

**UNITED WAY OF TUCSON AND SOUTHERN  
ARIZONA, INC. AND UNITED WAY  
CAPITAL CORPORATION**

**AUDITED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
Years ended June 30, 2011 and 2010**

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
AND UNITED WAY CAPITAL CORPORATION  
AUDITED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
Years ended June 30, 2011 and 2010**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
United Way of Tucson and Southern Arizona, Inc.  
and United Way Capital Corporation  
Tucson, Arizona

We have audited the accompanying consolidated statements of financial position of United Way of Tucson and Southern Arizona, Inc. and United Way Capital Corporation (nonprofit organizations) as of June 30, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of United Way of Tucson and Southern Arizona, Inc.'s and United Way Capital Corporation'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 the 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 Tucson and Southern Arizona, Inc. and United Way Capital Corporation as of June 30, 2011 and 2010, 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.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of the United Way of Tucson and Southern Arizona, Inc. and United Way Capital Corporation taken as a whole. The accompanying supplementary information on pages 23 and 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

*Devries CPAs of Arizona, P.C.*

DEVRIES CPAS OF ARIZONA, P.C.

November 14, 2011

*Integrity is the highest form of service.*

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
AND UNITED WAY CAPITAL CORPORATION**  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 2,259,239	\$ 3,235,411
Short-term investments - Notes 3 and 16	948,759	526,037
Pledges receivable, current portion - Notes 4 and 16	1,830,785	1,994,767
Government contracts receivable	1,391,729	225,209
Other receivables	103,421	128,374
Prepaid expenses and deposits	43,435	46,353
Total current assets	<u>6,577,368</u>	<u>6,156,151</u>
Long-term investments - Notes 3 and 16	1,391,263	1,290,185
Pledges receivable - Notes 4 and 16	95,067	247,263
Note receivable - Note 6	0	200,000
Property and equipment - Notes 5 and 11	4,576,986	4,725,731
Other assets	3,998	2,395
Permanent collection - Note 2	0	0
	<u>\$ 12,644,682</u>	<u>\$ 12,621,725</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 270,404	\$ 203,533
Accrued expenses and other liabilities	328,118	333,577
Deferred revenue - Note 10	101,253	335,000
Annuity payment obligations, current portion - Notes 9 and 16	4,967	6,944
Allocations payable to agencies	45,893	257,035
Grants payable to agencies	927,586	732,542
Custodial and agency liabilities - Note 8	1,704,296	1,624,672
Refundable security deposits	12,808	0
Line of credit - Note 7	0	250,000
Long-term debt, current portion - Note 11	54,278	180,000
Liability under interest rate swap agreement - Notes 12 and 16	61,778	58,011
Total current liabilities	<u>3,511,381</u>	<u>3,981,314</u>
Long-term annuity payment obligations - Notes 9 and 16	156,056	163,446
Long-term debt - Note 11	2,457,962	2,520,000
Long term liability under interest rate swap agreement - Notes 12 and 16	0	58,010
Total liabilities	<u>6,125,399</u>	<u>6,722,770</u>
Commitments and contingencies - Note 21		
Net assets:		
Unrestricted:		
Undesignated (deficit)	206,488	(1,740,173)
Designated for philanthropic and growth funds	1,483,268	1,469,668
Expended for property and equipment	2,064,746	1,909,710
Total unrestricted net assets	<u>3,754,502</u>	<u>1,639,205</u>
Temporarily restricted - Notes 13 and 15	1,178,451	2,684,123
Permanently restricted - Notes 14 and 15	1,586,330	1,575,627
Total net assets	<u>6,519,283</u>	<u>5,898,955</u>
	<u>\$ 12,644,682</u>	<u>\$ 12,621,725</u>

See Accompanying Notes.

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.**  
**AND UNITED WAY CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
Year ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, support and gains:				
Total campaign support	\$ 7,305,629	\$ 742,283	\$ 9,675	\$ 8,057,587
Less amounts raised on behalf of others	(4,071,060)			(4,071,060)
	<u>3,234,569</u>	<u>742,283</u>	<u>9,675</u>	<u>3,986,527</u>
Less provision for uncollectible pledges	(447,862)	(64,455)		(512,317)
Net campaign support	2,786,707	677,828	9,675	3,474,210
Federal and other government grants	7,697,541			7,697,541
Other gifts, grants and sponsorships	151,508	474,288		625,796
Donated services and materials - Note 19	254,677	78,760		333,437
Service fee income	227,394			227,394
Program fees	217,076			217,076
Rent revenue - Note 20	766,739			766,739
Investment income - Note 3	133,729	202,672		336,401
Gain from interest rate swap agreement	54,243			54,243
Net assets released from restriction	2,954,366	(2,954,366)		0
Total revenues, support and gains	<u>15,243,980</u>	<u>(1,520,818)</u>	<u>9,675</u>	<u>13,732,837</u>
Allocations and expenses:				
Program services:				
Community impact:				
Allocations and grants	5,575,742			5,575,742
Less donor designations	(4,071,060)			(4,071,060)
	<u>1,504,682</u>			<u>1,504,682</u>
Subrecipient awards	5,747,145			5,747,145
	<u>7,251,827</u>			<u>7,251,827</u>
Other community impact expenses	2,803,796			2,803,796
	<u>10,055,623</u>			<u>10,055,623</u>
Office rental expenses to nonprofits	848,854			848,854
Fundraising	1,301,788			1,301,788
Management and general	831,592			831,592
United Way Worldwide dues	74,652			74,652
Total allocations and expenses	<u>13,112,509</u>	<u>0</u>	<u>0</u>	<u>13,112,509</u>
Change in net assets before fund transfers	2,131,471	(1,520,818)	9,675	620,328
Reclassification of fund deficiencies - Note 15	5,304	(5,304)		0
Transfers per donor request	(21,478)	20,450	1,028	0
Change in net assets	2,115,297	(1,505,672)	10,703	620,328
Net assets, beginning of year	<u>1,639,205</u>	<u>2,684,123</u>	<u>1,575,627</u>	<u>5,898,955</u>
Net assets, end of year	<u>\$ 3,754,502</u>	<u>\$ 1,178,451</u>	<u>\$ 1,586,330</u>	<u>\$ 6,519,283</u>

See Accompanying Notes.

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.**  
**AND UNITED WAY CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
Year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, support and losses:				
Total campaign support		\$ 8,568,995		\$ 8,568,995
Less amounts raised on behalf of others		(3,946,031)		(3,946,031)
		4,622,964		4,622,964
Less provision for uncollectible pledges		(665,531)		(665,531)
Net campaign support		3,957,433		3,957,433
Federal and other government grants	\$ 10,250,488			10,250,488
Other gifts, grants and sponsorships	139,381	352,365		491,746
Donated services and materials - Note 19	107,259	82,733		189,992
Service fee income	267,499			267,499
Program fees	264,932			264,932
Rent revenue - Note 20	818,625			818,625
Investment income - Note 3	256,113	107,319		363,432
Gain from interest rate swap agreement	12,260			12,260
Gain on disposal of assets	5,175			5,175
Net assets released from restriction	5,002,554	(5,002,554)		0
Total revenues, support and losses	17,124,286	(502,704)		16,621,582
Allocations and expenses:				
Program services:				
Community impact:				
Allocations and grants	6,064,080			6,064,080
Less donor designations	(3,963,127)			(3,963,127)
	2,100,953			2,100,953
Subrecipient awards	4,200,337			4,200,337
	6,301,290			6,301,290
Other community impact expenses	7,344,466			7,344,466
	13,645,756			13,645,756
Office rental expenses to nonprofits	834,583			834,583
Fundraising	1,272,479			1,272,479
Management and general	980,597			980,597
United Way Worldwide dues	82,166			82,166
Total allocations and expenses	16,815,581	0		16,815,581
Change in net assets before fund transfers	308,705	(502,704)		(193,999)
Reclassification of fund deficiencies - Note 15	90,266	(90,266)		0
Transfers per donor request	(148,302)	147,150	\$ 1,152	
Change in net assets	250,669	(445,820)	1,152	(193,999)
Net assets, beginning of year	1,388,536	3,129,943	1,574,475	6,092,954
Net assets, end of year	\$ 1,639,205	\$ 2,684,123	\$ 1,575,627	\$ 5,898,955

See Accompanying Notes.

UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC. AND UNITED WAY CAPITAL CORPORATION  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2011

	Program services			Supporting services				Total
	Community impact	Office rental expenses to nonprofits	Total program services	Fundraising	Management and general	United Way Worldwide dues	Total supporting services	
Allocations and grants	\$ 5,575,742		\$ 5,575,742					\$ 5,575,742
Less donor designations	(4,071,060)		(4,071,060)					(4,071,060)
	1,504,682		1,504,682					1,504,682
Subrecipient awards	5,747,145		5,747,145					5,747,145
Total allocations and grants	7,251,827		7,251,827					7,251,827
Salaries	1,409,628	\$ 8,890	1,418,518	\$ 775,601	\$ 502,304		\$ 1,277,905	2,696,423
Employee benefits	205,904	1,310	207,214	105,802	72,140		177,942	385,156
Payroll taxes	120,167	764	120,931	61,747	42,101		103,848	224,779
	1,735,699	10,964	1,746,663	943,150	616,545		1,559,695	3,306,358
Advertising	49,094	466	49,560	77,872	17,538		95,410	144,970
Bad debt expense	44,709		44,709					44,709
Bank fees	11,877	49,401	61,278					61,278
Combined federal campaign				78,906			78,906	78,906
Conferences and meetings	97,031	71	97,102	5,936	11,811		17,747	114,849
Equipment	78,418	73	78,491	8,520	16,996		25,516	104,007
Events and promotional supplies	37,858		37,858	74,795	829		75,624	113,482
In-kind rent		129,245	129,245					129,245
Insurance	7,513	10,072	17,585	3,860	2,632		6,492	24,077
Interest expense	7,902	92,346	100,248	4,060	2,769		6,829	107,077
Miscellaneous	5,648	54	5,702	849	793		1,642	7,344
Occupancy	113,900	302,836	416,736	35,393	30,641		66,034	482,770
Office supplies	52,106	37	52,143	5,164	4,263		9,427	61,570
Postage	2,689	32	2,721	4,432	3,440		7,872	10,593
Printing and publications	88,807		88,807	16,918	4,029		20,947	109,754
Professional dues/subscriptions	5,012	4	5,016	2,307	2,123		4,430	9,446
Professional outside services	334,324	35,842	370,166	23,893	108,269		132,162	502,328
Technical/direct assistance	68,691		68,691					68,691
Telephone	13,479	597	14,076	2,740	3,882		6,622	20,698
Travel	46,661		46,661	12,065	4,399		16,464	63,125
Depreciation	2,378	216,814	219,192	928	633		1,561	220,753
United Way Worldwide dues						\$ 74,652	74,652	74,652
Total expenses	10,055,623	848,854	10,904,477	1,301,788	831,592	74,652	2,208,032	13,112,509
Investment fees netted in income	22,214		22,214					22,214
Total functional expenses	\$ 10,077,837	\$ 848,854	\$ 10,926,691	\$ 1,301,788	\$ 831,592	\$ 74,652	\$ 2,208,032	\$ 13,134,723

See Accompanying Notes.

UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC. AND UNITED WAY CAPITAL CORPORATION  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2010

	Program services			Supporting services			Total
	Community impact	Office rental expenses to nonprofits	Total program services	Fundraising	Management and general	United Way Worldwide dues	
Allocations and grants	\$ 6,064,080		\$ 6,064,080				\$ 6,064,080
Less donor designations	(3,963,127)		(3,963,127)				(3,963,127)
	2,100,953		2,100,953				2,100,953
Subrecipient awards	4,200,337		4,200,337				4,200,337
Total allocations and grants	6,301,290		6,301,290				6,301,290
Salaries	1,448,072		1,448,072	\$ 741,300	\$ 550,147	\$ 1,291,447	2,739,519
Employee benefits	172,098		172,098	87,532	69,808	157,340	329,438
Payroll taxes	113,122		113,122	57,536	45,885	103,421	216,543
	1,733,292		1,733,292	886,368	665,840	1,552,208	3,285,500
Advertising	32,348	\$ 135	32,483	73,027	17,343	90,370	122,853
Bank fees	23,303	50,368	73,671				73,671
Combined federal campaign	267		267	73,415	108	73,523	73,790
Conferences and meetings	40,124		40,124	7,617	2,679	10,296	50,420
Equipment	59,632		59,632	10,943	14,643	25,586	85,218
Events and promotional supplies	39,586		39,586	94,177	4,421	98,598	138,184
In-kind rent		162,817	162,817				162,817
Insurance	6,613	10,217	16,830	3,363	4,917	8,280	25,110
Interest expense	15,439	59,725	75,164	749	5,504	6,253	81,417
Miscellaneous	228		228	116	7,895	8,011	8,239
Occupancy	74,847	298,054	372,901	33,195	26,112	59,307	432,208
Office supplies	40,340		40,340	9,876	4,651	14,527	54,867
Postage	4,870		4,870	3,521	3,940	7,461	12,331
Printing and publications	126,249		126,249	21,652	10,085	31,737	157,986
Professional dues/subscriptions	7,279		7,279	7,774	3,446	11,220	18,499
Professional outside services	453,795	31,304	485,099	23,640	191,969	215,609	700,708
Technical/direct assistance	4,626,985		4,626,985				4,626,985
Telephone	8,500	889	9,389	2,873	4,255	7,128	16,517
Travel	42,210		42,210	16,110	9,549	25,659	67,869
Depreciation	8,559	221,074	229,633	4,063	3,240	7,303	236,936
United Way Worldwide dues						\$ 82,166	82,166
Total expenses	13,645,756	834,583	14,480,339	1,272,479	980,597	82,166	2,335,242
Investments netted in income	26,412		26,412				26,412
Total functional expenses	\$ 13,672,168	\$ 834,583	\$ 14,506,751	\$ 1,272,479	\$ 980,597	\$ 82,166	\$ 2,335,242

See Accompanying Notes.

UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
AND UNITED WAY CAPITAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 620,328	\$ (193,999)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	220,753	236,936
Realized (gains) on investments	(40,394)	(277,986)
Unrealized (gains) on investments	(258,248)	(37,188)
Donations of stock	(56,903)	(37,628)
Amortization of discount on pledges receivable	4,564	(2,888)
Donated office furniture	(45,245)	0
(Gain) on interest rate swap agreement	(54,243)	(12,260)
(Gain) on disposal of assets	0	(5,175)
(Increase) decrease in assets:		
Pledges receivable	211,614	527,702
Government contracts receivable	(1,166,520)	(87,087)
Other receivables	24,953	(107,193)
Prepaid expenses and deposits	5,313	6,839
Other assets	(3,998)	(2,395)
Increase (decrease) in liabilities:		
Accounts payable	66,871	(117,828)
Accrued expenses and other liabilities	(5,459)	(48,912)
Deferred revenue	(233,747)	(893,476)
Annuity payment obligations	(9,367)	11,679
Allocations payable to agencies	(211,142)	(427,489)
Grants payable to agencies	195,044	0
Custodial and agency liabilities	79,624	(907,422)
Refundable security deposits	12,808	0
Net cash (used in) operating activities	<u>(643,394)</u>	<u>(2,375,770)</u>
Cash flows from investing activities:		
Proceeds from disposal of assets	0	20,997
Purchases of equipment	(26,763)	0
Purchases of investments	(1,458,994)	(540,838)
Proceeds from sale or maturity of investments	1,290,739	2,766,575
Collections on note receivable	200,000	200,000
Net cash provided by investing activities	<u>4,982</u>	<u>2,446,734</u>
Cash flows from financing activities:		
Advances from line of credit	0	250,000
Payments on line of credit	(250,000)	0
Capitalized loan costs	(7,760)	0
Principal payment on long-term debt	(180,000)	(176,829)
Collections of pledges restricted for endowments	100,000	0
Net cash provided by (used in) financing activities	<u>(337,760)</u>	<u>73,171</u>
Change in cash and cash equivalents	(976,172)	144,135
Cash and cash equivalents, beginning of year	3,235,411	3,091,276
Cash and cash equivalents, end of year	<u>\$ 2,259,239</u>	<u>\$ 3,235,411</u>
<u>Supplemental cash flow information:</u>		
Cash paid for interest	<u>\$ 107,077</u>	<u>\$ 81,417</u>
No cash paid for income taxes in 2011 or 2010.		

See Accompanying Notes.

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
AND UNITED WAY CAPITAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011 and 2010**

**NOTE 1 – Organization**

United Way of Tucson and Southern Arizona, Inc. (UWTSA) is a local nonprofit organization incorporated in Arizona in September 1942 and governed by greater Tucson area community leaders who have been elected to its Board of Directors. UWTSA's mission is building a better community with a vision toward an economically viable, strong, safe and healthy community where Southern Arizona residents can live and work. To fulfill this mission, UWTSA conducts an annual fundraising campaign in the greater Tucson area. Pledges are received from corporations and individuals and are used to fund organizations assisting children, families and seniors in need and to cover current administrative and development expenses. The majority of UWTSA's funds are subject to donor-imposed temporary or permanent restrictions and/or grant requirements.

United Way Capital Corporation (UWCC) is a nonprofit organization incorporated in Arizona in April 2001. UWCC was incorporated to conduct nonprofit activities consistent with and in furtherance of the principles and purposes of UWTSA. UWCC owns real estate in Southern Arizona that it rents at below market rates to nonprofit and governmental organizations that provide services that contribute to UWTSA's mission.

UWTSA and UWCC are hereinafter collectively referred to as "United Way".

The following is a description of program service categories:

*Community impact:* UWTSA is working to advance the common good by focusing on education, income and health, the building blocks of a good life. Through an integrated model of community and resource development strategies, UWTSA achieves significant community impact for children, families and seniors. To achieve these results, community volunteer experts and constituents work on evidence-based strategies through five strategic work groups—First Focus on Kids Coalition, the Youth Development Coalition, the Financial Stability Partnership, the Support Seniors Coalition, and the Public Policy Committee. UWTSA uses the strengths, commitment and expertise of the community to facilitate lasting community change in these key areas of focus.

*Office rental to nonprofits:* The activities of UWCC are included in this category. UWCC provides office space at below market rates to nonprofit and governmental organizations that provide services that contribute to UWTSA's mission.

**NOTE 2 – Summary of significant accounting policies**

*Principles of consolidation*

The consolidated financial statements presented as United Way of Tucson and Southern Arizona, Inc. and United Way Capital Corporation include all accounts of UWTSA and UWCC. All significant interorganization accounts and transactions have been eliminated.

*Use of estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 consolidated financial statements and reported amounts of revenues, support and gains and allocations, expenses and losses during the reporting period. Actual results could differ from those estimates.

*Financial statement presentation*

United Way reports information regarding its financial position and activities using the accrual basis of accounting and according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
AND UNITED WAY CAPITAL CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
June 30, 2011 and 2010

**NOTE 2 – Summary of significant accounting policies – continued**

*Cash and cash equivalents*

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents. All cash and cash equivalents are placed with various financial institutions. At times, such amounts may be in excess of Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents. At June 30, 2011, uninsured cash balances were \$375,096. UWTSA's policy is to maintain cash balances sufficient to liquidate obligations as they arise in the near term.

*Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at their fair value in the consolidated statements of financial position determined by quoted market prices. Donated investments are recorded at fair value at the date of gift. Investment gains and losses are included in the changes in net assets in the accompanying consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations or legal requirements. Certificates of deposit held are valued at fair market value until maturity. Any penalties for early withdrawal would not have a material effect on the financial statements.

*Pledges receivable*

Unconditional pledges receivable are recognized as revenues or gains at their estimated net realizable value in the period received and as assets, decreases of liabilities, or expense depending on the form of the benefits received. Conditional pledges receivable are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional. Pledges receivable that are collectible over future periods are discounted to their net present value. The provision for uncollectible pledges is based on management's estimate of current economic factors, applied as a percentage to gross campaign revenues. Pledges are periodically reviewed for collectability and written off to the provision at the time of such determination.

*Property and equipment*

Property and equipment are stated at cost except for donated equipment, which is recorded at its fair market value at the date of the gift. Property and equipment with a value of greater than or equal to \$5,000 is capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Asset	Useful life
Buildings and improvements	Useful life up to 31.5 years
Furniture and equipment	3-10 years

*Public support and revenue*

An annual fundraising campaign is conducted to raise support for allocations to other organizations and agencies that provide services that assist children, families and seniors. As described further in these notes, contributions received that are intended to be used in a subsequent year are time-restricted and/or purpose restricted contributions and are recorded as temporarily restricted net assets until the time expires or the purpose is fulfilled.

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**NOTE 2 – Summary of significant accounting policies – continued**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges for contributions are recorded as received and allowances are provided for amounts estimated to be uncollectible. Contributions that have been designated by the donor to agencies or collected for others are reported in the consolidated financial statements as custodial and agency funds.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, 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 consolidated statements of activities as net assets released from restrictions. Endowment contributions are reported as additions to permanently restricted net assets.

*Endowments*

UWTSA's endowments consist of two funds established under donor restriction for charitable purposes. As required by GAAP, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2008, the State of Arizona adopted the Management of Charitable Funds Act (the Act). The Board of Directors of UWTSA has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, UWTSA classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, UWTSA considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

*Permanent collection*

UWCC owns a mineral deposit on display that it has opted to treat as a permanent collection that is not recorded on its consolidated statement of financial position. Any additional minerals, sculptures or other artwork on display as part of its permanent collection that are purchased will be expensed and if donated will not be recorded.

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**NOTE 2 – Summary of significant accounting policies – continued**

*Cost deduction standards*

UWTSA adheres to the following cost deduction standards set by United Way Worldwide on designated contributions (amounts raised on behalf of others):

- Fees charged are based on actual expenses.
- Fundraising or processing fees are not deducted from designated gifts originating by or from another United Way.

*Donated goods, facilities and services*

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the consolidated financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although United Way may utilize the services of outside volunteers, the fair value of many of these services have not been recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

*Combined Federal Campaign expenses*

United Way serves as the Principal Combined Fund Organization (PCFO) for the Arizona Combined Federal Campaign, which is a campaign separate from United Way's campaign as it targets federal employees and is regulated by the federal Office of Personnel Management (OPM). The primary role of the PCFO is to administer the local campaign under the direct control of the Local Federal Coordinating Committee (LFCC) and OPM. As the PCFO, United Way honors designations made to each member organization by distributing a proportionate share of receipts based on donor designations to each member.

*Income tax status*

Both UWTSA and UWCC are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to their tax-exempt purpose may be subject to taxation as unrelated business income. In addition, UWTSA and UWCC qualify for the charitable contribution deduction under Section 170(b)(1)(A)(11) and are classified as organizations other than a private foundation under Section 509(a)(2) and 509(a)(1), respectively.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 740-10 (ASC 740-10), UWTSA and UWCC hold no uncertain tax positions and, therefore, have no policy for evaluating them. UWTSA and UWCC's Forms 990, *Return of Organization Exempt from Income Taxes* and Arizona Forms 99, *Arizona Exempt Organization Annual Information Return*, are generally subject to examination by the Internal Revenue Service and the Arizona Department of Revenue, respectively, for four years after the date filed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
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**NOTE 2 – Summary of significant accounting policies – continued**

*Technical and direct assistance*

Technical and direct assistance is provided directly to intended beneficiaries of a grant and/or program.

*Allocation of indirect expenses*

Indirect expenses are allocated based on salaries as a function of staff time tracked by functional area on time sheets.

*Advertising*

Advertising costs are expensed as incurred.

*Reclassifications*

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**NOTE 3 - Investments**

Investments at June 30, 2011 and 2010 were as follows:

	2011	2010
Mutual funds	\$ 834,741	\$ 698,156
Stocks	589,798	556,598
Bonds	330,463	330,595
Private equity	20	5,873
Investments at fair value	<u>1,755,022</u>	<u>1,591,222</u>
Certificates of deposit held at brokerages	585,000	225,000
	<u>2,340,022</u>	<u>1,816,222</u>
Less investments restricted for endowments	<u>(1,391,263)</u>	<u>(1,290,185)</u>
	<u>\$ 948,759</u>	<u>\$ 526,037</u>

Investment income for the years ended June 30, 2011 and 2010 was as follows:

	2011	2010
Dividends and interest	\$ 59,973	\$ 74,670
Realized gains on investments	40,394	277,986
Unrealized gains on investments	258,248	37,188
Less investment fees	<u>(22,214)</u>	<u>(26,412)</u>
	<u>\$ 336,401</u>	<u>\$ 363,432</u>

**NOTE 4 - Pledges receivable**

Pledges receivable consists of pledges from corporations, corporate employees and individual donors. Long-term pledges receivable are discounted to their present value using a rate of 5.19% at both June 30, 2011 and 2010.

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
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**NOTE 4 - Pledges receivable – continued**

Pledges receivable at June 30, 2011 were as follows:

	Campaign pledges	Endowment pledge	Total pledges
Receivable in less than one year	\$ 2,340,660	\$ 100,000	\$ 2,440,660
Receivable in one to five years	30,000	100,000	130,000
Less unamortized discount to present value	(2,887)	(4,933)	(7,820)
Less allowance for uncollectible pledges	(636,988)		(636,988)
	<u>1,730,785</u>	<u>195,067</u>	<u>1,925,852</u>
Less current portion	(1,730,785)	(100,000)	(1,830,785)
Noncurrent portion	<u>\$ 0</u>	<u>\$ 95,067</u>	<u>\$ 95,067</u>

Pledges receivable at June 30, 2010 were as follows:

	Campaign pledges	Endowment pledge	Total pledges
Receivable in less than one year	\$ 2,425,828	\$ 100,000	\$ 2,525,828
Receivable in one to five years	69,271	200,000	269,271
Less unamortized discount to present value	(7,450)	(14,558)	(22,008)
Less allowance for uncollectible pledges	(531,061)	0	(531,061)
	<u>1,956,588</u>	<u>285,442</u>	<u>2,242,030</u>
Less current portion	(1,894,767)	(100,000)	(1,994,767)
Noncurrent portion	<u>\$ 61,821</u>	<u>\$ 185,442</u>	<u>\$ 247,263</u>

**NOTE 5 - Property and equipment**

Property and equipment at June 30, 2011 and 2010 was as follows:

	2011	2010
Land	\$ 102,000	\$ 102,000
Buildings and improvements	6,761,251	6,734,488
Data processing equipment	344,799	344,799
Furniture and fixtures	443,440	398,196
	<u>7,651,490</u>	<u>7,579,483</u>
Less accumulated depreciation	(3,074,504)	(2,853,752)
	<u>\$ 4,576,986</u>	<u>\$ 4,725,731</u>

**NOTE 6 - Note receivable**

During 2006, an individual assigned a \$1,000,000 promissory note to UWTSa. The note receivable was due in full on December 15, 2014 and was accruing interest at 6% annually. Payments received have been accelerated and the balances at June 30, 2011 and 2010 were \$0 and \$200,000, respectively. Interest income on this note for the years ended June 30, 2011 and 2010 was \$7,309 and \$22,954, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
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**NOTE 7 – Line of credit**

UWTSA has an unsecured \$250,000 revolving line of credit with a financial institution, maturing January 2012. Interest is payable monthly at the prime rate with a minimum rate of 5%. At June 30, 2011 and 2010, the line of credit had \$0 and \$250,000 outstanding, respectively.

**NOTE 8 – Custodial and agency liabilities**

Custodial liabilities represent those funds that UWTSA is holding at the discretion of affiliated and other charitable organizations.

Agency liabilities represent funds that have been designated to agencies that the organization has not passed on.

Custodial and agency liabilities consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Custodial funds:		
Combined Federal Campaign	\$ 663,465	\$ 534,501
United Way of Sierra Vista and Cochise County	95,044	74,632
United Way of Santa Cruz County	51,556	56,299
Employees Combined Appeal Program:		
City of Tucson	55,028	76,852
Pima County	99,697	111,148
	<u>964,790</u>	<u>853,432</u>
Amounts designated to agencies and other custodial funds	<u>739,506</u>	<u>771,240</u>
	<u>\$ 1,704,296</u>	<u>\$ 1,624,672</u>

**NOTE 9 – Charitable gift annuity agreements**

UWTSA has entered into charitable gift annuity agreements with various individuals. Under the terms of the agreements, UWTSA receives lump sum amounts or assets and agrees to make distributions for a specified period of time to the donor or other beneficiaries.

Assets received are recorded at fair value on the date the agreement is executed and a liability equal to the present value of the future distributions is recorded. Annuitant payments are remitted based on the terms of the agreements and amount to \$17,736 annually. There was no annuity expense for the years ended June 30, 2011 and 2010. The original contribution and any net investment earnings may not be sufficient to make the required periodic payments for an annuity payment obligation. If any insufficiency results, UWTSA has a continuing financial commitment to each annuitant until his/her death. Management believes that any insufficiency is not material to UWTSA's unrestricted net assets.

The charitable gift annuity agreements can be either unrestricted or restricted. Restricted contracts require that the non-annuity portion will be used to establish either a permanent endowment fund or a restriction is placed on the use of funds for a specific purpose. The charitable gift annuities received by UWTSA are unrestricted. Adjustments to the annuity liability to reflect amortization of the discount and revaluations due to changes in life expectancy are reported in the current year as a change in value of split-interest agreements. Discount rates on these obligations ranged from 5.9% to 6.7% for the years ended June 30, 2011 and 2010, respectively. At June 30, 2011 and 2010, the net present value of the charitable gift annuity contracts totaled \$161,023 and \$170,390, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
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**NOTE 10 - Deferred revenue**

At June 30, 2011 and 2010, deferred revenue consisted of the following:

	2011	2010
Unearned rent	\$ 44,612	\$ 47,267
Government grant advances	56,641	287,733
	<u>\$ 101,253</u>	<u>\$ 335,000</u>

**NOTE 11 - Long-term debt**

The Industrial Development Authority (IDA) of the City of Tucson sold 2001 Series bonds on behalf of UWCC for \$3,930,000 in June 2001. Monthly interest payments are made based on weekly variable rates determined by the Securities Industry and Financial Markets Association (SIFMA) Municipal bond index. The bond indenture requires that UWCC maintain a letter of credit securing the bond principal plus 45 days of interest. The letter of credit totaled \$2,520,000 and \$2,733,288 at June 30, 2011 and 2010, respectively, and is secured by real property. The bonds were subsequently retired on July 1, 2011, and replaced with a note payable to a financial institution, therefore current and non-current debt reflects the repayment schedule of the newly acquired note payable. The note payable has a fixed interest rate of 4.6%, with monthly principal and interest payments of \$14,248, with a balloon payment of \$1,856,118 due in June 2021.

Long-term debt was as follows at June 30, 2011 and 2010:

	2011	2010
Bonds payable	\$ 2,520,000	\$ 2,700,000
Less current portion	(54,278)	(180,000)
	2,465,722	2,520,000
Capitalized loans costs	(7,760)	0
Non-current portion	<u>\$ 2,457,962</u>	<u>\$ 2,520,000</u>

Future maturities of debt are as follows:

Year ending June 30, 2012	\$ 54,278
2013	57,184
2014	59,910
2015	62,764
2016	65,465
Thereafter	2,220,399
	<u>\$ 2,520,000</u>

**NOTE 12 - Interest rate swap agreement**

UWCC entered into a separate interest rate swap agreement with JPMorgan Chase Bank on 75% of the bonds that effectively converts the interest rate on only those bonds to 3.85%. Under the swap agreement, UWCC pays interest at the fixed rate and receives interest at SIFMA. The notional amount under the swap decreases as principal payments are made on the bonds so that the notional amount equals the principal outstanding under the bond.

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**NOTE 12 - Interest rate swap agreement - continued**

The swap was issued at market terms so that it had no fair value at inception. As required by generally accepted accounting principles, the carrying amount of the swap has been adjusted to fair value at June 30, 2011 and 2010, which because of changes forecasted in levels of SIFMA, results in reporting an asset or liability for the fair value of the future net payments forecasted under the swap. The change in fair value is recorded as a gain or loss in the change in net assets for 2011 and 2010 and the asset or liability is classified as current as the swap expires before June 2012.

**NOTE 13 - Temporarily restricted net assets**

Temporarily restricted net asset activity for the year ended June 30, 2011 consisted of the following:

	Beginning balance	Contributions	Investment income	Releases	Transfers/ deficient funds	Ending balance
Campaign contributions receivable in subsequent fiscal years	\$ 1,665,377			\$ (1,665,377)		\$ 0
Various programs	946,429	\$ 1,230,876		(1,202,142)	\$ 20,450	995,613
Accumulated endowment earnings	72,317		\$ 202,672	(86,847)	(5,304)	182,838
	<u>\$ 2,684,123</u>	<u>\$ 1,230,876</u>	<u>\$ 202,672</u>	<u>\$ (2,954,366)</u>	<u>\$ 15,146</u>	<u>\$ 1,178,451</u>

Temporarily restricted net asset activity for the year ended June 30, 2010 consisted of the following:

	Beginning balance	Contributions	Investment income	Releases	Transfers/ deficient funds	Ending balance
Campaign contributions receivable in subsequent fiscal years	\$ 1,996,898	\$ 3,616,064		\$ (3,947,585)		\$ 1,665,377
Various programs	1,077,781	776,467		(1,054,969)	\$ 147,150	946,429
Accumulated endowment earnings	55,264		\$ 107,319		(90,266)	72,317
	<u>\$ 3,129,943</u>	<u>\$ 4,392,531</u>	<u>\$ 107,319</u>	<u>\$ (5,002,554)</u>	<u>\$ 56,884</u>	<u>\$ 2,684,123</u>

**NOTE 14 - Permanently restricted net assets**

Permanently restricted net asset activity for the year ended June 30, 2011 consisted of the following:

	Beginning balance	Additions	Transfer per donor	Ending balance
Children's endowment fund	\$ 133,817			\$ 133,817
Millennium fund	1,441,810	\$ 9,675	\$ 1,028	1,452,513
	<u>\$ 1,575,627</u>	<u>\$ 9,675</u>	<u>\$ 1,028</u>	<u>\$ 1,586,330</u>

Permanently restricted net asset activity for the year ended June 30, 2010 consisted of the following:

	Beginning balance	Transfer per donor	Ending balance
Children's endowment fund	\$ 133,817		\$ 133,817
Millennium fund	1,440,658	\$ 1,152	1,441,810
	<u>\$ 1,574,475</u>	<u>\$ 1,152</u>	<u>\$ 1,575,627</u>

UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
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**NOTE 15 – Endowments**

*Funds with deficiencies*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or the Act requires to be retained as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$5,304 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

*Return objectives and risk parameters*

UWTSA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that UWTSA must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. UWTSA expects its endowment funds over time to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

*Investment strategies*

To satisfy its long-term rate-of-return objectives, UWTSA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). UWTSA targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

*Spending policy*

UWTSA has adopted a spending policy that conforms to spending rates or formulas dictated by specific gift instruments or by community foundations. In the absence of donor specifications or for funds not invested in community foundations or similar organizations, endowment funds shall have a spending policy expressed as a maximum of 5% of a three-year moving average of the market value of endowment funds determined on a quarterly basis. Expenditures in excess of 5% of the three-year moving average of the market value of endowment funds or when endowment funds are “underwater” require the approval of a majority of the board members entitled to vote and will be documented in the minutes of the governing board.

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
June 30, 2011 and 2010

**NOTE 15 – Endowments – continued**

*Endowment fund net assets*

Net assets in the endowment funds consisted of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance at June 30, 2010	\$ (5,304)	\$ 72,317	\$ 1,575,627	\$ 1,642,640
Interest/dividends		25,625		25,625
Unrealized gains		161,212		161,212
Contributions			9,675	9,675
Realized gains		31,814		31,814
Investment fees		(15,979)		(15,979)
Releases/appropriations		(86,847)		(86,847)
Deficient fund transfers	5,304	(5,304)		0
Transfers per donor request			1,028	1,028
Balance at June 30, 2011	<u>\$ 0</u>	<u>\$ 182,838</u>	<u>\$ 1,586,330</u>	<u>\$ 1,769,168</u>

Net assets in the endowment funds consisted of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance at June 30, 2010	\$ (95,570)	\$ 55,264	\$ 1,574,475	\$ 1,534,169
Interest/dividends		21,289		21,289
Unrealized gains		48,196		48,196
Realized gains		50,186		50,186
Investment fees		(12,352)		(12,352)
Deficient fund transfers	90,266	(90,266)		0
Transfers per donor request			1,152	1,152
Balance at June 30, 2011	<u>\$ (5,304)</u>	<u>\$ 72,317</u>	<u>\$ 1,575,627</u>	<u>\$ 1,642,640</u>

**NOTE 16 – Fair value measurements**

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset or liability. A fair value hierarchy distinguishes between market participant assumptions and United Way’s own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are United Way’s own assumptions about what market participants would assume based on the best information available in the circumstances.

*Level 1 inputs.* A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of United Way’s mutual funds, common stocks, corporate bonds, U.S. government securities and fixed income securities are valued at the closing price reported on the active market on which the individual securities are traded.

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**NOTE 16 – Fair value measurements – continued**

*Level 2 inputs.* These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The fair value of UWCC’s interest rate swap is primarily based on market prices and market data available for instruments with similar characteristics since an active market does not exist for this instrument.

*Level 3 inputs.* These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The fair value of United Way’s investments in the private equity is primarily derived from valuation models that consider relevant factors of the underlying investments those funds consist of including operating results, financial conditions, recent transactions in inactive markets, when available, and other pertinent information. See Note 9 for the valuation method of annuity payment obligations. The fair value of pledges receivable is estimated using an interest rate which approximates the present value of future cash flows.

Fair value of assets (liabilities) measured on a recurring basis at June 30, 2011 was as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 834,741			\$ 834,741
Stock	589,798			589,798
Bonds	330,463			330,463
Private equity			\$ 20	20
Interest rate swap agreement		(61,778)		(61,778)
	<u>\$ 1,755,002</u>	<u>\$ (61,778)</u>	<u>\$ 20</u>	<u>\$ 1,693,244</u>

Fair value of assets (liabilities) measured on a recurring basis at June 30, 2011 was as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 698,156			\$ 698,156
Stock	556,598			556,598
Bonds	330,595			330,595
Private equity			\$ 5,873	5,873
Interest rate swap agreement		\$ (116,021)		(116,021)
	<u>\$ 1,585,349</u>	<u>\$ (116,021)</u>	<u>\$ 5,873</u>	<u>\$ 1,475,201</u>

At June 30, 2011 and 2010, the fair value of assets and liabilities measured using Level 3 inputs on a non-recurring basis consisted of pledges receivable totaling \$1,925,852 and \$2,242,030, respectively and annuity payment obligations (liabilities) totaling (\$161,023) and (\$170,390) at June 30, 2011 and 2010, respectively.

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) for the years ended June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 5,873	\$ 72,103
Unrealized losses	(5,853)	(66,230)
Ending balance	<u>\$ 20</u>	<u>\$ 5,873</u>

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**NOTE 17 - Retirement plan**

UWTSA maintains a 401(k) profit sharing plan for all employees who meet eligibility requirements. The plan provides for a contribution of 4% of the first \$25,000 of qualified salary. There is also a discretionary match on employees' contributions to the plan which was 50% of the first 5% of the employees' contributions. For the years ended June 30, 2011 and 2010, defined contribution plan expense was \$94,868 and \$132,932, respectively.

**NOTE 18 - Rabbi trust agreement**

UWTSA had an employment agreement that established a Rabbi trust with its former President & CEO that ended June 30, 2010. The Rabbi trust under employment agreement was signed in January 2002. The actual incentive compensation amount was determined at the sole discretion of the board of directors. The former President & CEO elected the amount of incentive compensation that was deferred each year and the amount that was paid to him each year. UWTSA funded any deferred incentive compensation annually beginning in the fiscal year ended June 30, 2002. The deferred incentive compensation vested to the former President & CEO upon reaching age 62, which occurred during the fiscal year ended June 30, 2009. The agreement provides for five annual payments to the former President & CEO, once he reached age 62. The first payment was made in the fiscal year ended June 30, 2009. Since the initial funding and until the former President & CEO reached age 62, UWTSA recorded the funded deferred incentive compensation amount in a separate asset account maintained solely for this purpose and had the funds separately investment managed. The market fluctuations and costs of the separately managed investment account were recorded by UWTSA through its consolidated statements of activities. Investment management decisions were made by the former President & CEO in consultation with the investment manager.

The value of the separately managed investment account fluctuates in accordance with the market value of the investments that are held in the account and is changed by any additional deferred amounts and the payments to the former President & CEO. UWTSA does not bear any of the risk for those market fluctuations. At June 30, 2011 and 2010, a liability of \$65,935 and \$75,905, respectively, for the present value of future retirement benefits payable has been reported in accounts payable in the consolidated statements of financial position.

**NOTE 19 - Donated services and materials**

	2011	2010
Allocations and grants	\$ 221,939	\$ 113,216
Advertising	58,620	57,178
Conferences and meetings	1,667	0
Events and promotional supplies	916	8,133
Occupancy	5,000	7,325
Office supplies	50	4,140
Total in-kind expenses	<u>288,192</u>	<u>189,992</u>
Capitalized furniture	45,245	0
Total in-kind revenues	<u>\$ 333,437</u>	<u>\$ 189,992</u>

Donated services and materials are primarily included in community impact services.

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
AND UNITED WAY CAPITAL CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
June 30, 2011 and 2010

**NOTE 20 – Rent revenue**

UWCC rents office space to various nonprofit and governmental entities, including UWTSA, under noncancelable leases with varying terms and expiration dates. Rent paid to UWCC by UWTSA is eliminated in consolidation for financial statement presentation. Total rental revenue, after that consolidation, recorded by UWCC was \$976,859 and \$818,625 for the years ended June 30, 2011 and 2010, respectively. UWCC contracts at rent rates that are below market due to its tenants' nonprofit and governmental status. UWCC records the difference between fair market rent rate and its contracted rent rates as additional rent income and additional allocations to agencies. The in-kind rent income and allocations to agencies was \$167,876 and \$162,817 for the years ended June 30, 2011 and 2010, respectively. Future minimum rentals to be received at contracted rates under these lease agreements as of June 30, 2011 follow:

Year ending June 30, 2012	\$	729,812
2013		640,866
2014		587,552
2015		564,282
2016		364,558
Thereafter		924,718
	\$	<u>3,811,788</u>

**NOTE 21 – Commitments and contingencies**

*Property management agreement*

During 2006, UWCC entered into a property management agreement with an independent outside service agent. The agreement requires monthly payments from UWCC to the agent of \$2,200 through August 2011 and may be increased annually based on the CPI index. Subsequent to June 30, 2011 the agreement was extended through August 2012 on the same terms. The agreement also requires a construction supervision fee in the event any one repair, maintenance or improvement work exceeds \$5,000. The fee is 6% of the dollars spent above \$5,000 and less than \$50,001 and 4% of dollars above \$50,000. Any work above \$750 requires specific approval of UWCC. Future fees to be paid under this agreement are \$26,400 for the year ending June 30, 2012 and \$4,400 for the year ending June 30, 2013.

*Equipment leases*

United Way has operating leases for equipment that expire at various dates through April 2014. Aggregate monthly rent of approximately \$1,100 is due on these leases. Total rent expense on these leases was \$20,191 and \$6,156 for the years ended June 30, 2011 and 2010, respectively, included in equipment expense on the consolidated statements of functional expenses.

The aggregate future minimum rentals on operating leases follows:

Year ending June 30, 2012	\$	10,217
2013		9,148
2014		6,194
	\$	<u>25,559</u>

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.  
AND UNITED WAY CAPITAL CORPORATION**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued  
June 30, 2011 and 2010

**NOTE 21 – Commitments and contingencies**

*Contingencies*

UWTSA participates in certain federal, state and local grant programs. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of UWTSA. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

United Way is involved in legal claims in the ordinary course of business. In the opinion of management and based on consultations with legal counsel, these matters are considered immaterial to United Way or will be covered by insurance.

**NOTE 22 – Subsequent events**

Subsequent events have been evaluated through November 14, 2011, which is the date the consolidated financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC.**  
**AND UNITED WAY CAPITAL CORPORATION**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
June 30, 2011

	<b>UW TSA</b>	<b>UW CC</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,000,752	\$ 258,487		\$ 2,259,239
Short-term investments	948,759			948,759
Campaign pledges receivable, current portion	1,730,785			1,730,785
Endowment pledge receivable, current portion	100,000			100,000
Government contracts receivable	1,391,729			1,391,729
Other receivables	94,470	8,951		103,421
Prepaid expenses and deposits	42,771	664		43,435
Total current assets	6,309,266	268,102		6,577,368
Due from (to) affiliate	6,755	(6,755)		0
Long-term investments	1,391,263			1,391,263
Endowment pledge receivable	95,067			95,067
Property and equipment	45,397	4,531,589		4,576,986
Other assets	3,998			3,998
Permanent collection	0			0
	\$ 7,851,746	\$ 4,792,936	\$ 0	\$ 12,644,682
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable	\$ 263,700	\$ 6,704		\$ 270,404
Accrued expenses and other liabilities	321,554	6,564		328,118
Deferred revenue	56,641			56,641
Deferred rent income		44,612		44,612
Annuity payment obligations, current portion	4,967			4,967
Allocations payable to agencies	45,893			45,893
Grants payable to agencies	927,586			927,586
Custodial and agency liabilities	1,704,296			1,704,296
Refundable security deposits		12,808		12,808
Long-term debt, current portion		54,278		54,278
Liability under interest rate swap agreement		61,778		61,778
Total current liabilities	3,324,637	186,744		3,511,381
Long-term annuity payment obligations	156,056			156,056
Long-term debt		2,457,962		2,457,962
Total liabilities	156,056	2,457,962		2,614,018
	3,480,693	2,644,706		6,125,399
Net assets:				
Unrestricted	1,606,272	2,148,230		3,754,502
Temporarily restricted	1,178,451			1,178,451
Permanently restricted	1,586,330			1,586,330
Total net assets	4,371,053	2,148,230		6,519,283
	\$ 7,851,746	\$ 4,792,936	\$ 0	\$ 12,644,682

**UNITED WAY OF TUCSON AND SOUTHERN ARIZONA, INC. AND UNITED WAY CAPITAL CORPORATION**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended June 30, 2011

	Unrestricted net assets			Temporarily restricted net assets	Permanently restricted net assets	Total
	UWTSA	UWCC	Eliminations			
Revenues, support and gains:						
Total campaign support	\$ 7,305,629			\$ 742,283	\$ 9,675	\$ 8,057,587
Less amounts raised on behalf of others	(4,071,060)					(4,071,060)
	3,234,569			742,283	9,675	3,986,527
Less provision for uncollectible pledges	(447,862)			(64,455)		(512,317)
Net campaign support	2,786,707			677,828	9,675	3,474,210
Federal and other government grants	7,697,541					7,697,541
Other gifts, grants and sponsorships	151,508			474,288		625,796
Donated services and materials	354,604		\$ (99,927)	78,760		333,437
Service fee income	227,394					227,394
Program fees	217,076					217,076
Rent revenue		\$ 976,859	(210,120)			766,739
Investment income	133,570	159		202,672		336,401
Gain from interest rate swap agreement		54,243				54,243
Net assets released from restriction	2,954,366			(2,954,366)		0
Total revenues, support and gains	14,522,766	1,031,261	(310,047)	15,243,980	(1,520,818)	13,732,837
Allocations and expenses:						
Allocations and other community impact	10,188,632		(133,009)			10,055,623
Office rental expenses to nonprofits	11,855	936,926	(99,927)			848,854
Fundraising	1,343,119		(41,331)			1,301,788
Management and general	867,372		(35,780)			831,592
United Way Worldwide dues	74,652					74,652
Total allocations and expenses	12,485,630	936,926	(310,047)	0	0	13,112,509
Change in net assets before fund transfers	2,037,136	94,335	0	2,131,471	(1,520,818)	620,328
Reclassification of fund deficiencies	5,304			(5,304)		0
Transfers per donor request	(21,478)			20,450	1,028	0
Change in net assets	2,020,962	94,335	0	2,115,297	10,703	620,328
Net assets (deficit), beginning of year	(414,690)	2,053,895	0	2,684,123	1,575,627	5,898,955
Net assets, end of year	\$ 1,606,272	\$ 2,148,230	\$ 0	\$ 3,754,502	\$ 1,586,330	\$ 6,519,283