

**UNITED WAY OF BUFFALO
AND ERIE COUNTY**

FINANCIAL STATEMENTS

March 31, 2006



INDEPENDENT AUDITORS' REPORT

The Board of Directors
United Way of Buffalo and Erie County
Buffalo, New York

We have audited the accompanying balance sheets of United Way of Buffalo and Erie County as of March 31, 2006 and 2005 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 of America. Those standards require that we plan and perform the audits 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 financial position of United Way of Buffalo and Erie County as of March 31, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lumsden & McCormick, LLP

May 31, 2006

UNITED WAY OF BUFFALO AND ERIE COUNTY

Balance Sheets

March 31,	2006	2005
Assets		
Cash	\$ 3,839,998	\$ 2,707,544
Investments (Note 3)	1,981,022	1,926,270
Campaign pledges receivable, net (Note 4)	10,342,927	10,594,229
Property and equipment, net (Note 5)	3,455,354	3,669,031
Prepaid pension (Note 6)	540,404	561,308
Other assets	724,432	633,716
	<u>\$ 20,884,137</u>	<u>\$ 20,092,098</u>
Liabilities and Net Assets		
Liabilities:		
Designations payable	\$ 3,399,312	\$ 3,620,589
Allocations payable	2,157,652	1,753,718
Accounts payable and accrued expenses	424,563	399,286
Unemployment insurance trust funds (Note 7)	157,766	335,357
Deferred revenue	1,339,023	999,950
Accrued postretirement benefit obligation (Note 8)	320,000	317,000
	<u>7,798,316</u>	<u>7,425,900</u>
Net assets:		
Unrestricted (Note 2)	5,373,797	4,192,632
Temporarily restricted	7,697,024	8,458,566
Permanently restricted (Note 9)	15,000	15,000
	<u>13,085,821</u>	<u>12,666,198</u>
	<u>\$ 20,884,137</u>	<u>\$ 20,092,098</u>

UNITED WAY OF BUFFALO AND ERIE COUNTY

Statements of Activities

For the years ended March 31,	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Campaign results:				
Current year campaign results	\$ -	\$ 15,612,637	\$ -	\$ 15,612,637
Net assets released from restrictions	11,610,321	(11,610,321)	-	-
Less: donor designations	-	(3,591,617)	-	(3,591,617)
Estimated uncollectible pledges	-	(1,172,241)	-	(1,172,241)
	<u>11,610,321</u>	<u>(761,542)</u>	<u>-</u>	<u>10,848,779</u>
Other revenues:				
Grant funding, program and other income	1,181,696	-	-	1,181,696
Investment income	141,535	-	-	141,535
	<u>1,323,231</u>	<u>-</u>	<u>-</u>	<u>1,323,231</u>
Total revenue, gains and other support	<u>12,933,552</u>	<u>(761,542)</u>	<u>-</u>	<u>12,172,010</u>
Expenses:				
Allocations	6,351,200	-	-	6,351,200
Functional expenses:				
Community care services	2,655,501	-	-	2,655,501
Grant programs	1,127,479	-	-	1,127,479
Management and general	405,812	-	-	405,812
Fund raising	1,076,872	-	-	1,076,872
Payments to National affiliate	135,523	-	-	135,523
	<u>5,401,187</u>	<u>-</u>	<u>-</u>	<u>5,401,187</u>
Total expenses	<u>11,752,387</u>	<u>-</u>	<u>-</u>	<u>11,752,387</u>
Increase (decrease) in net assets	1,181,165	(761,542)	-	419,623
Net assets - beginning	<u>4,192,632</u>	<u>8,458,566</u>	<u>15,000</u>	<u>12,666,198</u>
Net assets - ending	<u>\$ 5,373,797</u>	<u>\$ 7,697,024</u>	<u>\$ 15,000</u>	<u>\$ 13,085,821</u>

See accompanying notes.

2005			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 15,997,511	\$ -	\$ 15,997,511
10,223,477	(10,223,477)	-	-
-	(3,444,489)	-	(3,444,489)
-	(1,189,701)	-	(1,189,701)
10,223,477	1,139,844	-	11,363,321
1,324,978	-	-	1,324,978
54,514	-	-	54,514
1,379,492	-	-	1,379,492
11,602,969	1,139,844	-	12,742,813
6,049,284	-	-	6,049,284
2,618,500	-	-	2,618,500
1,287,830	-	-	1,287,830
396,572	-	-	396,572
1,078,743	-	-	1,078,743
91,805	-	-	91,805
5,473,450	-	-	5,473,450
11,522,734	-	-	11,522,734
80,235	1,139,844	-	1,220,079
4,112,397	7,318,722	15,000	11,446,119
\$ 4,192,632	\$ 8,458,566	\$ 15,000	\$ 12,666,198

UNITED WAY OF BUFFALO AND ERIE COUNTY

Statements of Functional Expenses

For the years ended March 31,

2006

	Supporting Services					Total
	Community Care Services	Grant Programs	Management and General	Fund Raising	Total Supporting Services	
Salaries	\$ 1,392,282	\$ 382,440	\$ 230,871	\$ 516,872	\$ 747,743	\$ 2,522,465
Payroll taxes and employee benefits	318,719	80,366	37,868	121,692	159,560	558,645
Total salaries and related expenses	1,711,001	462,806	268,739	638,564	907,303	3,081,110
Consulting and professional fees	214,399	59,093	67,706	121,496	189,202	462,694
Supplies	58,864	20,541	2,085	27,401	29,486	108,891
Telephone	19,593	7,412	3,371	8,597	11,968	38,973
Postage	49,126	5,803	2,229	8,117	10,346	65,275
Occupancy	145,896	43,132	18,747	58,845	77,592	266,620
Printing and public relations	64,026	31,955	4,700	64,144	68,844	164,825
Travel, conferences and meetings	48,535	34,039	8,153	35,523	43,676	126,250
Membership dues	1,412	6,467	7,708	457	8,165	16,044
Employee education and training	6,126	4,666	486	2,590	3,076	13,868
Equipment rental and maintenance	139,710	33,481	5,011	25,228	30,239	203,430
Production	(842)	1,981	(14)	3,193	3,179	4,318
Payments to State affiliate	23,449	6,952	2,004	9,813	11,817	42,218
Grants awards	-	357,506	-	-	-	357,506
Miscellaneous	12,768	3,785	1,091	5,343	6,434	22,987
Depreciation	161,438	47,860	13,796	67,561	81,357	290,655
	<u>\$ 2,655,501</u>	<u>\$ 1,127,479</u>	<u>\$ 405,812</u>	<u>\$ 1,076,872</u>	<u>\$ 1,482,684</u>	<u>\$ 5,265,664</u>
Payments to National affiliate						<u>135,523</u>
						<u>\$ 5,401,187</u>

See accompanying notes.

2005						
Community Care Services	Grant Programs	Supporting Services			Total Supporting Services	Total
		Management and General	Fund Raising	Total		
\$ 1,348,777	\$ 448,751	\$ 227,523	\$ 533,867	\$ 761,390	\$ 2,558,918	
345,024	102,892	37,178	150,941	188,119	636,035	
1,693,801	551,643	264,701	684,808	949,509	3,194,953	
172,909	181,126	50,034	56,620	106,654	460,689	
62,528	18,500	1,058	28,843	29,901	110,929	
27,824	9,095	4,239	12,957	17,196	54,115	
60,081	5,753	1,288	7,950	9,238	75,072	
126,750	48,412	33,111	47,148	80,259	255,421	
47,337	6,472	2,887	86,277	89,164	142,973	
69,820	21,002	9,140	45,613	54,753	145,575	
3,268	8,527	6,463	593	7,056	18,851	
1,651	381	104	3,850	3,954	5,986	
141,623	75,381	5,535	24,247	29,782	246,786	
1,744	1,112	103	2,230	2,333	5,189	
24,130	7,584	2,068	8,963	11,031	42,745	
-	294,759	-	-	-	294,759	
17,266	5,356	1,461	6,330	7,791	30,413	
167,768	52,727	14,380	62,314	76,694	297,189	
<u>\$ 2,618,500</u>	<u>\$ 1,287,830</u>	<u>\$ 396,572</u>	<u>\$ 1,078,743</u>	<u>\$ 1,475,315</u>	<u>\$ 5,381,645</u>	
					91,805	
					<u>\$ 5,473,450</u>	

UNITED WAY OF BUFFALO AND ERIE COUNTY

Statements of Cash Flows

For the years ended March 31,	2006	2005
Cash flows from operating activities:		
Increase in net assets	\$ 419,623	\$ 1,220,079
Adjustments to reconcile increase in net assets to net cash flows from operating activities:		
Depreciation	290,655	297,189
Realized and unrealized loss on investments	7,431	34,485
Changes in other operating assets and liabilities:		
Pledges receivable	251,302	930,231
Prepaid pension and other assets	(69,812)	(139,653)
Designations payable	(221,277)	(1,735,940)
Allocations payable	403,934	(424,603)
Accounts payable and accrued expenses	25,277	50,180
Unemployment insurance trust funds	(177,591)	(136,056)
Deferred revenue	339,073	238,589
Accrued postretirement benefit obligation	3,000	-
Net cash flows from operating activities	1,271,615	334,501
Cash flows from investing activities:		
Purchase of investments	(215,347)	(1,195,393)
Proceeds from sale of investments	153,164	1,229,567
Purchase of equipment and building improvements	(76,978)	(119,824)
Net cash flows for investing activities	(139,161)	(85,650)
Net increase in cash	1,132,454	248,851
Cash - beginning	2,707,544	2,458,693
Cash - ending	\$ 3,839,998	\$ 2,707,544

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Operations:

United Way of Buffalo and Erie County (United Way) is a nonprofit corporation whose mission is to raise and distribute funds for community needs. United Way's fund raising efforts are concentrated in the Buffalo and Erie County metropolitan area.

Annual campaigns are conducted in the fall of each year to support programs whose services are provided primarily in the subsequent year. Campaign contributions are used to support local health and human service providers and to pay United Way's operating expenses. Donors may designate their pledges among several care programs. Community care designations are pooled and are allocated to health and human service providers. Specific care donors designate their pledges to a specific nonprofit health and human services agency or another United Way.

Annual fall campaign results are reduced by pledges collected on behalf of others or pledged to a specific organization (i.e., donor designation) and by a provision for uncollectible pledges. The net campaign results are reflected as temporarily restricted in the accompanying statement of activities since the amounts are generally collected over time. Campaign collections are reflected as net assets released from restrictions.

Net campaign results are allocated to providers approved to receive community care funding at the completion of the campaign. Committed community care allocations are included in allocations payable in the accompanying balance sheets. Specific care donations have been recorded as pledges receivable and designations payable in the accompanying balance sheets.

Operating Activities:

All revenue and expenses intended for program operations and administration are included in operating activities.

Donor-Imposed Restrictions:

All contributions are considered available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires (i.e. when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions:

United Way's annual campaign drive begins around September 1 of each year, and is substantially completed by December 31. Revenues from the campaign are reported as temporarily restricted net assets.

Campaign contributions are used for allocations to agencies, payments to United Way of America, services provided directly by United Way, and fund raising, fund distribution, management, and general expenses.

Charitable Trusts:

United Way is the beneficiary of funds held in trust by various financial institutions. A portion of the income earned in these funds is paid annually to United Way as an unrestricted distribution.

Cash:

Cash at financial institutions may exceed insured limits at various times during the year, and subject United Way to concentrations of credit risk.

Investments:

Investments are stated at fair value as determined by published market quotations.

Pledges Receivable:

Pledges receivable are recognized in the year in which the pledges become known regardless of campaign year. An allowance for estimated uncollectible pledges is recorded based on collection experience and present economic conditions.

Property and Equipment:

Property and equipment is recorded at cost if purchased, or, if donated, at fair market value at the date of donation, net of accumulated depreciation. Depreciation is provided over estimated useful lives using the straight-line method. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Fund Raising Expenses:

Fund raising activities in connection with the annual campaign are conducted throughout the year, and are reported as expenses when incurred.

Contributed Volunteer Services:

No amounts have been reflected in the financial statements for contributed volunteer services. United Way pays for substantially all services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist United Way in its program services and fundraising campaigns.

Cost Allocation:

United Way's costs of providing its services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Deferred Revenue:

Deferred revenue arises from grants and specific purpose program income for which related expenditures have not been made.

Income Taxes:

United Way is a 501(c)(3) corporation exempt from taxation under Section 501(a) of the Internal Revenue Code.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2: Restatement:

During the year ended March 31, 2006, it was determined that an obligation for postretirement health care benefits granted to a limited, select group of former and current employees in prior years should have been recorded on United Way's balance sheet. As a result, the financial statements for 2005 have been restated to reflect this obligation. The restatement had no material effect on the change in net assets for the years ended March 31, 2006 and 2005. The effect of this restatement on net assets is as follows:

Unrestricted net assets at April 1, 2004, as previously reported	\$4,429,397
Recognition of postretirement health care benefit obligation	<u>(317,000)</u>
Unrestricted net assets at April 1, 2004, as restated	<u>\$ 4,112,397</u>

3. Investments:

	2006	2005
Certificates of deposit	\$ 1,572,965	\$ 1,490,818
Money market accounts	241,899	272,351
Mutual funds	99,229	86,171
Equities	66,929	76,930
	<u>\$ 1,981,022</u>	<u>\$ 1,926,270</u>

The following summarizes investment earnings:

	2006	2005
Interest	\$ 148,966	\$ 88,999
Net realized and unrealized gains (losses)	<u>(7,431)</u>	<u>(34,485)</u>
	<u>\$ 141,535</u>	<u>\$ 54,514</u>

4. Campaign Pledges Receivable:

	2006	2005
United Way:		
2005 - 2006 Campaign	\$ 10,681,577	\$ -
2004 - 2005 Campaign	558,927	10,908,050
2003 - 2004 Campaign	180,661	722,203
2002 - 2003 Campaign	-	574,775
	<u>11,421,165</u>	<u>12,205,028</u>
Less allowance for uncollectible pledges	2,086,660	2,641,569
	<u>9,334,505</u>	<u>9,563,459</u>
Federal and State Federated Appeals	1,008,422	1,030,770
	<u>\$ 10,342,927</u>	<u>\$ 10,594,229</u>

The United Way administers the local campaigns for federal and state employees. The Local Federal Coordinating Committee, representing the Combined Federal Campaign, and the State Employees Federated Appeal Steering Committee, representing the State Employees Federated Appeal, have designated United Way to conduct their annual campaigns in conjunction with the annual campaign of United Way.

United Way combines the activities of these two campaigns with the activities of its own campaign in the accompanying financial statements and presents the contributions as donor designations. Pledges receivable contain amounts receivable from the three campaigns, as shown above. Each campaign also remits an administrative fee to United Way for managing its annual campaign.

5. Property and Equipment:

	2006	2005
Land	\$ 158,930	\$ 158,930
Building and improvements	3,628,654	3,628,654
Furniture and equipment	2,388,860	2,311,882
	<u>6,176,444</u>	<u>6,099,466</u>
Less accumulated depreciation	2,721,090	2,430,435
	<u>\$ 3,455,354</u>	<u>\$ 3,669,031</u>

6. Retirement Plans:

Certain hourly employees are covered under a multiemployer, union-administered pension plan. United Way is required to make contributions to the plan in accordance with the terms of existing collective bargaining agreements. United Way's contributions under this plan for the years ended March 31, 2006 and 2005 totaled \$11,299, \$11,299 and \$12,692.

United Way also maintains a defined benefit pension plan covering essentially all nonunion employees. United Way's policy is to fund at least the minimum amount required by ERISA. The measurement date used to determine the plan assets and benefit obligations is March 31st of each year.

The status of the defined benefit pension plan at and for the years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Benefit obligation	\$ 2,806,240	\$ 2,637,468
Fair value of plan assets	2,827,280	2,552,787
Funded status	<u>\$ 21,040</u>	<u>\$ (84,681)</u>
Accumulated benefit obligation	<u>\$ 2,099,186</u>	<u>\$ 1,877,993</u>
Prepaid pension costs	<u>\$ 540,404</u>	<u>\$ 561,308</u>
Pension expense	\$ 82,423	\$ 72,080
Employer contributions	61,519	10,000
Benefits paid	-	7,833
Weighted average assumptions used to determine benefit obligations at March 31:		
Discount rate	5.75%	6.00%
Expected future salary increase	4.50%	4.50%
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	5.75%	6.00%
Expected return on plan assets	8.00%	8.00%
Expected future salary increase	4.50%	4.50%

The Expected Long-Term Rate of Return on Plan Assets of 8.0% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No 27 - Selection of Economic Assumptions for Measuring Obligations. Based on the United Way's investment policy for the pension plan in effect as of the beginning of the fiscal year, an estimated range was determined for both the real rate of return (net of inflation) and for inflation based on a historical 30 year rolling average. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a range of 7.29% - 9.34%.

No contributions are expected to be required by United Way for 2007.

Benefits expected to be paid in each of the next five fiscal years and the following five years in aggregate are:

2007	\$ 245,000
2008	141,000
2009	89,000
2010	17,000
2011	10,000
2012-2016	<u>700,000</u>
	<u>\$ 1,202,000</u>

United Way's pension plan weighted-average asset allocations at March 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Asset Category:		
Equity securities	51%	51%
Debt securities	46%	46%
Other	3%	3%
	<u>100%</u>	<u>100%</u>

The plan's overall portfolio mix of equity securities and fixed income (debt) securities were based upon asset allocation modeling taking into consideration historical return patterns and risk factors. The plan believes that the current mix of assets under a balanced growth concept provides an appropriate level of return to achieve current assumed return plan assumptions.

7. Unemployment Insurance Trust Funds:

United Way administers a program whereby eligible agencies can obtain New York State Unemployment Insurance at preferred rates. Funds are accumulated for the purpose of paying unemployment insurance claims to eligible employees of participating agencies. Claims for covered agency employees are paid on a direct reimbursement basis to the New York State Department of Labor. During 2004, the United Way elected to terminate this fund effective December 31, 2004. The balance of the Unemployment Insurance Trust Funds will be reflected in the accompanying financial statements until all claims have been submitted and paid.

8. Post Retirement Health Care Benefits:

United Way provides postretirement health care benefits for certain eligible employees. United Way's practice is to fund these benefits as incurred. The measurement date used to determine the benefit obligation is March 31st of each year.

The status of the postretirement health benefit plan at and for the years ended March 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Accrued postretirement benefit obligation (benefit liability)	\$ 320,000	\$ 317,000
Benefit cost	30,651	28,320
Benefits paid	30,651	28,320
Weighted average assumptions used to determine benefit obligations at March 31:		
Yearly health care premium increases	0.50%	0.50%
Discount rate	6.50%	6.50%
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	6.50%	6.50%

United Way assumes the annual health care premium increase will be approximately 0.50% based on its ability under the plan to adjust coverage or limit contributions to maintain this percentage increase.

Expected future benefit payments:

2007	\$ 32,000
2008	32,000
2009	32,000
2010	32,000
2011	34,000
2012-2016	<u>118,000</u>
	<u>\$ 280,000</u>

9. Permanently Restricted Net Assets:

Permanently restricted net assets are restricted to investment in perpetuity, the income from which can be used for expenses associated with the annual campaign, operating expenses, or allocation to agencies.

10. Lease Commitments:

United Way leases various equipment under the terms of noncancelable operating leases. Future minimum lease payments due after March 31, 2006 are:

2007	\$ 59,620
2008	37,736
2009	31,339
2010	2,687
	<u>\$ 131,382</u>

Rent expense totaled \$100,304 and \$87,315 in 2006 and 2005.