

University of Missouri System

Accounting Policies and Procedures



Policy Number: APM-45.15.05

Policy Name: Processing Gift Pledges

General Policy and Procedure Overview:

A pledge is a promise to voluntarily transfer items of value, usually in the form of cash, checks, securities, real estate or personal property at some future date. Some pledges are conditioned upon the completion of a certain event or the passage of time.

Governmental Accounting Standards Board statement 33 (GASB-33) establishes guidelines by which pledges are to be recorded as a receivable with immediate revenue recognition. GASB 34/35 require the University to classify these receivables as either current or long term receivables net of a provision for un-collectible pledges. This policy provides discussion to determine if a pledge has been received and the entries to record the pledges receivable, and entries to record an allowance for doubtful pledges receivable at year-end.

Definition of Key Terms:

Non-exchange Transaction: One party gives or receives something without directly receiving or giving something of equal value.

Value: monetary worth or measurable usefulness, importance or general worth for something exchanged.

Gifts: a voluntary transfer of items of value, usually in the form of cash, checks, securities, real property, or personal property.

Conditional Gift Pledge: a gift promise dependent upon the occurrence of some future and uncertain event to bind the donor.

Unrestricted gift: the donor has not placed any restrictions as to the method or purpose of expenditure. The University determines the appropriate use of the funds.

Temporarily Restricted Gift: the donor has imposed definite restrictions, which may stipulate a specific purpose for the use of the funds or require that the gift be used only after a specific time period has elapsed, or both. Use of funds can occur only to the extent that the stipulations attached to the funds have been fulfilled.

Permanently Restricted Gift: indefinite restrictions have been placed on the use of the funds.

Detail Policy and Procedure:

In accordance with GASB 33, colleges and universities are required to recognize revenues and assets resulting from pledges as follows (provided that the pledges are verifiable and the resources are measurable):

- Assets should be recognized (net of estimated uncollectible amounts) when all eligibility requirements have been met or when resources are received, whichever comes first.
- Revenues should be recognized (net of estimated uncollectible accounts) when all eligibility requirements have been met.
- Several criteria must be met for a transaction to be recognized as a gift. A pledge checklist is used to determine whether or not a transaction meets the requirements of GASB 33 and must be recognized as a pledge receivable.

The Development Office Manager reviews the checklists received daily. The objective of this review is to ensure the checklist is properly completed and to verify the answers. Management also reviews the set up of the donor record on the University’s donor tracking software, Sungard Advance System, (Advance) to ensure it properly reflects the GASB 33 status of the pledge.

The Development Office Manager receives the daily input report from Advance “Acknowledgements and Receipts.” The pledges listed on this report are reviewed against the checklists and other documentation to ensure (1) the pledge has been properly established in Advance and (2) to ensure that a GASB-33 Checklist has been completed for all pledges exceeding \$1,000.

If the gift pledge requires the occurrence of some future and uncertain event to bind the donor, the pledge is not recorded. The Development Office monitors the pledge until the extinguishment of the contingency. When the contingency has been satisfied, the gift is to be recorded and recognized as a non-exchange transaction.

As noted above, conditional gift pledges require the occurrence of some future and uncertain event to bind the donor. Until such condition(s) is satisfied, the gift pledge should not be recorded in the General Ledger but should be monitored by the Development Office. If however, unrestricted gift resources or temporarily restricted gift resources are transmitted in advance of all conditions, including time requirements being satisfied, the transaction should be recorded in the following manner:

	Debit	Credit
Cash	\$xxx	
Deferred Gift Revenue		\$xxx

Upon satisfying the conditional requirements of the advanced resources, this information should be recorded as follows:

	Debit	Credit
Deferred Gift Revenue	\$XXX	
Gift Revenue		\$XXX

For permanently restricted gifts and deferred gifts such as planned gifts or trusts, with a conditional time stipulation that the resources cannot be sold, disbursed, or documented until after a specified number of years have passed or a specific event has occurred, if ever, the recording of the resources should occur only when they are received. No gift pledge revenue or

receivables are recognized since the time requirements have not been met. The appropriate entry for recording such transactions, when received, is as follows:

	Debit	Credit
Cash or Other Assets	\$xxx	
Gift Revenue		\$xxx

Calculation of Discounted Net Present Value on Pledges –

Based on the data received from the Development Offices, the Office of the Controller will calculate the discounted net present value of the future cash flows from the identified pledges. The calculation for determining the discounted net present value, based on the Pledges Receivable Aging will be as follows:

- Pledges Due in One Year or Less or Past Due - The present value of pledges for the Current Year and for the next will be equal to their current outstanding balance. Therefore, no additional calculation will be made.
- Pledges Due in More Than One Year - For pledges outstanding for more than 1 year. The discounted net present value will be calculated based on a discount rate equal to the current interest rate on the most recent Capital Project Notes. This rate is used as it represents the most recent borrowing rate for the University. The Office of the Treasurer supplies this rate.

Calculation of Allowance on Doubtful Pledges Receivable –

The calculation of the allowance for doubtful pledges receivable will be based on the historical collection rates provided by the Development Office. The collection rate is calculated by: summing the amount of pledge payments paid over the last 3 years and dividing it by the sum of amount of pledge payments that were due over the same time period. The discounted net present values as discussed in the section “Valuation of Multi-Year non-exchange Transactions” above, are multiplied by the historical collection rate resulting in the allowance for doubtful pledges receivable.

Recording Pledges Receivable, net Balances Using Annual Journal Entries:

The Office of the Controller performs the calculations and makes the entries at year-end.

Calculating Current vs. Long-Term Pledges Receivable – As required by GASB 34/35, the University must present a classified Statement of Net Assets in the financial statements. Therefore, the pledges receivable balance must be recorded as Pledges Receivable, net – Current and Pledges Receivable, net – Long-Term. The balances are determined as follows:

- Pledges Receivable, net – Current – Represents the balance of Pledges Due in One Year or Less or Past Due, less the Allowance for Doubtful Pledges Receivable – Current.
- Pledges Receivable, net – Long-Term – Represents the TOTAL discounted net present value of the Pledges Due in More Than One Year, less the Allowance for Doubtful Pledges Receivable – Long-Term.

Year end entries:

Once the calculations are performed, two journal entries are made for each campus. The first entry reverses the prior year’s entry and the second entry records the current year’s Pledges Receivable, net - Current, Pledges Receivable, net - Long Term and Gift Revenue – Pledges.

1. Reverse Prior Year Pledge Receivable Entry:

	Debit	Credit
481600 – Gift Revenue – Pledges	\$xxx	
130000 – Pledges Receivable, net - Current		\$xxx
130500 - Pledges Receivable, net – Long-Term		\$xxx

2. Record Current Year Calculated Pledges Receivable, net of Allowance:

	Debit	Credit
130000 – Pledges Receivable, net - Current	\$xxx	
130500 - Pledges Receivable, net – Long-Term	\$xxx	
481600 – Gift Revenue – Pledges		\$xxx

Responsibility:

Controller’s Office:

- Calculation of Allowance on Doubtful Pledges Receivable
- Calculation of Discounted Net Present Value on Pledges
- Recording Pledges Receivable, Net Balances Using Annual Journal Entries

Development Office:

- On an annual basis, prior to July 31st, the Development Offices will submit to the Office of the Controller, in electronic form, the following:
 - Pledges Outstanding Roll-forward - A Roll-forward of Pledges outstanding from the prior year end to the current year end including Prior Year Balance, Write-offs, New Pledges, Pledge Payments, Ending Balance.
 - Pledges Receivable Aging - A Pledges Receivable Aging listing segregated by year in which the pledges are to be received. The totals on the Aging must agree to the Ending Balance totals represented in item 1.
 - Historical Collection Rate– In order to determine the allowance for doubtful pledges receivable, the historical collection rate is provided based on the average collection rate over the past three years.
- Maintain the development subsidiary ledger, Advance, ensuring the accuracy of detailed and summary information.
- Ensure a GASB-33 Checklist has been completed for all pledges exceeding \$1,000

Effective Date: July 1, 2006
Revised Date: May 14, 2007

Questions and Comments?

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.