A United Way Guide to FASB Statements 116, 117 and 136
In 1996, the Financial Issues Committee (FIC) released a document titled *Implementation Guide for FASB Standards 116 and 117* and in 2000 they released a document titled *Implementation Guide for FASB Standard 136*. Each of these documents was developed to assist United Ways in arriving at consistent interpretation of what were then “new” FASB Standards that dramatically changed the way not-for-profit accounting would be done. Since the standards were effective for all fiscal years beginning after December 15, 1995, it was the hope of FIC that these documents would help United Ways make the transition necessary in order to come into compliance with the FASB standards and maintain compliance when they subsequently completed their annual audits.

In 2005, the FIC determined that it was time to revisit these earlier documents for the purpose of combining them into a single document that no longer focused on transition to the “new” standards but on updating them to assure compliance with current interpretations by FASB and the accounting profession in general. The FIC appointed a sub-committee to undertake this task and in late December of 2006, the FIC approved this document to supersede and replace the two earlier documents.

This publication is the result of the dedicated efforts of both FIC and other leaders of the United Way financial community, representing both large and small local United Ways. Their insights and contributions to this publication helped to create a document appropriate for use by all United Ways, regardless of metro size.

This document alone is not intended to be the single, final, authoritative interpretation of GAAP for United Ways. It is rather an attempt to consolidate and simplify the GAAP rules as enumerated in SFAS 116, 117, & 136 so that appropriate management choices can be made.

In all cases the United Way should seek additional guidance from other authoritative publications and from an independent certified public accountant.

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December, 2006
1996 FASB STANDARDS 116 & 117

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Executive Summary and Overview of FASB Statements No. 116, 117, and 136

In June 1993, the Financial Accounting Standards Board (FASB) issued Statement No. 116, Accounting for Contributions Received and Contributions Made (SFAS 116), and Statement No. 117, Financial Statements of Not-for-Profit Organizations (SFAS 117). Statement No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others (SFAS 136) was issued by the FASB in June 1999.

**SFAS 116**

SFAS 116 establishes accounting standards for contributions received and made. Generally, it requires an unconditional promise to give cash or other assets to be recognized by the donee at fair market value in the period the promise is made. All campaign revenue is recognized at the time the pledge is received and results in an increase in net assets. SFAS 116 further distinguishes between a promise and a mere intention to give. Pledges made to support United Way organizations are considered unconditional promises, and are therefore contributions revenue. For the purpose of this guide, the term “pledge” will be used to indicate a promise.

SFAS 116 further distinguishes contributions as unrestricted or restricted. Only the donor has the ability to restrict a contribution, either explicitly or implicitly. If there are no donor restrictions on a contribution, it is recorded as an increase in unrestricted net assets, an asset class that SFAS 117 defines.

SFAS 116 also distinguishes between funds received as an “agent” and funds received as a donee. When a United Way organization receives funds as an agent, the funds are not recorded as contributions (revenue) to the local United Way organization.

**SFAS 117**

SFAS 117 establishes broad standards for general-purpose external financial statements of not-for-profit organizations. Most significantly, this Statement changed the focus of financial statements from disaggregated reporting (that is, by fund groups) to the organization as a whole. In addition, SFAS 117 requires not-for-profit organizations to provide statements of cash flows, and requires voluntary health and welfare organizations to provide a statement of functional expenses.

SFAS 117 defines three categories of net assets: permanently restricted, temporarily restricted, and unrestricted. Donors place either time or purpose restrictions on the classes of assets. The Statement requires each category of net assets that exists be displayed in a statement of financial position, and that the changes in those categories of net assets be displayed in a statement of activities. As restrictions are met, assets are reclassified to unrestricted net assets on the face of the financial statements.
For further guidance on standards for the presentation of financial statements for United Way organizations, see United Way Worldwide (UWW) publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards”.

**SFAS 136**

SFAS 136 establishes guidance on when a fund-raising organization is acting as an agent. It clarifies paragraphs 52 through 54 of SFAS 116, which notes that not-for-profit organizations act as agents, trustees, or intermediaries (rather than donees) if they have little or no discretion in determining the use of assets transferred to them.

SFAS 136 outlines standards for transactions in which a donor makes a contribution by transferring assets to a recipient nonprofit organization that accepts the assets from the donor and agrees to transfer the assets to another entity – the beneficiary – designated by the donor. Such transactions are referred to as agency transactions. In general, agency transactions are not recognized as a contribution (revenue) by the organization that first receives the donation (the recipient organization.)

SFAS 136 provides an exception to when a recipient organization is an agent upon receipt of donations designated for specified beneficiaries. This occurs when the donor specifically grants “variance power” in the documentation conveying the gift.
Overview of Net Asset Classifications

SFAS 117 requires classification of net assets and contributions based on the existence or absence of donor-imposed restrictions, either explicit or implicit, using three classifications: unrestricted, temporarily restricted, and permanently restricted. Definitions of the three classifications are as follows:

**Unrestricted.** Unrestricted contributions are defined as assets and revenues with no donor imposed restrictions. Additionally, assets and revenues whose restrictions have been met are reclassified as unrestricted contributions. For example, a contribution to a local United Way organization to support its community fund generally would be classified as an unrestricted contribution (to the extent there are no explicit or implicit time restrictions), generating an increase in unrestricted net assets.

Assets that have been designated for a particular use by the Board, but not by the donor, or custodial funds held on behalf of other organizations are considered unrestricted net assets for purposes of classification in the statement of financial position. Such funds should generally be reflected as unrestricted board appropriated net assets.

**Temporarily Restricted.** Temporarily restricted contributions contain donor-imposed restrictions that direct an organization to use the donation as specified and can be satisfied either by the passage of time (time restricted) or by fulfilling the donor-imposed purpose of the United Way organization (purpose restriction).

A time restriction stipulates the time period for which the contribution is to be used or due and is released from the restriction with the passage of time. A purpose restriction specifies the purpose or specific program that the contribution is to support. The release from its purpose restriction is event driven. Often, contributions will feature both time and purpose restrictions. Once all restrictions are met, the financial statements show a release from temporarily restricted net assets and reclassification as an increase in unrestricted net assets in the statement of activities.

If the donor restriction is met in the same period the contribution is received, then the contribution may be classified as an increase in unrestricted net assets. This accounting may be used provided that such a policy is disclosed in the notes to the financial statements and is consistently applied across the organization and between reporting years. Without such a policy, such a contribution will be classified as temporarily restricted support and shown as a reclassification to unrestricted.

**Permanently Restricted.** A donor-imposed restriction is one that stipulates that the specified
resources be maintained permanently, but permits the organization to use or expend part or all of the income (or other economic benefits) derived from the donated assets. For example, the principal portion of a permanent endowment whereby a donor requires the principal to be held in perpetuity, but allows the earnings to be used for general operations, results in two classes of net assets: permanently restricted and unrestricted. The principal is a permanently restricted asset on the statement of financial position; the earnings would be either temporarily restricted or unrestricted investment income on the statement of activities, depending on donor restrictions.
Statement of Activities

Annual revenues and expenses of a United Way organization will be reflected in the required statement of activities. As noted in SFAS 117, the statement of activities reports the change in each of the three classifications of net assets during the reporting period. The statement of activities must report certain totals (such as an operating indicator) and the changes in those totals, the change in total net assets, and in each of the individual net asset classifications (that is, unrestricted, temporarily restricted, and permanently restricted net assets.) Note that contributions, as defined, do not include agent transactions (donor designations) but, rather, the reporting of agent transactions is governed by SFAF 136.

Contributions

SFAS 116 establishes accounting standards for contributions to all entities that either receive or make contributions. SFAS 116 defines a contribution as an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Other assets include securities, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, and unconditional pledges to give those items in the future. Contributions, including pledges to give cash or other assets, are recognized as revenue in the period received at their fair market values.

Certain transactions, such as exchange transactions and agent transactions, are not included in the definition of contributions. Exchange transactions are discussed on pages 19 and 20 and agent transactions are discussed on page 14.

Promise to Give Versus Intention to Give

SFAS 116 distinguishes between a promise to give and an intention to give. Generally, promises to give convey a legal responsibility on the part of the donor to make the contribution at a future date. An intention to give, while similar to a promise, does not legally bind the donor to perform. Communication is an integral part of a promise to give. SFAS 116 states that "... to be recognized in the financial statements there must be sufficient evidence in the form of verifiable documentation that a promise was made and received." [Emphasis added.]

The distinction, while subtle, is important in determining whether the recipient should record contributions received as revenue, and whether the donor should record a contribution expense. For example, a pledge card with a commitment to contribute $1,000 is a promise to give. A discussion with a donor (not documented) who has indicated that they are interested in becoming a leadership donor is not.

For United Way organizations, pledges made to support their programs and community fund activities are promises to give and therefore are contributions revenue in the year the pledge is received, regardless of when payment is collected. Pledges designated to specific agencies, however, are viewed as agent transactions and are not reported as revenue on the financial statements. Such amounts should, however, be reported as gross campaign results, with a
corresponding contra-revenue to ensure such amounts are not reported as net revenue. This presentation allows United Way organizations to show the entire results of their fund-raising efforts.

For further guidance on standards for the presentation of financial statements for United Way organizations, see UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards (2004)”.

It is important to note that communications, whether written or oral, that reflect a clear unconditional promise to give should be recognized as revenue, regardless of whether the United Way organization has exercised legal recourse to enforce collection of the pledge.

The distinction of promise versus intention is also important for United Way organizations that need to determine whether allocations to member agencies should be recorded as expenses on the statement of activities and, correspondingly, as liabilities on the statement of financial position. The same rules apply to both situations.

Often, opportunities arise for United Way organizations to determine whether the contribution will be recorded as revenue by providing the donor with specific wording. For some organizations this ability will be more important when managing multi-year contributions. The example presented below combines a promise and a mere intent:

Example:
Corporation A promises to give the local United Way organization $50,000 in Year 1 and intends to give an additional $25,000 in Year 2 and $30,000 in Year 3 based on preliminary budgets.

In the above situation, the local United Way organization would be required to record $50,000 in Year 1 as contribution revenue. The remaining amounts ($25,000 and $30,000) would not be recordable as they relate to an intention and are placed in the context of uncertain circumstances.

See Appendix A for lists of factors to consider in making judgment decisions regarding promises versus intentions to give.

**Donor-imposed Restrictions Versus Donor-imposed Conditions**

SFAS 116 distinguishes between donor-imposed restrictions (temporarily restricted or permanently restricted) and donor-imposed conditions. Restrictions limit the use of a donated asset: conditions create barriers that must be overcome before pledges are fulfilled or assets are transferred. An unconditional restricted pledge (for example, an asset to be donated which must be used to support a particular program service or create an endowment fund) is recognized when the pledge is made. Alternatively, a conditional pledge, such as a matching or challenge gift, differs from a restriction in that the donor retains a right in the transferred asset. The ability to recognize the pledged gift depends on whether the United Way organization accomplishes the condition in the future. A promise to give linked to a contingent event is considered unconditional if the possibility that the contingency will not be met is remote.

A conditional promise is not recognized until all conditions are met. For example, in a gift-matching
situation, when a donor agrees to give $100,000 if the United Way organization raises $500,000 (and for this United Way organization, such a figure would greatly exceed last year’s performance), then the $100,000 conditional pledge will not be recognized until $500,000 is raised. When the matching money is raised, then the contribution revenue of $100,000 is recognized. It is important to note that restrictions and conditions are not mutually exclusive and that both can exist with the same gift.

Again, conditional pledges to give are recognized only when the conditions are met, even if assets have already been transferred to the recipient organization. If assets are received subject to conditions (for example, a transfer of cash which must be returned if the like amount is not raised within a specified time period), then those assets must be offset by an equal liability, called *refundable advances* on the Statement of Financial Position, until the conditions are met.

See Appendix A for lists of factors to consider in making judgment decisions regarding donor-imposed restrictions versus donor-imposed conditions.

**Reporting of Donor-imposed Restrictions**

Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted revenues, depending on the nature of the restriction, and are recorded in the corresponding asset class. Once restrictions are fulfilled, the assets are released and temporarily reclassified as an increase to unrestricted net assets. The decrease in temporarily restricted net assets (or release from restrictions) and the increase in the unrestricted net assets must be shown separately in the statement of activities.

**Classification of Campaign Pledges and Related Assets**

For United Way organizations, the general guideline is that campaign pledges will initially be recorded as temporarily restricted contributions, which in turn increases temporarily restricted net assets (the exception being those situations in which restrictions are met in the same reporting period in which the contribution is received, in which case the contribution may be reported as unrestricted, provided it is done consistently, period to period, and the policy is disclosed in the notes to the financial statements). This general guideline is based on the fact that a time restriction is implicit in an unconditional promise to give when it is scheduled to be paid in future periods. This time restriction is implied unless donors explicitly state that the gift is to support current activities or there are other circumstances that make it clear that the gift is for the current period. Such circumstances may include, but are not limited to, budget cycle and/or the allocations and grant cycle. Generally, United Way organizations should avoid making representations about which periods revenues will be spent. Such representations can imply certain restrictions that otherwise do not exist from external donors.
**Time Restricted Contributions - Multi-year Pledges**

Multi-year pledges reflect donor-imposed time restrictions. Examples presented below illustrate various types of multi-year pledges and their related accounting treatments.

**Donor-imposed Time Restrictions**

**Example 1:**
A corporation makes an unconditional multi-year pledge to the United Way organization in January Year 1 for $50,000 to be used over the next three years as follows: fiscal Year 1 — $10,000; Year 2 — $15,000; and Year 3 — $25,000. The donor gave $10,000 in cash at the time of the pledge.

**Example 1: Accounting Treatment**
This case assumes that the United Way organization has adopted an accounting policy that allows those temporarily restricted contributions whose restrictions are met in the same year as the contribution is received, to be initially classified as an unrestricted net asset. Secondly, because this contribution is a multi-year pledge, the amount initially recorded needs to be recorded net of a discount factor (see Valuation of Contributions on page 15). Depending on the timing of when the pledge was received and when the payment for Year 2 is expected, the pledge for Year 2 may or may not warrant discounting. As a general rule, discounting is not required if the pledge is expected to be received within 12 months. Assume for purposes of this case that the calculated discount is $5,000 ($1,500 for Year 2 and $3,500 for Year 3).

**Year 1:**
The amount pledged for Year 1 would be recorded at full value on the statement of activities as an increase in the unrestricted net asset class. The amount pledged for Years 2 and 3 would be recorded net of the discount as an increase in temporarily restricted net assets.

\[
\begin{align*}
\text{Dr. Cash} & \quad 10,000 \\
\text{Dr. Pledges receivable} & \quad 40,000 \\
\text{Cr. Unrestricted contribution revenue} & \quad 10,000 \\
\text{Cr. Temporarily restricted contribution revenue} & \quad 35,000 \\
\text{Cr. Discount on pledges receivable} & \quad 5,000 \\
\end{align*}
\]

**Year 2:**
The interest that accrues as each year passes is recorded as additional contribution revenue. As time restrictions are met in Years 2 and 3, the respective amounts pledged would then be released and reclassified from temporarily restricted net assets to unrestricted net assets each year.

\[
\begin{align*}
\text{Dr. Cash} & \quad 15,000 \\
\text{Dr. Net assets released from restriction – temp restricted} & \quad 13,500 \\
\text{Dr. Discount on pledges receivable} & \quad 1,500 \\
\text{Cr. Net assets released from restriction – unrestricted} & \quad 15,000 \\
\text{Cr. Pledges receivable} & \quad 15,000 \\
\end{align*}
\]

A similar entry is recorded for Year 3, with a release of $21,500 ($25,000 net of $3,500 discount) and a debit to the discount account of $3,500, bringing the remaining discount on the books to zero.
Example 2:
A corporation makes an unconditional gift to the United Way organization in the fall Year 1 campaign for $50,000 to be used over the next three years as follows: Year 2 — $10,000; Year 3 — $15,000; and Year 4 — $25,000. The donor has given the entire $50,000 to the United Way organization at time of the grant (Year 1).

Example 2: Accounting Treatment

Year 1:
The entire grant would be recorded at face value, with a temporarily restricted net asset being set up that will be released with the passage of time.

Dr. Cash $50,000
Cr. Temporarily restricted contribution revenue $50,000

Year 2:
As the time restriction is met in Year 2, the amount pledged is released and reclassified from temporarily restricted net assets to unrestricted net assets.
Dr. Net assets released from restriction – temp restricted $10,000
Cr. Net assets released from restriction – unrestricted $10,000

Years 3 and 4:
A similar entry is recorded in Years 3 and 4, with releases of $15,000 and $25,000, respectively.

Example 3:
A corporation makes an unconditional gift to the United Way organization in the fall Year 1 campaign for $50,000 to be used over the next three years in the utility assistance program as follows: Year 2 — $10,000; Year 3 — $15,000; and Year 4 — $25,000. The donor has given the entire $50,000 to the United Way organization in Year 1.

Example 3: Accounting Treatment
Same as example 2; however the release of assets occurs once both restrictions have been met - passage of time and expenses incurred related to the utility assistance program.

Example 4:
A corporation makes a multi-year pledge to the United Way organization in the fall Year 1 campaign for $500,000 to be received and used over the next three years as follows: Year 2 — $100,000; Year 3 — $150,000; and Year 4 — $250,000. Each year's pledge is conditioned upon the local United Way organization's successful initiation of certain youth programs as specified by the corporation. (For purposes of this example, we are assuming that these are conditions for which there is a reasonable likelihood that they may not be met. This is not considered to be a grant.)
Example 4: Accounting Treatment

Year 1:
This pledge is not recorded until the conditions are met.
No Entry

If the asset is received before the conditions are met, then a refundable advance is recorded in the statement of financial position as follows:

Dr. Cash $500,000
Cr. Refundable advance (liability) $500,000

Year 2:
If the conditions are met, the following entry is made:
Dr. Refundable advance $100,000
Cr. Unrestricted revenue $100,000

Years 3 and 4:
If the conditions are met in Years 3 and 4, a similar entry is recorded for $150,000 and $250,000, respectively.

Example 5:
A $10,000 contribution is given for purposes of establishing a drug prevention program aimed at elementary school-aged children.

Example 5: Accounting Treatment
This contribution would be recognized as an increase in the temporarily restricted net asset class. The restriction is released and revenue reclassified to unrestricted net assets as amounts are expended or liabilities are incurred in fulfilling this objective.

When cash is received:
Dr. Cash $10,000
Cr. Temporarily restricted revenue $10,000

When restrictions are met:
Dr. Net assets released from restrictions – temporarily restricted $10,000
Cr. Net assets released from restrictions – unrestricted $10,000
**Fields of Care (Areas of Service, Needs, or Causes)**

When a donor indicates the type of program that he or she wishes to benefit but does not specifically name an organization, then the gift should be recognized as a contribution; it does not meet the definition of an agency transaction. “Targeted care” or “fields of care” programs fall into this thematic giving concept. Thematic giving can also be geographic. A donor can ask that his or her funds be distributed only in a specified county. Assuming that the geographic area is within the United Way organization’s own service area, then the United Way organization should treat such gifts as contributions rather than as donor-designated agent transactions.

Because these are contributions, a determination will then have to be made on whether the contributions should be classified as unrestricted revenues or temporarily restricted revenues. When the designated fields of care are so broad that they reflect activities of the local United Way organization that ordinarily occur in the normal course of operations, then these contributions should be classified as unrestricted revenues. Typically, United Way organizations feature four to six fields of care that are generally so broad that these contributions are unrestricted. If, however, the fields of care are program-specific, (for example, Success by Six ® and utility assistance), then such contributions would be temporarily restricted by virtue of a purpose restriction. Additionally, where geographical designations are served by multiple United Way organization programs, the contribution will generally not be restricted for accounting purposes.

Because pledges containing a "field of care" designation are not considered purpose restricted, they generally still may be required to be classified as temporarily restricted due to the implicit time restriction associated with a future payment schedule.

**Contributed Property**

When an unrestricted gift of a long-lived asset is received, the local United Way organization has the following two recognition and reporting alternatives:

*Alternative 1:* The value of the gift may be recorded as a contribution increasing unrestricted net assets. Each year, depreciation is charged against the unrestricted net assets. The net effect of this alternative reports the undepreciated value of the asset in unrestricted net assets.

*Alternative 2:* Alternatively, if the donor has not restricted the property, the United Way organization may elect to temporarily restrict the property, which infers a time restriction. Every year, a transfer representing the amount of depreciation is made from temporarily restricted to
unrestricted net assets. As in the first alternative, depreciation is charged against the unrestricted net asset balance. The net effect of this option is less volatility in unrestricted net assets and shows the undepreciated balance in temporarily restricted assets.

When deciding on a policy for recording contributed long-lived assets, the financial statement users should be kept in mind. If gifts of such assets present no limitations on financial flexibility, then these gifts should be considered unrestricted. However, if financial limitations are inherent, a classification of temporarily restricted would be more useful. Once a decision is made, it represents an accounting policy of the local United Way organization and may not be subsequently changed. If no policy is selected, then the practice being followed will become the United Way organization's policy. This is a policy to be evaluated and pro-actively decided on by the United Way organization. Regardless of which alternative is selected, the policy should be disclosed in the summary of significant accounting policies note to the financial statements and should be applied on a consistent basis.

For further guidance on standards for reporting contributed property, see UWW publication titled: “United Way Guidelines for Accounting for In-Kind Gift Transactions”.

**Documentation of Contributions**

For an unconditional pledge to be recognized in the financial statements, there must be sufficient evidence in the form of documentation that a pledge was received. Documentation is necessary to affirm validity of oral and written pledges before any assessments of recordability and collectibility are made.

Campaign pledges to United Way organizations are considered unconditional promises to give. As such, they will be recognized as contribution revenue in the statement of activities when the pledge is received, and not as deferred revenue on the statement of financial position. Completed pledge cards will meet the documentation requirement for recording pledges as contribution revenue.

The classification of campaign pledges and other contributions, (that is, unrestricted or temporarily restricted), can be determined during three phases: the point of solicitation, the receipt of the commitment, and the acknowledgment of the commitment. At each of these times, the United Way organization has the opportunity to confirm the nature of the commitment through a documented process. Written communications are preferred to oral communications for contributions. Accordingly, these three phases are also an opportunity to distinguish between a pledge and an intention to give.

Controls should be in place, including formalized policies and procedures, that address the preparation and retention of pledge forms and other contribution documentation. For example, copies of formal confirmations or acknowledgments to donors should be retained in the United Way organization files, which would then be updated when payments are received and reconciled to records of pledges receivable. Documentation for oral pledges could be prepared by completing a pledge card at the time the pledge is received over the phone or by sending an acknowledgment. In order to recognize as revenue, oral promises to give must permit subsequent verification.
**Allocations to Agencies**

Just as United Way organizations recognize a contribution when a donor makes a pledge, so must they recognize pledges to agencies (allocations) in accordance with SFAS 116 and 117. When an allocation letter is sent to a funded agency, carefully draft the letter to clearly distinguish between a pledge (allocation pledge) and a mere intention to give. Maintaining the integrity of individual campaign years may be a consideration when selecting the language to be included in the allocation letter. If the allocation is communicated as an allocation pledge, then the United Way organization will be required to record that pledge as both a current year expense and a liability that decreases the United Way organization’s unrestricted net assets. Alternatively, if the allocation is communicated as a statement of intent, then the United Way organization does not have to record either the expense or the liability. It is the nature of the communication of the allocation that triggers a recordable transaction. After the initial intent has been communicated, the United Way organization can follow up either with a letter confirming the pledge or by making the actual allocation payment; both of these actions generate a recordable transaction.

For most United Way organizations, the determination as to amount and nature of the allocation letter will result from an action taken by their board of directors. The board minutes should clearly reflect this action (that is, allocation pledge or statement of intent) and support the allocation letters sent.

The goal is to be sure that communications to recipients are consistent with program and financial reporting objectives. Examples of allocation letter wording for two separate scenarios are first presented and then discussed below:

**Case 1**

“The United Way organization of City A intends to support XYZ Youth Center with a $10,000 allocation from our current campaign. During the current year, we will notify you of the final allocation for your agency.”

In case 1, both the use of “intends” and the clear indication that a final figure will be forthcoming clarify that this is a non-recordable event. Therefore, as discussed above, no expenses and liabilities are recorded. Similarly, the XYZ Youth Center does not record revenues or receivables on the basis of the letter.

**Case 2**

“Due to the success of our recent campaign and given your community impact, the United Way organization of City A is pleased to allocate $10,000 to the XYZ Youth Center.”

In case 2, a pledge is communicated. The recipient agency will record a contribution and a receivable and the United Way organization will record a liability and an allocation expense.

Allocations funded by contributions that the donor specified for a designated beneficiary (generally called “first-dollar allocations” in the United Way system) may not be included in allocation expense on the audited statements. SFAS 136 does not provide guidance on display alternatives for
expenses. However, the alternative presentations given for the revenue can be applied. Exhibit , illustrates a display alternative that communicates total funds allocated without including the portion funded by designated gifts in allocations expense.

Exhibit 1

Example: Sample United Way Organization makes allocations of $7,500 to agencies and other United Way organizations. Of that amount, $3,600 is funded by donor designations. Sample United Way Organization also provides $1,100 of community and agency services during the year and incurs $1,400 of support costs.

Allocations and Expenses
Allocations:
Funds allocated to agencies and other United Ways $7,500
Less: allocations funded through donor designations (3,600)
Allocations 3,900
Program services 1,100
Allocations and Program Services 5,000
Supporting services 1,400
United Way Worldwide dues 75
Support and General 1,475
Total Allocations and Expenses $6,475

By using presentations similar to those illustrated above, total campaign results and total allocations can continue to be shown on United Way organization’s financial statements. However, designations must be subtracted before any amount is shown as “support and revenue” or as “expense.” Care should be taken not to describe any line including designations as ”revenue” or “expense” or to use any other term with similar meaning in describing lines that include designated amounts.

For further guidance on standards for the presentation of financial statements for United Way organizations, see UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards”.

Variance Power and Designated Gifts

A designated gift can be included in campaign revenue if the donor specifically grants “variance power” to the soliciting United Way organization.

Variance power means that the soliciting United Way has the authority to redirect the donor’s gift without getting the donor’s permission or anyone else’s. United Way organizations must receive variance power from the donor. Refer to Appendix B that reprints Example 1, Gifts to a Federated Fund-raising Organization, from SFAS 136. Paragraph 28 of the example includes wording that, if clearly stated on the campaign literature as well as the pledge card, gives the fund-raising organization variance power.
Agent Transactions (Designated Pledges)

SFAS 116 and 136 define agent transactions, which are also referred to as "donor designations", "donor choice" or "designated pledges" as transfers of assets from donors through United Way organizations to third-party recipients specified by the donor. When a donor makes a contribution to a United Way organization and designates a named charity as the beneficiary, he or she is generating an agent transaction.

Assets received with specific third-party designations should not be reported as revenue on the statement of activities. This is true for all designations, even those included in “first-dollar” allocations. However, total campaign results, including designations, should be featured on the statement of activities as long as they are not labeled as revenue. The designations component of “total campaign results” will then be deducted to obtain an actual revenue figure, be it unrestricted or temporarily restricted revenue.

In the absence of clear-cut circumstances distinguishing agent transactions from contributions, United Way organizations should assess the extent of discretion available in using the assets transferred by a donor to determine whether the transaction is a contribution or an agent transaction.

If a donor explicitly grants the United Way organization variance power (the power to override donor instructions without donor approval to redirect the use of a donation to another beneficiary), then the United Way organization is the donee, not an agent. The pledge cards must explicitly state that the United Way organization may redirect the use of the gift without getting the donor’s permission. The card could state that the donor designations are simply guidelines and that the United Way organization will distribute funds according to predetermined allocations or as it sees fit. Although this is an option, it risks weakening the United Way organization’s relationship with the donors who want to know that their designations are going where intended. In addition, given the nature of national campaigns that do not utilize pledge cards, opportunities to invoke variance power may be limited.

Note that the financial impact of agent transactions will also be captured in the statement of cash flows and on the statement of financial position. See UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards (2004)” for examples on how to display donor designation activity.

Pledges designated for fields of service, such as homelessness or health, are not agency transactions under SFAS 136 because the soliciting United Way organization has the authority to direct these gifts to any organization it may choose within the field of service category. The soliciting United Way organization should continue to include these gifts in campaign revenue.

Reporting Campaign Results That Include Designations

Gifts specified for a designated beneficiary where the donor has not granted variance power may not be included in campaign revenue reported on audited financial statements. However, SFAS 136 does allow display alternatives for reporting that allow a United Way organization to communicate
information about total campaign results on its statement of activities (though not as revenue.)

For further guidance on reporting designations in financial statements, see UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards”.

**Documentation for Agent Transactions**

Soliciting United Way organizations should retain original documents for designated pledges because they support the receivable/payable entries on their books. Copies of documents (authenticated, if necessary) should be made available to agency personnel (or their auditors) when necessary.

**Valuation of Contributions**

General guidelines for contribution revenue and related receivables are that they should be recorded at the fair market value of the assets received or liabilities satisfied. Fair value may be determined through quoted market prices, independent appraisals, or other valuation techniques. For some contributions, such as donated supplies, an organization may need to consider market obsolescence. The fair value of a contribution is generally measurable. However, in certain circumstances there may be uncertainties about the existence of value, such as food or medicine that is expired past its "sell by" date. Substantial uncertainties may indicate that the contribution should not be recognized by the donee. For further guidance on the valuation of contributions, see UWW publication titled: “United Way Guidelines for Accounting for In-Kind Gift Transactions”.

Unconditional pledges to give that are expected to be received within one year of the date of the financial statement are permitted to be measured at their net realizable value. This value is the gross amount of the pledges to give net of an allowance for uncollectible amounts. The estimate for uncollectible amounts should be disclosed either on the face of the statement of activities as a contra revenue item or in the notes to the financial statements (related receivables should also be reported net of uncollectible amounts in the statement of financial position.) Subsequent adjustments in recoverable amounts will be shown as increases or decreases in net realizable value as experience dictates.

**Discounting of Multi-year Pledges**

Unconditional pledges to give cash over a period of time in excess of one year will result in future cash flows that should be discounted from net realizable value to present value using an appropriate discount rate. The discount rate should be commensurate with the risks involved. Considerations in determining the discount rate include the rate of return the recipient United Way organization is receiving on assets, as well as the collectibility of the pledge.

SFAS 116 requires reporting the discount that arises when initially measuring a multi-year pledge at present value as a deduction from contributions receivable either on the face of the statement of financial position or in the notes to the financial statements. Additionally, it also requires that subsequent accruals of the “interest” element be recorded as a contribution in those subsequent years.
rather than as interest income in the statement of activities.

Understandably, corporate donors may hesitate to make multi-year pledges since they are required to expense the entire contribution in one year. However, donors can structure a conditional pledge or an intention to give so that neither the United Way organization nor the donor would record the entire gift in one year, as discussed earlier.

Example:
Corporation A pledged a multi-year gift of $100,000 in Year 1 and it is to be received over the next three years as follows: Year 2: $20,000; Year 3: $40,000; and Year 4: $40,000. In this situation, the pledge receivable is temporarily restricted due to a time restriction and is required to be discounted as a result of the multi-year pledge. After the determination of a discount factor that considers both the time value of money and risk, the accounting treatment required is as follows:

Exhibit 2
Example of Accounting Treatment for Multi-year Gift

<table>
<thead>
<tr>
<th>Gross Pledge</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount on pledges receivable</td>
<td>$20,000</td>
<td>$40,000</td>
<td>$40,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Net pledge initially recorded</td>
<td>0</td>
<td>3,000</td>
<td>7,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Accounting in Year 2:
A pledge receivable is debited for $90,000, unrestricted revenue is credited for $20,000, and temporarily restricted revenue is credited for $70,000. When contribution of $20,000 is received; cash is debited and pledges receivable is credited for $20,000. The pledge receivable is recorded net of the $10,000 discount.

Accounting in Year 3:
Contribution of $40,000 is received; cash is debited for $40,000; pledges receivable is credited for $37,000; $3,000 (the discounting treatment) is credited as unrestricted contributions revenue; and $37,000 is reclassified from temporarily restricted to unrestricted. Additionally, $3,000 (the discounting treatment) is credited as a temporarily restricted contribution and debited to pledges receivable, which relates to the pledge to be received in Year 4.

Accounting in Year 4:
Contribution of $40,000 is received; cash is debited for $40,000; pledges receivable is credited for $33,000; $7,000 (the discounting treatment) is credited as unrestricted contributions revenue and $33,000 is reclassified from temporarily restricted to unrestricted.

Contributed Services

Contributions of services should be recognized as revenue and expense if the services received create or enhance non-financial assets or require specialized skills, which are provided by individuals possessing those skills and would have to be purchased if not provided by donation. Examples of such services would include a chief financial officer, general counsel, architects, or other professionals and craftsmen.
To record the contributed services, the time, the effort, and valuation thereof should be captured. The level of detail required will depend largely on each organization’s activities. Information that may typically be captured includes: the time reporting period (that is, quarterly, monthly); the person/firm and position, if applicable; the hours contributed; and the program/nature of service. In most cases, the best source of this information will be the volunteer(s). In those instances where services are provided by professional service firms, the firms should provide the United Way organization with a statement of the fair market value of services rendered.

In addition to recording, the United Way organization will be required to describe the programs or activities for which those services were used in the notes to the financial statements.

Contributed services that do not meet the above criteria are not recognized as contributions. However, a qualitative footnote disclosure is encouraged whether or not contributed services are recognized. Generally, a United Way organization's loaned executive program would be ineligible for recognition in the statement of activities, but would be appropriate for footnote disclosure, assuming it is practicable to disclose the nature of services and approximate volunteer hours and the fair market value.

The degree of documentation required for disclosure of contributed services is less than the documentation needed for purposes of recording. A reasonable basis of estimating the levels of effort and fair market value, if applicable, would be acceptable. For example, estimating the level of effort for the loaned executive program and could be performed as follows: 20 executives from Corporation X for 4 weeks averaging 50 hours a week would provide a disclosure of 4,000 hours. No fair market value would be estimated due to the assessment difficulty.

Board level activity and services provided in their volunteer governance capacity do not meet the recognition criteria and are not required to be disclosed in the notes to the financial statements. For further guidance on standards for in-kind gift transactions, see UWW publication titled: “United Way Guidelines for Accounting for In-Kind Gift Transactions”.

In-Kind Contributions

In-kind contributions should be recorded at their fair market value as previously described. For in-kind contributions received by a United Way organization, fair value can best be measured by quoted market prices. If quoted market prices are not available, fair value can be estimated based on one of the following: quoted market prices for similar assets, replacement cost, independent appraisals, or other valuation techniques, such as discounting the estimated future cash flows. On the occasions when a United Way organization receives in-kind items that have been earmarked by the donor for a specific agency, the in-kind items would represent an agent transaction. Therefore, the United Way organization would not record these donations as a source of revenue.

For further guidance on standards for in-kind gift transactions, see UWW publication titled: “United Way Guidelines for Accounting for In-Kind Gift Transactions”.

18
**Special Events**

SFAS 117 allows organizations to report net amounts for certain activities that result from peripheral or incidental transactions or from other events that may be beyond the control of the organization and its management. Often, special events provide a tangible benefit in return to the donors. Examples of activities considered to be special events include: dinners, walk-a-thons, and sporting events, such as volleyball and golf tournaments.

For those activities considered to be major and ongoing, and therefore not peripheral, the gross reporting of revenue and expenses is required. A presentation option for reporting direct costs, such as the meal cost and facility rental, may be displayed as a line item deducted from the special events revenue as follows:

Revenue and other support:
Special Event #1 (net of direct costs of $40,000)  $5,000

Although certain peripheral special events are allowed to be reported on a net basis as described above, the accounting for the event's revenues and expenses should be maintained separately. Therefore, the United Way organization should ensure that proper records are maintained in order to accurately report the gross proceeds and direct costs attributable to the special event.
Other Revenue

Exchange Transactions Versus Contributions

Exchange transactions are reciprocal transfers in which each party receives and gives up something of equal economic value. Payment for goods and contracts for service are exchange transactions. Generally, government grants and contracts will be considered exchange transactions because in most instances United Way organizations are providing services on behalf of a government agency; therefore, the grants and contracts are considered amounts paid in lieu of government staff salaries. Revenue from such transactions should not be recorded as contributions. Additionally, exchange transactions are conducted in the normal course of business; therefore, such transactions are unrestricted net assets.

Classifying transactions either as exchange transactions or as contributions will require judging whether a reciprocal transaction has occurred. For instance, in each of the following examples, both entities provided the local United Way organization with a grant; however, one example is a contribution and the other is an exchange transaction:

Contribution: Foundation A gave the United Way organization a $50,000 grant to be used for its inner-city youth programs during 2005.

Exchange Transaction: In a joint effort for a community clean-up day campaign involving local youth, Government Agency A provided the United Way organization with a $10,000 grant specifically to organize and carry out the cleanup by having inner city youth join with United Way organization volunteers.

In summary, each type of transaction should be analyzed to determine the correct accounting treatment. Exhibit 1, which was extracted from the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Not-for-Profit Organizations (1996, with conforming changes as of May 1, 2005), describes certain indicators. These indicators will provide guidance on how to classify such transfers.
Exhibit 3
Example of Summary Indicators to Distinguish Between Contributions and Exchanges

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Contribution</th>
<th>Exchange Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipient not-for-profit organization's (NPO's) intent in soliciting the asset</td>
<td>Recipient NPO asserts that it is soliciting the asset as a contribution.</td>
<td>Recipient NPO asserts that it is seeking resources in exchange for specified benefits.</td>
</tr>
<tr>
<td>Resource provider's expressed intent about the purpose of the assets to be provided by recipient NPO</td>
<td>Resource provider asserts that it is making a donation to support the NPO's programs.</td>
<td>Resource provider asserts that it is transferring resources in exchange for specified benefits.</td>
</tr>
<tr>
<td>Method of delivery</td>
<td>The time or place of delivery of the asset to be provided by the recipient NPO to third-party recipients is at the discretion of the NPO.</td>
<td>The method of delivery of the asset to be provided by the recipient NPO to third-party recipients is specified by the resource provider.</td>
</tr>
<tr>
<td>Method of determining amount of payment</td>
<td>The resource provider determines the amount of the payment.</td>
<td>Payment by the resource provider equals the value of the assets to be provided by the recipient NPO, or the assets' costs plus markup; the total payment is based on the quantity of assets to be provided.</td>
</tr>
<tr>
<td>Penalties assessed if NPO fails to make timely delivery of assets</td>
<td>Penalties are limited to the delivery of assets already produced and the return of the unspent amount. (The NPO is not penalized for non-performance.)</td>
<td>Provisions for economic penalties exist beyond the amount of payment. (The NPO is penalized for non-performance.)</td>
</tr>
<tr>
<td>Delivery of assets to be provided by the recipient NPO</td>
<td>Assets are to be delivered to individuals or organizations other than the resource provider.</td>
<td>Assets are to be delivered to the resource provider or to individuals or organizations closely connected to the resource provider.</td>
</tr>
</tbody>
</table>
Income from Cost Deduction Fees

A United Way organization earns cost deduction fees, which cover administrative costs associated with raising or managing donor-designated gifts. Cost deduction fees are considered exchange transactions and should be recognized as other unrestricted income when they are earned as service fee revenue on the Statement of Activities.

Investment Gains and Losses

The statement of activities should report gains and losses recognized on investments and other assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed restrictions or by law. For additional guidance on accounting for investments, see FASB's Statement 124 "Accounting for Certain Investments Held by Not-for-Profit Organizations."

Reporting of Endowment Activity

Generally, endowments are gifts to be held by the United Way organization permanently or for a specified period of time. They should be recorded as permanently or temporarily restricted net assets, consistent with the donor’s stipulations. Investment income from these gifts is recognized as an increase in either the unrestricted or temporarily restricted net asset class depending on the donor’s stipulations for the use of the endowment income.

Each United Way organization must assess the relevant facts and circumstances for its endowment gifts and the relevant laws to determine whether net appreciation on endowments is available to be spent or is permanently restricted. This section does not apply to board-appropriated reserves that have no restrictions from external sources. Such reserves are considered unrestricted net assets and are separately presented as such.

Transfers to a Community Foundation

Community foundations often administer United Way endowment funds. The agreement between the United Way and the Community Foundation generally provides that the transfer of assets is irrevocable but that the income will be distributed annually to the United Way organization. The accounting treatment for United Way endowment funds held by community foundations differs depending on the facts and circumstances of the gift. Care should be taken to structure transactions to meet the rules for the desired accounting treatment.

Under SFAS 136, a transfer of assets to a recipient organization is not a contribution made if the donor organization specifies itself or its affiliate as the beneficiary of the gift. This rule applies when the United Way organization receives the gift and later transfers it to a community foundation and the community foundation agrees to distribute the income from the transferred assets to the United Way organization. Under these circumstances, the United Way organization records a permanently or temporarily restricted contribution (depending on donor intent) and an asset, its beneficial interest in assets held by the community foundation.
A United Way endowment gift made directly to the United Way fund held by the community foundation may be treated differently. If the campaign materials and pledge cards state the funds will be held by and owned by the community foundation and the pledge card and campaign materials grant the community foundation variance power, then the community foundation records a restricted contribution and an asset. The beneficiary United Way organization records contribution revenue for the annual distribution of income, but not for the endowment gift. Gifts received by the United Way organization but clearly intended for its fund at the community foundation, are also contribution revenue to the foundation, not the United Way organization.

**Expenses**

Expenses must be reported as decreases in unrestricted net assets. Additionally, the AICPA *Audit and Accounting Guide* makes it clear that campaign expenses should be expensed as incurred. It specifically states that costs incurred in one period that may result in future period contributions are to be expensed as incurred.

*Campaign Year Distinction and Related Reporting*

To maintain the integrity of the campaign year, each campaign year may be presented separately on the statement of activities. This presentation would reflect the following for each campaign period:

- Campaign pledges of the current period.
- Campaign pledges released from temporary restriction.
- Donor designations received in the current period.
- Release of the related allowance for uncollectible pledges.

For further guidance on standards for the presentation of the statement of activities for United Way organizations, see UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards”
Statement of Financial Position

Minimum Requirements

The focus of the statement of financial position is that of the United Way organization as a whole. It requires the presentation of six specific totals, a liquidity focus, and the elimination of “deferred contribution revenue” as a balance sheet component. The six totals to be reported are: total assets; total liabilities; the three sub-categories of total net assets (unrestricted, temporarily restricted, permanently restricted); and total net assets. For further guidance on standards for the presentation of the statement of financial position for United Way organizations, see UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards (20”

SFAS 117 and UWW Membership Standard H are not meant to be restrictive with regard to the presentation. Additional information may be provided in the statements and disclosures as long as the above minimum requirements have been met. For example, a United Way organization may wish to differentiate assets as time restricted versus purpose restricted. Information on the nature and amounts of different types of permanent and temporary restrictions should be reported either on the face of the statement of financial position or through a footnote disclosure.

Presentation of Specific Components

Donor Designations
Assets and liabilities associated with donor designations should be recognized in the statement of financial position and are required in the statement of cash flows. Given that United Way organizations are in a stewardship capacity, they should account for such assets and liabilities. As exchange transactions under SFAS 136, donor designations do not qualify as contributions revenue, and will, by default, be classified as unrestricted assets and liabilities.

Allocations to Agencies
If a United Way organization issues an allocation letter to agencies in which an allocation pledge is made, the United Way organization is required to record that amount as an expense in the year of the pledge with a corresponding liability to the funded agency. This expense results in a decrease in unrestricted net assets.
Net Assets
A significant concern for most United Way organizations is maintaining the integrity of each year’s campaign as reflected in the financial statements. A presentation option that would provide readers of financial statements with similar information would be to disclose what the net assets of each class are intended for as subsets as follows:

Unrestricted:
   Board appropriated $xx
   Unappropriated xx
       $xx

Temporarily Restricted:
   Time $xx
   Purpose xx
       xx

SFAS 117 is flexible about how much detail is provided, as long as the minimum requirements are presented.
Statement of Functional Expenses

A statement of functional expenses is the presentation of both the functional and natural classification of expenses in a matrix format. As stated in the statement of activities, the functional classification should report programs and supporting services. Within programs, local United Way organizations should feature their allocation to agencies (community impact), in addition to direct service programs such as information and referral services or volunteer centers. Supporting services should specifically feature fundraising expenses and management and general expenses (see “United Way Worldwide Functional Expenses and Overhead Reporting Standards (Revised 2004)”.

For further guidance on standards for the presentation of the statement of functional expenses for United Way organizations, see UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards (2004)”
Statement of Cash Flows

SFAS 117 requires the presentation of a statement of cash flows that reports the operating, investing, and financing activities of United Way organizations in accordance with FASB Statement No. 95 "Statement of Cash Flows" (SFAS 95.) No distinction is made in this statement for donor-imposed restrictions.

Reporting requirements to specifically note include: the receipt of donor designations; the receipt of restricted resources stipulated by the donor to be used for long-term purposes; gross cash flows (for example, investment activity, total purchases, and sales); and the related interest and dividends that are donor-restricted for long-term purposes.

For further guidance on standards for the presentation of the statement of cash flows for United Way organizations, see UWW publication titled: “Implementation Requirements for Membership Standard “H” Financial Statement Standards (2004.)”
Summary of Accounting Policies and Footnote Disclosures

General guidelines for accounting policies, footnote disclosures, and presentation decisions that SFAS 116, 117, and 136 require are discussed below.

**Significant Accounting Policies**

*Accounting policy for donor-imposed restrictions*
SFAS 116 allows a restricted contribution to be recorded as unrestricted if the restriction lapses during the same reporting period in which the contribution is received. If the United Way organization elects to follow this policy, then the United Way organization must apply it consistently and the policy should be disclosed.

*Accounting policy for contributed property and equipment*
A policy needs to be adopted to account for contributed property. The accounting policy adopted will be driven by whether the contribution was restricted or unrestricted as discussed earlier in this Guide. If donors stipulate how long the assets must be used, then the contributions are recorded as restricted support. If the donors do not specify such restrictions, the contribution should be reported as restricted support if the organization has adopted an accounting policy of implying a time restriction on the use of such assets that expires over the assets’ useful lives. In the absence of donor restrictions or an organization’s policy of implying time restrictions, contributions of property and equipment are recorded as unrestricted support.

*Cash equivalents*
The United Way organization needs to adopt an accounting policy on reporting and classifying cash equivalents. Furthermore, it typically discloses what types of investments are classified as cash equivalents.

*Operating versus non-operating*
For those United Way organizations that are interested in providing additional classifications within the statement of activities’ net asset classes, such as non-operating and operating, expendable and nonexpendable, or recurring and nonrecurring, a note to the financial statements describing the nature of the reported measure of operations or the items excluded from operations (if not apparent from the details provided on the face of the statement) needs to be provided.

**Required Footnote Disclosures**

Significant accounting policies in the following areas must be disclosed: donor-imposed restrictions, pledges receivable, contributed property and equipment, cash equivalents, and the nature of operating or non-operating items.
Contributed Services

The nature and extent of the services received, the programs or activities for which the services were used, and the amount of services recognized as contributions during the period should be disclosed. If the services have not been recognized because they did not meet the recognition criteria, then disclosure is not required, but is encouraged and may be broad and qualitative.

Unconditional and Conditional Pledges

SFAS 116 requires recipients of unconditional pledges to disclose amounts receivable in less than one year, amounts due in from one to five years (in the aggregate), and amounts due in more than five years. In addition, the allowance for uncollectible pledges must be disclosed.

For pledges that are expected to be paid in excess of one year, the following related information is required to be disclosed:

Discounted receivables. Disclosure of the gross pledge and the related present-value discount is required. A disclosure concerning the interest rate assumption would also be warranted.

Refundable advances. A refundable advance is recorded when an asset is received in advance of fulfillment of the corresponding condition. Failure to meet the condition would require the United Way organization to return the asset. Disclosure of the amount and conditional circumstances is required.

Recipients of conditional pledges are required to disclose the total of amounts pledged and a description of an amount for each group of promises having similar characteristics, such as amounts of promises conditioned on establishing new programs or on completing a new building.

Nature and Availability of Net Assets

The nature and availability of net assets is required to be disclosed either in the notes or on the face of the respective statements for the following: temporarily restricted net assets, permanently restricted net assets, and net assets released from restriction.

Cash Flows

If the direct method is presented, the United Way organization must disclose the reconciliation of change in assets to net cash provided by operating activities.
Appendices
APPENDIX A

Source: The following information is reprinted with the permission of Richard Larkin, C.P.A.

LISTS OF FACTORS TO CONSIDER IN MAKING CERTAIN JUDGMENT DECISIONS UNDER NOT-FOR-PROFIT ACCOUNTING LITERATURE (Primarily SFAS 116)

Prepared by Richard Larkin, C.P.A.

Factors to be considered in assessing whether a donee has been the recipient of a bona fide pledge from a donor

Factors to be considered in assessing whether a donor has made a bona fide pledge to a donee

Factors to be considered in deciding whether a gift or pledge subject to donor stipulations is conditional or restricted

* * * * * *

FACTORS TO BE CONSIDERED IN ASSESSING WHETHER A DONEE HAS BEEN THE RECIPIENT OF A BONA FIDE PLEDGE FROM A DONOR
(References: SFAS 116; AICPA Audit Guide, par. 5.47-.51)

• Following is a list of factors, which may be helpful to:
  - donees, in assessing whether a pledge (promise to give) has, in fact, been received;
  - the auditor of the donee, in assessing the appropriateness of the client's judgment.

• This list of factors is not intended to be used in deciding on proper accounting (for either the pledge asset or the related revenue/net assets), or to assess collectibility, although some factors may be relevant to those decisions as well.

• In many cases no one of these factors is necessarily determinative by itself; all relevant factors should be considered together.

  Factors whose presence may indicate a pledge was made

  Factors whose presence may indicate a pledge was not made

1. Factors related to the solicitation process:

  a. There is evidence that the recipient explicitly solicited formal pledges.
  - The "pledge" was unsolicited, or the solicitation did not refer to pledges.
<table>
<thead>
<tr>
<th>Factors whose presence may indicate a pledge was made</th>
<th>Factors whose presence may indicate a pledge was not made</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Public announcement(^1) of the pledge has been made (by donor or donee)</td>
<td>- No public announcement has been made.</td>
</tr>
<tr>
<td>c. Partial payment on the pledge has been made, (or full payment after balance sheet date).</td>
<td>- No payments have yet been made, or payments have been irregular, late, or less than scheduled amounts.</td>
</tr>
</tbody>
</table>

2. Factors related to the "pledge" itself:

<table>
<thead>
<tr>
<th>Factors whose presence may indicate a pledge was made</th>
<th>Factors whose presence may indicate a pledge was not made</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. There is written evidence created by the donor, and in the hands of the donee, which clearly supports the existence of an unconditional promise to give. (D)</td>
<td>- There is no written evidence(^2), the only written evidence was prepared by the donee, or written evidence is unclear.</td>
</tr>
<tr>
<td>(D) This factor, if present, would normally be considered determinative.</td>
<td></td>
</tr>
<tr>
<td>b. The evidence includes words such as: promise agree will binding, legal</td>
<td>- There is written evidence, but it includes words such as: intend, plan hope may, if expected</td>
</tr>
<tr>
<td>c. The pledge appears to be legally enforceable. (Consult an attorney if necessary.) (Note also factor 4a.)</td>
<td>- Legal enforceability is questionable, or explicitly denied.</td>
</tr>
<tr>
<td>d. There is a clearly defined payment schedule, stated in terms of either calendar dates or the occurrence of specified events whose occurrence is reasonably probable.</td>
<td>- A payment schedule is not clearly defined, or events are relatively unlikely to occur.</td>
</tr>
<tr>
<td>e. The calendar dates or events comprising the payment schedule will (are expected to) occur within a relatively short time(^3) after the balance sheet date (or in the case of events, have already occurred.)</td>
<td>- The time (period) of payment contemplated by the donor is relatively far in the future.</td>
</tr>
<tr>
<td>f. The amount of the pledge is clearly specified or readily computable.</td>
<td>- The amount is not clear or readily computable.</td>
</tr>
</tbody>
</table>
A pledge was made

g. The donor has clearly specified a particular purpose for the gift, e.g., endowment, fixed assets, loan fund, retire long-term debt, specific program service. The purpose is consistent with ongoing donee activities.

A pledge was not made

- The purpose is vaguely or not specified, or inconsistent with donee activities.
3. Factors relating to the donor:

   a. There is no reason to question the donor's ability or intent to fulfill the pledge. - Collectibility of the gift is questionable.

   b. The donor has a history of making and fulfilling pledges to the donee of similar or larger amounts. - Factor not present.

4. Factors relating to the donee:

   a. The donee has indicated that it would take legal action to enforce collection if necessary, or has a history of doing so. - It is unlikely (based on donee's past practices) or uncertain whether the donee would enforce the "pledge."

   b. The donee has already taken specific action in reliance on the pledge or publicly\(^1\) announced that it intends to do so.\(^4\) - No specific action has been taken or is contemplated.

Notes:

1. The announcement would not necessarily have to be made to the general public; announcement in media circulated among the constituency of either the donor or donee would suffice. Examples include newsletters, fundraising reports, annual reports, a campus newspaper, etc. In the case of announcements by the donee, there should be a reasonable presumption that the donor is aware of the announcement and has not indicated any disagreement with it.

2. Oral pledges can be considered bona fide under some circumstances (q.v., SFAS 116, par. 6, first sentence). Clearly, in the case of oral pledges, much greater weight will have to be given to other factors if the existence of a bona fide pledge is to be asserted. Also, the auditor will have to carefully consider what audit evidence can be relied on.

3. What constitutes a relatively short time has to be determined in each case. The longer the time contemplated, the more weight will have to be given to other factors (especially 2b, c, 3a and 4a) in assessing the existence of a pledge. In most circumstances, periods longer than 3 to 5 years would likely be judged relatively long.

4. Types of specific action contemplated include:

   - commencing acquisition, construction or lease of capital assets or signing binding contracts to do so;

   - making public announcement of the commencement or expansion of operating programs used by the public (e.g., the opening of a new clinic, starting a new concert series, a special museum exhibit);
- indicating to another funder that the pledge will be used to match part of a challenge grant from that funder;

- soliciting other pledges or loans for the same purpose by explicitly indicating that "x has already pledged;"

- committing proceeds of the pledge in other ways such as awarding scholarships, making pledges to other charities, hiring new staff, etc., (where such uses are consistent with either the donee's stated purposes in soliciting the pledge or the donor's indicated use of the pledge);

- forbearing from soliciting other available major gifts (e.g., not submitting an application for a foundation grant) because, with the pledge in question, funding for the purpose is considered complete;

- using pledge as collateral for a loan.

* * * * * * *
FACTORS TO BE CONSIDERED IN ASSESSING WHETHER A DONOR HAS MADE A BONA FIDE PLEDGE TO A DONEE
(References: SFAS 116, SFAS 5; AICPA Audit Guide, par. 10.06-.08)

- Following is a list of factors which may be helpful to:
  - donors, in assessing whether a pledge to another organization (or individual) has been made;
  - the auditor of the donor, in assessing the appropriateness of the client's judgment.

- This list of factors is not intended to be used in deciding on proper accounting (for either the pledge liability or the related expense), although some factors may be relevant to that decision as well.

- In many cases no one of these factors is necessarily determinative by itself; all relevant factors should be considered together.

<table>
<thead>
<tr>
<th>Factors whose presence may indicate a pledge was made</th>
<th>Factors whose presence may indicate a pledge was not made</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Formal approval of a specific pledge has been made by a person or group within the donor organization with authority to commit the organization to make contributions.¹</td>
<td>Such approval has not been made.</td>
</tr>
<tr>
<td>2. The identity of the donee of the pledge is specifically stated or readily determinable.</td>
<td>The payee is not stated or readily determinable.</td>
</tr>
<tr>
<td>3. The amount of the pledge to that particular donee is specifically stated, or readily determinable.</td>
<td>The amount is not stated or readily determinable.</td>
</tr>
<tr>
<td>4. The anticipated timing of payment of the pledge is stated or readily determinable.</td>
<td>The timing of payment is not stated or readily determinable.</td>
</tr>
<tr>
<td>5. The donor has formally communicated the principal terms of the pledge to the particular donee.</td>
<td>No, or only vague, communication to the donee has occurred.</td>
</tr>
<tr>
<td>6. The communication includes words such as:</td>
<td>There is written communication, but it includes words such as:</td>
</tr>
<tr>
<td>promise</td>
<td>intend, plan</td>
</tr>
<tr>
<td>agree</td>
<td>hope</td>
</tr>
<tr>
<td>will</td>
<td>may, if</td>
</tr>
<tr>
<td>binding, legal</td>
<td>expected</td>
</tr>
<tr>
<td>7. The pledge appears to be legally enforceable. (Consult an attorney if necessary.)</td>
<td>Legal enforceability is questionable, or explicitly denied.</td>
</tr>
<tr>
<td>8. Public announcement of the pledge has been made by the donor.</td>
<td>No public announcement has been made.</td>
</tr>
</tbody>
</table>
Notes:

1. In most cases this will be by a committee, either the governing board or a committee thereof, or a special non-board committee for that purpose such as a grants or allocations committee. Some organizations give authority to certain levels of management to make grants up to specified limits.

* * * * * * *
FACTORS TO BE CONSIDERED IN DECIDING WHETHER A GIFT OR PLEDGE SUBJECT TO DONOR STIPULATIONS IS CONDITIONAL OR RESTRICTED
(References: SFAS 116, par. 7, 22-23, 57-71, 75-81; AICPA Audit Guide, par. 5.32-.39)

- Donors place many different kinds of stipulations on pledges and other gifts. Some stipulations create legal restrictions which limit the way in which the donee may use the gift. Other stipulations create conditions which must be fulfilled before a donee is entitled to receive (or keep) a gift.

In SFAS 116, FASB defines a condition as an uncertain future event which must occur before a promise based on that event becomes binding on the promisor. In some cases, it is not immediately clear whether a particular stipulation creates a condition or a restriction. (Some gifts are both conditional and restricted.) Since accounting for the two forms of gift is quite different, it is important that the nature of a stipulation be properly identified so that the gift is properly categorized. Paragraph 23 of SFAS 116 also says that, “In cases of ambiguous donor stipulations, a promise containing stipulations that are not clearly unconditional shall be presumed to be a conditional promise.”

- Following is a list of factors to be considered by:
  - recipients and donors of gifts, in deciding whether a pledge or other gift which includes donor stipulations is conditional or restricted;
  - auditors, in assessing the appropriateness of the client's decision.

- In many cases, no one of these factors will be determinative by itself; all applicable factors should be considered together.

**Factors whose presence in the communication from the donor or in a donee-prepared pledge card would indicate the gift may be conditional**

**Factors whose presence in the grant document, donor's transmittal letter, or other gift instrument, or in the appeal by the recipient would indicate the gift may be restricted**

**Factors related to the terms of the gift/pledge:**

1. The document uses words such as:
   - If; *
   - Subject to; *
   - When;
   - Revocable. (D)

2. Neither the ultimate amount nor the timing of payment of the gift are clearly determinable in advance of payment.

   The document uses words such as:
   - Must;
   - For;
   - Purpose;
   - Irrevocable.

At least one of the amount and/or timing are clearly specified.
Factors whose presence in the communication from the donor or in a donee-prepared pledge card would indicate the gift may be conditional

3. The pledge is stated to extend for a very long period of time (over, say, 10 years) or is open-ended. (Often found with pledges to support a needy child overseas, or a missionary in the field)

4. The donor stipulations in the document refer to outcomes expected as a result of the activity (with the implication that if the outcomes are not achieved, the donor will expect the gift to be refunded, or will cancel future installments of a multi-period pledge.\textsuperscript{1a})*
(Such gifts are likely also restricted.)

5. There is an explicit requirement that amounts not expended by a specified date must be returned to the donor.

6. The gift is in the form of a pledge.

7. Payment of amounts pledged will be made only on a cost-reimbursement basis. (D)

8. The gift has an explicit matching requirement (D), or additional funding beyond that already available will be required to complete the activity.

Factors relating to the circumstances surrounding the gift:

9. The action or event described in the donor's stipulations is largely outside the control of the management or governing board of the donee.\textsuperscript{2a}*

10. The activity contemplated by the gift is one which the donee has not yet decided to do; it is not certain whether the activity will actually be conducted.

11. There is a lower probability that the donor stipulations will eventually be met.

Factors whose presence in the grant document, donor's transmittal letter, or other gift instrument, or in the appeal by the recipient would indicate the gift may be restricted

The time is short and/or specific as to its end.

The donor stipulations focus on the activities to be conducted. Although hoped-for outcomes may be implicit or explicit, there is not an implication that achievement of particular outcomes is a requirement.\textsuperscript{1b} *

There is no such refund provision, or any refund is required only if money is left after completion of the specified activities.

The gift is a transfer of cash or other non-cash assets.

Payment of the gift will be made up front, or according to a payment schedule, without the necessity for the donee to have yet incurred specific expenses.

Factor not present.

The action or event is largely within the donee's control.\textsuperscript{2b} *

The donee is already conducting the activity, or it is fairly certain that the activity will be conducted.

There is a higher probability.
Factors whose presence in the communication from the donor or in a donee-prepared pledge card would indicate the gift may be conditional

12. The activities to be conducted with the gift money are similar to activities normally conducted on a for-profit basis by the donee or by other organizations.

13. As to any tangible or intangible outcomes which are to be produced as a result of the activities, these products will be under the control of the donor. (In some such cases, the payment may not be a gift at all; rather it may be a payment for goods or services.)

Notes:

D - Presence of this factor would normally be considered determinative. Absence of the factor is not necessarily determinative.

* - Factors which would generally be considered more important.

1a. Examples of outcomes contemplated by this factor include:
- Successful creation of a new vaccine;
- Production of a new television program;
- Commissioning a new musical composition;
- Establishing a named professorship;
- Reduction in the teenage pregnancy rate in a community;
- Construction of a new building;
- Mounting a new museum exhibit.

1b. Examples of activities contemplated by this factor include (but see Factor 10**):
- Conduct of scientific or medical research;
- Broadcasting a specified television program;
- Performing a particular piece of music;
- Paying the salary of a named professor;
- Counseling teenagers judged at risk of becoming pregnant;
- Operating a certain facility;
- Providing disaster relief.

2a. Examples of events contemplated by this factor include:
- Actions of uncontrolled third parties, e.g.:
  - other donors making contributions to enable the donee to meet a matching requirement of this gift;
  - a government granting approval to conduct an activity (e.g., awarding a building or land use permit, or a permit to operate a medical facility);
  - an owner of other property required for the activity making the property available to the organization (by sale or lease);

2b. Examples of events contemplated by this factor include (but see Factor 10 **):
- Eventual use of the gift for the specified purpose (e.g. those listed in Note 1b above), or retention of the gift as restricted endowment;
- Naming a building for a specified person;
- Filing with the donor routine financial or operating performance reports on the activities being conducted.

Factors whose presence in the grant document, donor's transmittal letter, or other gift instrument, or in the appeal by the recipient would indicate the gift may be restricted

The activities are not similar.

Any outcomes will be under the control of the donee, or will be in the public domain.
• Natural and manmade disasters;
• Future action of this donor (such as agreeing to renew a multi-period pledge in subsequent periods);
• The future willingness and ability of a donor of personal services to continue to provide those services (see SFAS 116, par. 70, third sentence).

** - There is a presumption here that the right column of Factor 10 applies.
(Events outside of the donee's control, but which are virtually assured of happening anyway at a known
time and place (e.g. astronomical or normal meteorological events), and the mere passage of time, are not
conditions.)
Example 1 – Gifts to a Federated Fundraising Organization

25. Federated Fundraising Organization provides three choices to donors in its annual workplace campaign. Donors can give without restriction, direct their gifts to one of four community needs identified by Federated Fundraising Organization, or specify that their gifts be transferred to an organization of their choice. The campaign literature informs donors that if they choose to specify an organization to which their gift should be transferred, the organization must be a social welfare organization within the community that has tax-exempt status under Internal Revenue Code Section 501(c)(3). The campaign literature also provides a schedule of the administrative fees that will be deducted from all gifts that are to be transferred to the donor’s chosen organization.

26. Federated Fundraising Organization would recognize the fair values of the unrestricted gifts as contribution revenue that increases unrestricted net assets. It would recognize the fair values of the gifts targeted to the four specified community needs as contribution revenue that increases temporarily restricted net assets. It would recognize the fair values of gifts that are to be transferred to organizations chosen by donors as increases in its assets and as liabilities to those specified beneficiaries (paragraph 11). However, if some of the gifts that are intended for specified beneficiaries are gifts of nonfinancial assets, Federated Fundraising Organization would recognize those nonfinancial assets and its liability to transfer them to the specified beneficiaries if that were its policy; otherwise, it would recognize neither the nonfinancial assets nor a liability (paragraph 11). Federated Fundraising Organization would recognize as revenue the administrative fees withheld from amounts to be transferred to the donors’ chosen organizations.

27. The organizations chosen by the donors would recognize the fair value of the transferred assets as contribution revenue in accordance with the provisions of Statement 116 for unconditional promises to give (paragraph 15). Thus, the revenue would increase temporarily restricted net assets unless the donor specified a permanent restriction or it was clear that the donor intended the gift to support activities of the current period (Statement 116, paragraph 15). In accordance with paragraph 24 of FASB Statement No 117, Financial Statements of Not-for-Profit Organizations, the beneficiaries would report the gross amounts of the gifts as contribution revenue and the administrative fees withheld by Federated Fundraising Organization as expenses. The net amount would be recognized as a receivable (paragraph 15).

28. Instead of conducting the campaign as described above, Federated Fundraising Organization’s campaign literature, including the form that donors use to specify a beneficiary, clearly states that if donors choose to give and specify a beneficiary, the allocation committee has the authority to redirect their gifts if the committee perceives needs elsewhere in the community that are greater. By giving under those terms, donors explicitly grant variance
power. Thus, Federated Fundraising Organization would recognize an unrestricted contribution (paragraph 12), and the specified beneficiaries would be precluded from recognizing their potential for future distributions from the assets.
APPENDIX C

Examples of Footnote Disclosures to Financial Statements on Policy for Classifying Campaign Pledges

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of net assets whose use is limited by donor-imposed restrictions which either expire with the passage of time (Time restriction) or can be fulfilled and removed by actions of United Way pursuant to the restrictions (Purpose restriction). If a restriction is fulfilled, however, in the same time period in which the Contribution is received, United Way reflects the support as unrestricted contributions.

Contributions and Campaign Revenue

Contributions received or promises to give (campaign pledges) without donor-imposed restrictions are reflected as unrestricted support. Contributions received or promises to give with donor-imposed restrictions are reflected as either temporarily or permanently restricted support in the accompanying financial statements. Contributions or promises to give with donor-imposed conditions are not recognized as Campaign revenue in the accompanying financial statements until the period when the conditions are met.

Promises to give that are expected to be received within one year of the financial statement date are reflected at their net realizable value (the gross amount of the promises to give, net of an allowance for uncollectible amounts). Promises to give that are expected to be collected more than one year after the financial statement date are reflected at the present value of their estimated future cash flows using a discount rate at the date the promise to give is received commensurate with the risks involved.

Contributions raised on behalf of others designated by the donors to be paid to specific agencies or other United Ways (designations) are considered agency transactions. Such designated contributions are reflected, net of a provision for uncollectible amounts in the accompanying statements of activities as part of total amounts raised in campaigns, but are not considered to be part of the campaign revenue of United Way revenue. United Way has included in total revenues amounts raised by other United Way organizations that were designated by donors to be paid to United Way. In addition, United Way increases or reduces campaign revenue for any excess or shortfall collections of amounts raised in prior year’s campaigns.

Contributions, Pledges Receivable, Campaign Expenses, and Program Investments

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Campaigns are conducted in the fall of each year to raise support for program investments in participating agencies in the subsequent year. Pledges receivable are recognized in the period
received, with an allowance provided for estimated uncollectible amounts. The allowance for uncollectible accounts is computed based on a four-year historical average write-off percentage, adjusted by management estimates of current economic factors, applied to gross campaign including donor designations.

Campaign support pledged is recognized as an increase in temporarily restricted net assets until the year of investment. All contributions are considered available for use as approved by the Board of Trustees unless specifically restricted or designated by the donor. Campaign pledges designated by donors are considered to be agency-type transactions and are not included in net revenues or expenses of the Organization. Campaign expenses for annual campaigns are recognized in the period incurred.

Program investments in partner agencies are recognized as program service expenses in the period approved by the Board of Trustees, and corresponding to the period of the release of time restrictions for related campaign pledges.