

# Cost Deduction Requirements for Membership Standard M (Part I)



United Way of America

what matters.<sup>TM</sup>

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## Executive Summary for Standard M – Cost Deduction Requirements

As companies regionalize, we are required to operate differently and across geographic regions in a way in which United Ways' structures have not traditionally supported. This requirement has put a strain on our infrastructures and created inconsistencies in the system that are quickly becoming evident to our donors. One such inconsistency is in the area of cost recovery on donor-designated contributions.

In January 2003, the Board of Trustees of United Way of America adopted the Eligibility Criteria for Sustained Membership in the United Way System, which included a requirement for the creation of uniform standards for deducting Fundraising and Management and General (M&G) expenses from donor pledges. The Financial Issues Committee (FIC) of United Way of America was charged with creating a standard calculation for recovering actual costs and publishing a set of implementation requirements for compliance with Standard M by local United Way boards and staff. This document is intended to fulfill the first of those two charges.

The overall purpose of Standard M is to assure the public that:

1. Donors are charged no more than the actual cost incurred to process and transfer designated gifts.
2. There are no duplicative charges or redundant services assessed to the donor.
3. All United Ways have a consistent, fair and understandable methodology for calculating and recovering fundraising, processing, and management and general expenses on designated donations.

Key aspects of this document are set forth as follows:

**Fundraising Costs:** the **maximum** cost to be recovered by the United Way in whose solicitation area the funds are raised (see *NPC Policy for Reporting Total Resources Generated to United Way of America*), shall be calculated in accordance with the following **not to be exceeded** calculation (utilizing a 3-year average from the IRS Form 990):

$$\text{Numerator} = \text{Total Fundraising Costs (Part I, line 15)} + \text{Dues to Affiliates (Part I, Line 16)} - \text{Public Sector Campaign Fundraising Costs}^{**}$$

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$$\text{Denominator} = \text{Total Direct Public Support (Part I, line 1(a)) less any grants for which related costs are recorded in Program Services}^*$$

*\*When non-federal grants are included in line 1a, with the related expenses for raising those grants included in program services, these amounts must be excluded from the denominator for the calculation of the maximum fundraising deduction. This is required in order to ensure the appropriate calculation of the ratio of campaign fundraising expenses to net annual campaign revenue only.*

*\*\* Costs related to fundraising for public sector campaigns (i.e. CFC, State, etc.) are included in Part I, line 15, however, the campaign results are reported in Line 1(b), thus must be deducted from the numerator to avoid overstating the calculation, if material (see Appendix A for further discussion).*

If a United Way other than the United Way entitled to this fee (the Manager/Fundraiser) is the party paying out designated contributions (the Processor), the Processor shall deduct such

fundraising costs (based upon their own calculation above) and remit such amounts to the Fundraiser, the frequency and methodology of which is to be determined in the implementation phase of this standard.

Where both United Ways incur fundraising costs, an agreement must be made prior to beginning the campaign as to how the fee deducted will be shared by both. In the absence of an alternate mutual agreement between two or more United Ways, the determination of Manager/ Fundraiser and Processor should be made using the NPC guidelines for reporting of amounts raised (as found in the document titled *NPC Policy for Reporting Total Resources Generated to United Way of America*), consistent with the methodology for reporting of campaign results.

**Management and General:** the maximum cost to be recovered by the United Way which performs the processing and administration of the designated contribution, is to be calculated in accordance with the following not to be exceeded calculation (utilizing a 3-year average from the IRS Form 990):

Numerator = Total Management & General Costs (Part I, line 14)

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Denominator = Total Revenue (Part I, line 12)

Note that this calculation assumes that processing of designations is included in M&G on the Form 990 as required by the document titled, “*United Way of America Functional Expenses and Overhead Reporting Standards (Revised 2004)*”. This deduction may only be taken by the first party processing a designation. If a United Way elects to have designations sent to them by another United Way rather than having payments made directly to the recipient agency, the second United Way may not deduct any fees.

Note that these calculations provide the limits, not to be exceeded. United Ways are permitted to charge less than this amount, so long as the amount of undesignated dollars used to subsidize this policy, if applicable, is knowingly undertaken by the local United Way's Board. Irrespective of the calculation itself or the party recovering the costs, the requirement of this Standard is that only one United Way may charge for fundraising and only one United Way may charge for M&G.

**Collection Loss (Shrinkage)** – to be deducted by the party processing the pledge in accordance with one of the following standards, in the order of preference:

- A. Actual amount by individual donor
- B. Actual amount by individual company
- C. Estimated loss experience based on a three year average for the most recently closed campaigns by individual company
- D. Estimated loss experience based on a three year average for the most recently closed campaigns of the local United Way

All local United Ways are encouraged to take the steps necessary to be able to use method A or B. Methods C or D may only be used when the limitations of the local United Way's human and technical systems make following methods A or B impossible.

These standards, while applicable to all designated contributions, are particularly critical when the Fundraising and M&G responsibilities are shared by multiple United Ways. In order to achieve such standards, the FIC set forth guidelines that provide consistency to the donor and the general public. These standards may have disadvantages for some United Ways, but have been set forth in the best interest of the system overall.

The next phase of this work is to draft implementation requirements that will allow local United Ways to consistently apply the cost deduction standards. These requirements will include, at a minimum, direction on the following topics:

- ❑ Reporting of campaign results to affected United Ways
  - Timing
  - Frequency
- ❑ Communication
  - General designation policies
  - Minimum information standards
- ❑ Designation Payments
  - Timing
  - Frequency
  - Method – direct payment to agencies versus other arrangements
- ❑ The transfer of fundraising costs deducted
  - Timing
  - Frequency

## ACKNOWLEDGMENTS

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# United Way of America Cost Deduction Requirements

## Introduction

In January 2003, the Board of Trustees of United Way of America Adopted a document drafted and promoted by their National Professional Council (NPC). The document, titled “Strengthening the United Way System,”, included a section covering *Eligibility Criteria for Sustained Membership in the United Way System* (Criteria) that was approved by a majority vote of the United Way membership.

Standard M of the Eligibility Criteria addresses the creation of uniform standards for deducting Fundraising and Management and General expenses from donor pledges. The Financial Issues Committee (FIC) of United Way of America was charged with creating the standards and publishing informational materials for use by local United Way boards and staff. The FIC believes that the following standards represent the best practices for our industry and, given the recent criticism of the United Way system relative to redundant and inconsistent cost deduction policies, there can be no doubt as to the timeliness of these standards.

It must be understood at the onset that the overall purpose of this standard is to assure the public that:

1. donors are charged no more than the actual cost incurred to process and transfer gifts,
2. there are no duplicative charges or redundant services assessed to the donor, and
3. all United Ways have a consistent, fair and understandable methodology for calculating and recovering fundraising, processing, disbursement, management and general expenses on designated donations (agency transactions).

The FIC recognizes that these modifications represent a significant change in operating procedures for many local United Ways and therefore believes that a coordinated transition is critical to their successful implementation within the United Way system. Thus, this document defines specifically the uniform calculations that all United Way members will be required to utilize and establishes that their usage is to be effective for all campaigns beginning after June 30, 2004.

Lastly, the FIC recommends, as an assurance to donors of each United Way’s commitment to these standards, that member organizations publish a pledge to adhere to these standards in campaign literature and as a footnote to their Audited Financial Statements. Examples of wording of such a pledge are included in Appendix B at the end of this document.

## MEMBERSHIP STANDARD M

Each local United Way that is a member of United Way of America will adhere to the following cost deduction standards on designations (agency transactions):

- A. United Ways will charge fees based on actual expenses
- B. United Ways will not deduct fundraising or processing fees from designated gifts originating by or from another United Way organization.

In an effort to remain consistent with the document titled *United Way of America Implementation Requirements for Membership Standard H (Audited Financial Statements)*, this document is written in a manner that promotes and demonstrates direct payment of designations to agencies. However, it should be noted that this document does **not** require use of the direct payment method. The FIC recommends that each local United Way consider the best interest of its donors and community relative to the issue of direct payment. Regardless of the choice made, however, proper application of the standard remains that **only one** United Way will be allowed to deduct a fundraising fee may be taken and **only one** United Way will be allowed to deduct a management and general fee may be taken relative to any gift. In the absence of an alternate mutual agreement between two or more United Ways, the determination of Manager/Fundraiser and Processor should be made in accordance with the document titled *NPC Policy for Reporting Total Resources Generated to United Way of America* and consistent with the methodology for reporting of campaign results. Proper application also requires that if the direct payment method is used, then such payments must be reported to the other affected United Ways on a timely basis.

The following cost deduction requirements are designed to assist United Ways in determining how to calculate cost recovery rates to be applied to amounts that their United Way raises and/or processes. These cost deduction rates may be applied to gross pledges and deducted up-front or deducted ratably based upon collections.

In developing the requirements that will enforce the Standard, the FIC concluded that a series of directives were needed to effectively address the various avenues by which funding is solicited, processed and distributed by individual United Ways. While this document does not presume to address every conceivable scenario, it does give specific requirements for the more common paths that funding takes within the United Way system. For those situations where the requirements do not specifically address a particular path of funding, it is assumed that United Way members will follow a course that is consistent with the spirit of this document. It is also important to note that these standards are not intended to apply to Combined Federal or other public sector campaigns where the allowable fees are negotiated in advance, so long as those fees do not exceed actual costs.

## Formulas Used in Determining Costs

References in formulas to items from Internal Revenue Service information return 990 are to be calculated using the **average of the last three** most recently completed returns.

### Fundraising

Cost recovery for fundraising expenses, including providing staff support, pledge cards, films, awards, pins, etc. is to be deducted at a rate **not to exceed** a three year average calculated from the most recently filed 990 tax forms.

The formula for the maximum percentage to be applied for fundraising costs will be calculated as follows:

$$\text{Numerator} = \text{Total Fundraising Costs (Part I, line 15) + Dues to Affiliates (Part I, Line 16) – Public Sector Campaign Fundraising Costs**}$$

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$$\text{Denominator} = \text{Total Direct Public Support (Part I, line 1(a)) less any grants for which related costs are recorded in Program Services* (within Part I, line 13)}$$

*\*When non-federal grants are included in line 1a, with the related expenses for raising those grants included in program services, these amounts must be excluded from the denominator for the calculation of the maximum fundraising deduction. This is required in order to ensure the appropriate calculation of the ratio of campaign fundraising expenses to net annual campaign revenue only.*

*\*\* Costs related to fundraising for public sector campaigns (i.e. CFC, State, etc.) are included in Part I, line 15, however, the campaign results are reported in Line 1(b), thus must be deducted from the numerator to avoid overstating the calculation, if material (see Appendix A for further discussion).*

If a United Way other than the United Way entitled to this fee (the Manager/Fundraiser) is the party paying out designated contributions (the Processor), the Processor shall deduct such fundraising costs (based upon their own calculation above) and remit such amounts to the Fundraiser, the frequency and methodology of which is to be determined in the implementation phase of this standard.

The practical application of this is that, in the absence of any alternate agreements to the contrary, the processor **must** collect a fundraising fee on behalf of all other United Ways who are deemed fundraisers for dollars raised outside of the processor's service area. It may not always be the case that the local United Way truly has shared or performed the fundraising. As such, it is suggested that the processor verify this prior to transferring this deduction to the local United Way. However, in the absence of such verification, the rebuttable presumption is that the other United Way is the fundraiser/manager if the funds that were raised in their service area.

United Ways with no fundraising costs (those who are only processors) will have a more challenging time determining their fundraising deduction. Although these situations are relatively uncommon, they will become more prevalent, particularly as we increase our

utilization of United eWay. Ultimately, there will be some general availability of comparative data on which these United Ways can base their fundraising rate. However, in the interim, it is suggested that those processors seek to gather a representative sample of the fundraising calculations of the population of United Ways whom they serve and calculate an average fundraising rate to serve as a basis.

### **Management and General Expense**

The formula for the maximum percentage of Management and General cost to be applied will be calculated as follows:

$$\text{Numerator} = \text{Total Management \& General Costs (Part I, line 14)}$$

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$$\text{Denominator} = \text{Total Revenue (Part I, line 12)}$$

Cost recovery for donor-designated funds distribution is to be deducted at a rate **not to exceed** a three-year average calculated from the most recently filed 990 tax forms.

Please note that for those United Ways not currently in compliance with the IRS Form 990 reporting requirements, calculations will need to be based upon a revised 990 in adherence with the standards. This does not imply that a United Way needs to file an amended return. Rather, each United Way should consider the aspects of the 990 standards that would make a material difference in their calculation and generate a pro-forma 990 on which to base their calculation until they have sufficient, compliant historical information in their 990's to generate the calculation directly from those documents.

In as much as a generally applied percentage method may not be considered "fair" to larger donors, who end up bearing the cost of processing smaller donations, a local United Way may wish to consider a community level policy for placing a cap on the fee by transaction or a minimum limit on the dollar amount of designations. Such alternatives are acceptable as long as they do not result in a rate that exceeds the maximum calculated above and the amount of undesignated dollars used to subsidize this policy is disclosed to the Board.

### **Collection Loss (Shrinkage)**

Deductions for collection loss (shrinkage) shall be based upon actual collections using one of the following methods:

- A. Actual amount by individual donor
- B. Actual amount by individual company
- C. Estimated loss experience based on a three year average for the most recently closed campaigns by individual company, taking into account any change in current circumstances
- D. Estimated loss experience based on a three year average for the most recently closed campaigns of the local United Way, taking into account any change in current circumstances

Methods are listed in order of preferred application and all local United Ways are encouraged to take the steps necessary to be able to use method A or B. Methods C or D may only be used when the limitations of the local United Way's human and technical systems make following methods A or B impossible.

## **Tax Receipts**

According to IRS Publication #1771, the IRS requires substantiation for all payments greater than \$250. (Note that separate contributions of \$250 or less to the same donee are not subject to the substantiation requirement, even if they are multiple payments on the same pledge.)

For a payment greater than \$250, the substantiation requirements specify that the confirmation must include the following information:

- ✓ Amount of cash and/or description of property (but not necessarily the value)
- ✓ Statement of whether or not the donee organization provided any goods or services in consideration for any of the cash or property donated
- ✓ If donee did provide tangible goods or services, a statement of the good faith value of such benefits

The tax confirmation/receipt should be provided by the **first** United Way receiving the payment, **not** the United Way to whom it is distributed. The tax confirmation is meant to substantiate the payment between the donor and the party to whom a payment was made. This is the only party that can completely and accurately substantiate the donor's payment, since this is the only party receiving funds directly from the donor. IRS regulations (1.170A-13T(c)) state that a charitable organization that initially receives the donor contribution is recognized by the IRS as the donee organization, even if, upon donor instruction, that organization distributes the amount received to one or more other charitable organizations.

This is not to be confused with an acknowledgment or thank-you letter, which may be sent by any and all United Ways or agencies that benefit from the donor's gift.

## **Application to Scenarios**

Equally as important as knowing how to perform the cost deduction calculations, is the understanding of how and when to apply them. Following are multiple scenarios in which funds are raised and distributed between multiple United Ways.

### **Scenario #1: Designations raised and processed by your United Way**

A United Way that raises and processes pledges designated to agencies or other United Ways shall deduct and retain fundraising costs, management and general costs (including processing costs) and actual or estimated collection loss (shrinkage) in accordance with the guidance contained herein.

**Scenario #2: Designations processed by your United Way on behalf of other United Ways:**

A United Way that processes pledges on behalf of itself (the processor) and other United Ways, but distributes those funds directly to the end recipient shall deduct fund raising costs, general management costs, and collection loss (shrinkage) on behalf of themselves and all other participating United Ways (the managers/fundraisers).

The processor may retain the deducted management and general costs deducted but the deducted fundraising costs must be remitted to the managers/fundraisers. The frequency and other logistics related to these remittances is the subject of a forthcoming implementation document.

Note that these fees will be deducted and remitted at the maximum fundraising calculation of the processor, which may be different from that of the manager/fundraiser. Despite the risk that there may be some disparity between these rates, this policy has been established for ease of administration for the benefit of the overall system. Also note that the manager/fundraiser to receive the fundraising deduction should be determined based upon the NPC's reporting policies, as previously discussed. Alternate arrangements between United Ways are permitted, so long as the arrangements are documented and only one United Way deducts each fee.

**Scenario #3: Designations received by, but not raised or processed by, your United Way:**

A United Way that receives designated pledges from another United Way's service area, where the other United Way has already deducted Fundraising costs, Management & General costs, and a provision for uncollectible pledges may not charge any fees to recover costs related to Fundraising, Management and General or collection loss (shrinkage).

Since the recipient United Way may not charge any processing cost recovery fees, they may wish to consider asking the originating United Way to pay designations to local agencies directly as a method of reducing overall unreimbursed cost.

The recipient United Way may, however, charge a reasonable fee to recover Community Service/Impact costs for fund allocation of undesignated dollars received.

## Exhibit 1 – Processor is also the fundraiser (assumes no grants or public sector campaigns)

Given:

- 1 Model United Way raises pledges from Star Company within its service area that are designated to Neighbor United Way and pledges that are designated to an agency in Neighbor United Way's service area.
- 2 \$1,000 is designated to Neighbor United Way and \$800 is designated to the agency in Neighbor United Way's service area.
- 3 Model United Way did all the fundraising and processing relative to the campaign (e.g. Neighbor UW played no role).
- 4 Model United Way experiences an actual collection loss rate (shrinkage) of 5% for Star Company.
- 5 Following is selected information for the IRS Form 990 returns for Model United Way for 2001, 2002 & 2003

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Average</u>
Total Direct Public Support (Part I, Line 1(a))	\$15,745,683	\$16,401,753	\$17,749,276	\$ 16,632,237
Total Revenue (Part I, Line 12)	\$18,042,293	\$18,794,055	\$20,484,142	\$ 19,106,830
Total Management & General (Part I, Line 14)	\$ 317,362	\$ 327,177	\$ 337,296	<b>\$ 327,278</b>
Total Fundraising (Part I, Line 15)	\$ 1,342,759	\$ 1,384,288	\$ 1,269,824	\$ 1,332,290
Total Payments to Affiliates (Part I, Line 16)	\$ 120,432	\$ 123,067	\$ 119,374	\$ 120,958

Calculations:

Average fundraising cost calculation:	\$ 1,453,248	/	\$16,632,237	=	8.74%
Average processing cost calculation:	<b>\$ 327,278</b>	/	\$19,106,830	=	1.71%

	<u>Paid to</u>	
	<u>NUW</u>	<u>Agency</u>
Pledge Amount	\$1,000.00	\$ 800.00
Pledge Loss (5%)	\$ (50.00)	\$ (40.00)
Net Collected	\$ 950.00	\$ 760.00
Fundraising Fee (8.74%)	\$ (83.01)	\$ (66.41)
Processing Fee (1.71%)	\$ (16.27)	\$ (13.02)
Net Paid Out	<u>\$ 850.72</u>	<u>\$ 680.58</u>

Note: If Model wishes to charge a lower fee than that calculated on pledges raised in their own service area, it may do so **only** on pledges raised in their own service area, at its own discretion but charging a higher fee is prohibited

**Exhibit 2 – Multiple United Ways share in the fundraising and one United Way does all of the processing (assumes no grants or public sector campaigns)**

Given:

- 1 Model United Way processes pledges from Star Company within its service area and that of Neighbor United Way for a company with branches in both United Ways' service areas.
- 2 \$1,000 is due to Neighbor United Way from the campaign and \$800 is designated to the agency in Neighbor United Way's service area.
- 3 Each United Way did the fundraising in its own service area while Model United Way did all the processing relative to the campaign.
- 4 Model United Way experiences an actual collection loss rate (shrinkage) of 5% for Star Company.
- 5 Following is selected information for the IRS Form 990 returns for Model United Way for 2001, 2002 & 2003

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Average</u>
Total Direct Public Support (Part I, Line 1(a))	\$15,745,683	\$16,401,753	\$17,749,276	\$ 16,632,237
Total Revenue (Part I, Line 12)	\$18,042,293	\$18,794,055	\$20,484,142	\$ 19,106,830
Total Man. & Gen. (Part I, Line 14)	\$ 317,362	\$ 327,177	\$ 337,296	\$ 327,278
Total Fundraising (Part I, Line 15)	\$ 1,342,759	\$ 1,384,288	\$ 1,269,824	\$ 1,332,290
Total Payments to Affiliates (Part I, Line 16)	\$ 120,432	\$ 123,067	\$ 119,374	\$ 120,958

Calculations:

Average fundraising cost calculation: \$ 1,453,248 / \$16,632,237 = 8.74%

Average processing cost calculation: \$ 327,278 / \$19,106,830 = 1.71%

	<u>Paid to</u>		
	<u>NUW</u>	<u>Agency</u>	
Pledge Amount	\$1,000.00	\$ 800.00	
Pledge Loss (5%)	\$ (50.00)	\$ (40.00)	
Net Collected	\$ 950.00	\$ 760.00	
Fundraising Fee (8.74%)	\$ -	\$ (66.41)	<b>(Note, these fees payable from Model to NUW as NUW did the fundraising)</b>
Processing Fee (1.71%)	\$ (16.27)	\$ (13.02)	<b>(Note, these fees stay with Model to offset its costs)</b>
Net Paid out	\$ 933.73	\$ 680.58	
Separate payment	\$ 66.41		<b>(Pd to NUW from Model after withheld from agency payment)</b>
Total	\$ 1,000.14		

Note: If Model wishes to charge a lower fee than that calculated on pledges raised in their own service area, it may do so only on pledges raised in their own service area, at its own discretion but charging a higher fee is prohibited

## Appendix A – Basis for Conclusions

1. **Why the denominator of the calculation for Fundraising cost comes from the IRS Form 990, Part I, Line 1(a) rather than from Line 12:** The committee compared and contrasted the cost deduction standards to the guidelines for calculating overhead, due to the similarity of the two concepts. In doing so, an area of differentiation is the denominators for the two calculations. In calculating overhead, only one calculation is performed and the denominator over which all costs are measured is total revenue. This is an appropriate measure of the total costs to operate the entire organization (excluding program services), which is what the overhead calculation is designed to depict. With respect to cost deduction, the calculation is designed to recover costs related to fundraising and management and general on only amounts raised as part of the annual campaign. As such, the committee determined that the most appropriate denominator for fundraising cost deduction calculation was line 1a, which generally includes only campaign results (once non-government grants are excluded per the calculation). With respect to management and general cost deduction calculation (including processing), the Committee did not deem it appropriate to take these costs as a percentage of annual campaign only, as M&G costs are incurred to support all operations, and not just the annual campaign. As such, the committee determined that the cost deduction for M&G should be calculated consistent with the overhead calculation as a percent age of total revenue (line 12). This calculation will not result in charges in excess of overhead, as the cost deductions are and only applied to the annual campaign and not all revenue.
2. **Why fundraising costs for public sector campaigns are deducted from the numerator of the fundraising cost deduction calculation:** In accordance with the implementation standards for Criteria A for reporting on the IRS Form 990, revenue from public sector campaigns is to be reported on Part I, Line 1(b) rather than on Line 1(a). Since there are other revenues also included in line 1(b) which would not have corresponding fundraising costs, it was determined to be more appropriate to deduct public sector costs from the numerator than to add 1(b) to the denominator. The committee also considered whether or not it was reasonable to determine the costs of all public sector campaigns. Costs for the Combined Federal Campaign are known since they are uniformly required to be reported. However, costs for other public sectors, such as State and City campaigns, may not be separately reported and therefore, reliable cost data may not be available. In such cases, it was determined that these costs may be disregarded in the calculation to the extent the amounts are estimated to be immaterial. This was determined to be reasonable on the basis that there are various other items often included in the denominator, such as legacies and bequests and other endowed campaign gifts, which may offset this by increasing the denominator with little to no increase in the numerator. The committee acknowledges that the calculation cannot capture every circumstance, but that it provides a reasonable basis for cost recovery that can be accurately and consistently applied to diverse situations.

3. **Why United Ways are permitted to deduct cost recovery fees on gross pledges if the calculations are based upon net pledges from the Form 990:** The committee recognizes that there are multiples ways in which United Ways deduct cost recovery fees from donor-designated pledges. These methods range from deducting the entire fee up-front to deducting ratably based on actual collections to deducting up-front or ratably based on estimated collections. In the interest of permitting this standard to be effectively implemented, the committee opted not to mandate a methodology for deducting this fee, given the known software and staffing limitations involved in mandating such a change. These implementation standards are written in such a way as to promote deduction of these fees ratably, based upon actual collections; however, other methods are permitted. Local United Ways are encouraged to adjust their calculations to appropriately fit their deduction methodology. Since the calculations are set as maximum amounts, not to be exceeded, Local United Ways can effectively adjust for such differences, if material. This will prevent overcharging as a result of differences in deduction methodologies. For example, if fees are deducted up-front, based upon gross pledges, then it would be most appropriate to add the provision for uncollectibles to the denominator for both calculations in order to have the same basis for both the calculation and deduction methodology.
  
4. **Why charging of management and general does NOT violate our pledge to only charge “actual” costs against donor designated pledges:** The committee considered whether the charging of management and general (i.e. overhead) violated the commitment to charge only “actual” costs to the donor. It was determined that “actual” does not simply mean “direct.” It means the true costs of operating the donor-designation program, which requires fundraising and processing, as well as management oversight and general support in order to accomplish the end-to-end process. In addition, the committee discussed that NOT charging M&G/overhead on donor-designated gifts resulted in undesignated gifts bearing all of those costs, which places a disproportionate burden on those donors.
  
5. **Why the processing United Way is required to deduct the maximum fundraising cost on dollars raised in other United Ways’ service areas:** This was another area strongly debated by the committee, with risks and concerns on both sides of the argument. The committee recognized the potential complexity added by requiring United Ways to deduct such fees in circumstances under which they normally may not. However, the committee concluded that the risks of NOT requiring them to deduct fees were far greater. The ultimate intent of the cost deduction standards is to promote efficiency throughout the system. If processing United Ways were permitted to deduct little to no fee, at their discretion, the fundraising United Ways on whose behalf they process would not recover any fundraising costs. This ultimately contradicts the underlying intentions of this document. Again, if there are alternate arrangements between the processing and fundraising United Way, a lesser fee may be deducted.

6. **Why dues paid to United Way of America are included in the calculation of fundraising Costs versus M&G:** The committee considered whether UWA dues should be added to the maximum fundraising calculation or the management and general calculation. It was determined that it is most appropriate to include in the fundraising deduction calculation as UWA dues are assessed to local United Ways based upon the amounts raised and thus will be paid by the United Way that raises the funds and not necessarily the United Way who processes those funds. By including it in the fundraising deduction, the United Way who pays the dues recovers the costs.
  
7. **Mutual fee-waiving agreements:** If a UW receives a designation from another UW under such an agreement, would the receiving UW be precluded from deducting a fee because the funds had already passed through another UW? The committee considered this question and concluded that, while such an agreement may not always represent the most efficient and economical method of transferring designated funds to the recipient agencies, the standard does not preclude the recipient United Way from deducting appropriate fee(s) because, in such a case, only one fee is being deducted from the gift.
  
8. **How this standard addressed undesignated dollars designated to your United Way (often referred to as incoming designations):** If undesignated funding is coming to your United Way from another United Way, it is reasonable and expected that these funds will simply be included in your overall pool of undesignated dollars, which are used to cover your expenses, internal programs and allocations to agencies. This standard addresses dollars passed “through” your United Way versus “to” your United Way (in the form of unrestricted funding). This standard does not dictate how unrestricted funding may or may not be used.
  
9. **Why fees are based upon the Processing’s United Way’s costs:** These guidelines state that the fund raising charge that will apply is the fund raising charge of the processing United Way regardless of where the designation originated; however, many believe a local United Way should be able to capture its own actual fees directly. While the FIC does not disagree with this perspective, the issue is one of practicality. In order to be able to allow United Ways to recapture fundraising based upon their own costs, the processing United Way would need to know the fundraising fees of all United Ways on whose behalf they are processing. This would require the creation and maintenance of a nationwide database. As we move more toward regionalized processing, this type of an investment does not appear to make sense. The only other option to achieve this is to pass money around to each United Way who performed part of the service to allow them to deduct their fee. This option creates redundant services and additional costs to the donor and, ultimately, brings on a heightened level of skepticism from the public. Therefore, the FIC believes the method outlined in this document represents the most reasonable alternative.

10. **Why line 15 is considered representative of total Fundraising costs:** The comment has been made that the fundraising United Way should be able to also retain a portion of their M&G associated with their organization. The FIC agrees with this position and it should be noted that, if your management and general costs are properly allocated functionally in accordance with the Functional Expenses and Overhead Reporting Standards, the appropriate allocation of management and general costs has already been included in the Fundraising line 15 on the Form 990, and, thus, the fundraising United Way is recovering a reasonable portion of M&G through this calculation.

*There have been numerous additional questions raised regarding specifics of applying this standard. Please note that these issues are addressed in a separate document outlining the implementation phase of the standard (known as Part II).*

**Appendix B – Examples of wording for pledge to comply with Standard M  
(Per recommendation on page 9, last paragraph)**

1. Donor designated pledges are assessed both a fundraising and a management and general fee based on actual historical costs in accordance with United Way of America Membership Standards as outlined in their publication titled *United Way of America Cost Deduction Requirements for Membership Standard M*.
2. The expenses associated with processing donor designated pledges are recovered by an assessment for both fundraising and management and general fees based on actual historical costs in accordance with United Way of America Membership Standards as outlined in their publication titled *United Way of America Cost Deduction Requirements for Membership Standard M*.