ 2,190	\$ 43,167	\$ 3,952	\$ 616	\$ 4,568	\$ 47,735

See accompanying notes.

United Way of America
Schedule of Functional Expenses (continued)

For the year ended December 31, 2004

(In Thousands)

	Program Services							Supporting Services			Total Expenses	
	Investor Relations	Community Impact Leadership	Center for Community Leadership	External Services	Brand Leadership	Field Leadership	Enterprise Services	Total Program Services	General and Administrative	Fundraising		Total Supporting Services
Salaries	\$ 2,616	\$ 2,513	\$ 1,878	\$ 1,149	\$ 1,573	\$ 2,029	\$ 684	\$ 12,442	\$ 1,206	\$ 30	\$ 1,236	\$ 13,678
Employee benefits and taxes	767	762	544	350	489	631	206	3,749	407	10	417	4,166
Professional fees and contract services	660	2,452	1,084	360	3,384	118	1,203	9,261	316	22	338	9,599
Conferences and travel	501	269	968	66	135	311	115	2,365	46	6	52	2,417
Subscriptions, dues, and staff development	53	40	48	63	28	47	8	287	26	1	27	314
Scholarships, grants and awards	96	2,307	41	18	2	1	597	3,062	1	-	1	3,063
Supplies	98	71	54	29	155	125	16	548	30	1	31	579
Telephone	201	138	55	36	83	93	29	635	40	2	42	677
Postage and shipping	30	13	16	13	14	20	2	108	10	-	10	118
Occupancy	219	194	149	89	154	176	35	1,016	182	3	185	1,201
Other expenses	2	112	28	1	11	3	-	157	284	1	285	442
Depreciation and amortization	203	180	122	84	128	129	32	878	90	2	92	970
Total expenses	\$ 5,446	\$ 9,051	\$ 4,987	\$ 2,258	\$ 6,156	\$ 3,683	\$ 2,927	\$ 34,508	\$ 2,638	\$ 78	\$ 2,716	\$ 37,224

See accompanying notes.