Introduction

This issue of Highlights answers questions asked by those who chose to implement early FASB Statements No. 116, Accounting for Contributions Received and Contributions Made, and No. 117, Financial Statements of Not-for-Profit Organizations. Statement 116 applies to all entities that receive or make contributions. It requires entities to recognize contributions, including promises to give, when received or made at their fair values. Statement 117 establishes standards for general-purpose external financial statements provided by not-for-profit organizations. For business enterprises and some not-for-profit organizations, the Statements are effective for fiscal years beginning after December 15, 1994. For other not-for-profit organizations with less than $5 million in total assets and less than $1 million in annual expenses, the Statements will be effective one year later.

The new Statements offer an opportunity for organizations to challenge and break away from traditional financial statement formats. By utilizing the flexibility provided by the new Statements, organizations can increase the understandability and usefulness of their financial statements. Not-for-profit organizations face increasing demands for more financial accountability, better analysis and control of costs, better asset management, and better management of programs. Clearer and more meaningful financial reporting will help those organizations evaluate their own practices and performance, as well as communicate more effectively with an increasingly broad audience of donors, creditors, and other resource providers.

Questions and Answers

1. **Q**—How do I distinguish a gift from another type of transaction that may involve some elements of giving?

   **A**—A contribution is defined 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. Contributions are transfers that are (1) nonreciprocal, (2) made or received voluntarily, (3) to or from entities acting other than as owners, and (4) unconditional.

   Those characteristics distinguish contributions from exchange transactions, agency transactions, other nonreciprocal transfers, investments by owners and distributions to owners, or conditional transfers. Exchange transactions are reciprocal transfers in which each party receives and sacrifices commensurate value—*quid pro quo*. Agency transactions are a type of exchange transaction in which the reporting organization acts as an agent, trustee, or intermediary for another party that may be a donor or donee. An agent or trustee usually has no discretion about how to use the assets it receives. Other nonreciprocal transfers, such as thefts and impositions of taxes or fines, are not voluntary transfers. Investments by owners and distributions to owners are nonreciprocal transfers between an entity and its owners. Conditional transfers are not contributions yet; they may become contributions upon the occurrence of one or more future and
uncertain events.

FASB Statement No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others, provides guidance on how to differentiate certain situations in which a not-for-profit organization acts as agent, trustee, or intermediary from situations in which a not-for-profit organization acts as a donor or a donee. The Statement also provides guidance on how an organization should report receipts and disbursements of assets if those transfers are not considered contributions as defined in FASB Statement No. 116, Accounting for Contributions Received and Contributions Made. In addition, Statement 136 provides guidance on how a beneficiary organization should report its rights to assets held by a recipient organization. [Revised 9/99.]

Statement 136 incorporates without reconsideration the guidance in FASB Interpretation No. 42, Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power, and supersedes that Interpretation. Statement 136 clarifies paragraph 4 of Statement 116 by specifying that an organization that receives assets acts as a donee and a donor, rather than as an agent, trustee, or intermediary, if a resource provider specifies a third-party beneficiary or beneficiaries and explicitly grants the recipient organization the unilateral power to redirect the use of the assets away from the specified beneficiary or beneficiaries (variance power). [Revised 9/99.]

2. Q—Are grants, sponsorships, and memberships covered by Statement 116?

A—Statement 116 does not specifically consider the accounting and reporting of grants, membership dues, and sponsorships because the underlying substance of the transaction determines whether the transaction is a contribution. The Statement also avoids the use of those terms because they are broadly used to refer not only to contributions but also to assets transferred in exchange transactions. A grant, sponsorship, or membership may be entirely a contribution, entirely an exchange, or a combination of the two; therefore, care must be taken in carefully evaluating each grant, sponsorship, or membership agreement. Factors indicative of a contribution tend to describe transactions in which the value, if any, returned to the resource provider is incidental to potential public benefits. Factors indicative of an exchange tend to describe transactions in which the potential public benefits are secondary to the potential proprietary benefits to the resource provider.

3. Q—What are nonfinancial assets and specialized skills as used in the criteria for recognizing contributed services?

A—The criteria in Statement 116 require recognition of contributions of services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Nonfinancial assets are items such as inventory, land, buildings, equipment, and similar assets. They are not financial instruments, which FASB Statements No. 107, Disclosures about Fair Value of Financial Instruments and Hedging Activities, (as amended) and No. 133, Accounting for Derivative Instruments and Hedging Activities, define as cash and contractual rights to receive cash and obligations to pay cash. [Revised 12/98; 9/01.]

Specialized skills generally are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, as well as other professionals and craftsmen. These services require expertise that is not possessed by most members of the general public or require an individual to be licensed to practice the profession or craft. An individual who receives some training does not necessarily possess a specialized skill. For example, if a volunteer receives some training from an organization to learn how to help other people learn to read, that volunteer
does not possess the "specialized skills" that a reading teacher possesses.

Disclosure of contributed services is required regardless of whether the services received are recognized as revenue in the financial statements. [Revised 9/01.]

4. **Q—** Are contributions of advertising time, use of property, and utilities recognized under the contributed services criteria? [Revised 12/98.]

   **A—** No. The use of property, utilities, or advertising time are considered to be forms of contributed assets, rather than contributed services under Statement 116. The organization would recognize the fair value of the use of property, utilities, or advertising time as both revenue and expense in the period received and used. Fair value could be estimated by using billing rates normally charged to other customers under similar circumstances. In circumstances in which a not-for-profit organization receives an unconditional promise to give for a specified number of periods, the promise should be reported as revenue at fair value and as a contribution receivable, pursuant to paragraphs 5.57 and 5.58 of the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*. In other words, if a donor promises that the not-for-profit organization can use a facility for 10 years, the not-for-profit organization has received a multi-year promise to give and should report the fair value of that promise as contribution revenue in year 1. [Revised 12/98; 10/02.]

5. **Q—** Do I record pledges?

   **A—** Statement 116 avoids using the term "pledge" because that term is used to describe not only promises to give but also plans or intentions to give that are not promises. A promise to give is a written or oral agreement to contribute cash or other assets to another entity. There are other terms used to describe promises to give such as subscriptions, awards, appropriations, or grants. A communication received from a potential donor must be carefully evaluated to determine if it is a promise to give, since a communication that clearly is not a promise is not recognized in the financial statements. When a communication does not include clearly whether it is a promise, the organization should ascertain whether the communication indicates an unconditional intention to give that is legally enforceable, and if it is, the communication is considered an unconditional promise. To be recognized, there must be sufficient, verifiable documentation that a promise was made or received. For example, in the case of oral promises to give, there may be tape recordings, written registers, or other evidence that permits subsequent verification. [Revised 9/01.]

6. **Q—** How do I record a promise to give assets over a period of several years (multiyear promises to give)?

   **A—** Statement 116 requires that an unconditional promise to give be recognized on an accrual basis; that is, at the time the promise is made and received. The present value of the estimated future cash flows using a discount rate commensurate with the risks involved is an appropriate measure of the fair value of an unconditional promise to give cash when payment is due in more than one year or over a period of years. In subsequent periods, the interest element should be accrued and accounted for as contribution expense by the promisor or revenue by the recipient not-for-profit organization. [Revised 12/98.]

7. **Q—** How do I record the amount of pledges in my balance sheet, at the gross or net amount?

   **A—** Unconditional promises to give that are expected to be collected or paid in less than one year may be measured at net realizable value, which provides a reasonable estimate of fair value. Organizations may estimate the future cash flows of a portfolio of short-term promises resulting from mass fund-raising efforts by using experience gained from similar appeals. [Revised 10/02.]
8. Q—What is the difference between a donor-imposed restriction and a condition?

A—A donor-imposed restriction is a donor stipulation that specifies a use for the contributed asset that is more specific than the broad limits associated with the nature of the organization, the environment in which the organization operates, or the purposes specified in the organization's articles of incorporation, bylaws, or comparable documents from an unincorporated association. A restriction limits or directs the use of donated assets and may be temporary or permanent. Restrictions result in the classification of net assets as temporarily or permanently restricted in the financial statements.

A condition specifies a future and uncertain event on which a contribution depends. The condition is effectively a barrier that must be overcome before a promised gift is considered a contribution—that is, before the recipient of transferred assets has an unconditional right to retain them or the recipient of a promised gift has the right to expect the donor to transfer the assets. A challenge grant is a common form of a conditional promise to give. Another common form of conditional promise to give is one in which the promisee must incur certain qualifying expenses (or costs) before the promise becomes unconditional. The promise should be recognized to the extent qualifying expenses are incurred. [Revised 12/98; 10/02.]

9. Q—How do I distinguish between conditional and unconditional promises to give?

A—If donor stipulations do not clearly state whether the right to receive payment or take delivery depends on meeting those stipulations, or if those stipulations are ambiguous, distinguishing a conditional promise to give from an unconditional promise to give may be difficult. First, review the facts and circumstances surrounding the gift and communicate with the donor. If the ambiguity cannot be resolved as a result of those efforts, presume that a promise containing stipulations that are not clearly unconditional is a conditional promise to give. However, if the possibility that the condition will not be met is remote, a conditional promise to give is considered unconditional. An example of this circumstance is given in paragraph 22 of Statement 116 as follows. A stipulation that an annual report must be provided by the donee to receive subsequent annual payments on a multiyear promise is not a condition if the possibility of not meeting that administrative requirement is remote. [Revised 12/98.]

10. Q—When do I record refundable advances? Can I still have deferred revenues on my financial statements?

A—If the maker of the promise to give transfers assets before specified conditions are substantially met, the transfer is recognized by the recipient as a refundable advance, a liability. When the conditions are substantially met, the refundable advance is then recognized as revenue or gain. The practice of deferring revenues related to restricted gifts is no longer appropriate. Deferred revenues that relate to exchange transactions (advance payments for services not yet rendered or goods not delivered) are still reported as liabilities.

11. Q—May I still present the financial statements according to previously existing fund groups, or must I use the formats provided in Appendix C of FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations? May the term "fund balance" still be used? [Revised 12/98.]

A—Under Statement 117, the focus of financial reporting moves away from fund groups and moves toward information about the entity as a whole. While the use of the term "fund balance" is not prohibited by the Statements, Statement 117 uses the term net assets to describe the residual remaining after liabilities are subtracted from assets. The standards require that certain basic totals be presented in the financial statements; however, there is considerable flexibility in how those financial statements are formatted. The formats provided in Appendix C of Statement 117 are not
intended to limit organizations, but to provide examples of possible presentation formats. Fund accounting, which groups assets, liabilities, and net assets by the purpose for which they will be used rather than by the donor-imposed restrictions to which they are subject, is not a necessary part of financial reporting, but it may be used.

12. **Q**—How are endowments and similar funds (for example, quasi endowments) presented on the balance sheet?

   **A**—When classifying endowment funds, each source—original gift, gains and losses, and interest and dividends—must be evaluated separately. Each source is unrestricted unless its use is temporarily or permanently restricted by explicit donor stipulations or by law. Thus, an endowment fund that is created by a governing board from unrestricted net assets is classified as unrestricted because all three sources are free of donor restrictions. If an endowment fund is created by a donor, the donor may have placed different restrictions on each of the three sources. [Revised 12/98]

   Generally, classification of the original gifts and the income earned by endowments is straightforward because usually donors explicitly state any time or purpose restrictions on these two sources. Determining how to classify gains on endowments may not be as easy because agreements with donors often are silent on how gains should be used and whether losses must be restored immediately from future gains, or not at all. In many states, the Uniform Management of Institutional Funds Act provides the relevant law for endowment funds. Statement 117 provides additional information to assist organizations in classifying gains on endowment funds (paragraphs 120-132). FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, provides guidance for reporting losses (paragraphs 65-82) and requires that, in the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that the donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. [Revised 12/98.]

13. [Question deleted 12/98 because the effective date of both Statements 116 and 117 has passed.]

   **Q**—Do I have to adopt both Statements 116 and 117 at the same time?

   **A**—The effective date of Statement 116 is the same as the effective date of Statement 117. Though it may be practical to adopt both standards at the same time, the two Statements are not required to be adopted concurrently if one is adopted early.

14. [Question deleted 12/98 because guidance in Audit Guides has been updated for conforming changes.]

15. **Q**—Are trade associations, country clubs, unions, and other similar organizations subject to the requirements of Statements 116 and 117?

   **A**—A not-for-profit organization is defined as an entity that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises. Not-for-profit organizations have those characteristics in varying degrees and they need not possess all three characteristics. Trade associations, country clubs, unions, and other similar organizations often meet criterion (b), but may not meet criterion (a), (c), or both.

   Usually, the determination of whether membership dues are contributions rests on whether the
value received by the member is commensurate with the dues paid. The term members is used broadly by some organizations to refer to their donors and by other organizations to refer to individuals or other entities that pay dues in exchange for a defined set of benefits. Member benefits generally have value regardless of how often (or whether) the benefits are used. For example, most would agree that a health club membership is an exchange transaction, even if the member stops using the facilities before the completion of the membership period.

Paragraph 1.02 of the not-for-profit Guide provides additional guidance on this question. [Revised 10/02.]

16. Q—Statement 117 requires financial statements on the basis of the entity as a whole. Do I have to consolidate my foundations?

A—The FASB is currently addressing the consolidation of related entities of not-for-profit organizations as part of its consolidations policies and procedures project. As part of that project, a revised Exposure Draft, Consolidated Financial Statements: Purpose and Policy, was issued in February 1999. The Exposure Draft discusses the meaning of control and its application to not-for-profit organizations, business corporations, partnerships, and other entities. Until that project is complete, the AICPA Statement of Position 94-3, Reporting of Related Entities by Not-For-Profit Organizations, and the AICPA Audit and Accounting Guide, Health Care Organizations, provide authoritative guidance. [Revised 9/99; 5/03.]

17. Q—Are organizations required to value all investments at market? [Revised 12/98.]

A—Statement 124 requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statement of financial position. [Revised 12/98.]

18. Q—What other information is available about Statements 116 and 117?

A—The FASB published a Special Report on the field test of Statements 116 and 117. That Special Report may be helpful for organizations applying Statements 116 and 117. It includes examples of financial statements prepared by participants and discussions of the selected statements. [Revised 12/98; 9/01.]

Also, the FASB course, Accounting and Reporting by Not-for-Profit Organizations: A Comprehensive View of Statements 116, 117, and 124, is available in an individualized study version and describes the requirements of those Statements in greater detail. The course offers examples, interactive case studies, flowcharts, and exercises to assist in the understanding of the standards. The AICPA maintains an annually updated Audit and Accounting Guide for Not-for-Profit Organizations with conforming changes and has published its not-for-profit organizations course. Also, audit firms and industry groups have published materials useful for applying the Statements. As noted in Question 1, Statement 136 also provides interpretive guidance relative to Statement 116. [Revised 12/98; 9/01; 10/02.]

19. Q—Not-for-profit organizations may incur costs soliciting contributions of services that do not meet the criteria for recognition as a contribution received in paragraph 9 of FASB Statement No. 116, Accounting for Contributions Received and Contributions Made. Should those solicitation costs be classified in the statement of activities as a fundraising cost?

A—Yes. The costs of soliciting contributed services should be classified as fundraising costs regardless of whether the contributed services meet the recognition criteria in paragraph 9 of Statement No. 116. The FASB staff believes that paragraphs 26–28 of FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations, require that information about
expenses be reported by functional classification and that fundraising activities include soliciting contributions of services from individuals and others regardless of whether those services meet the criteria in Statement 116 for recognition as a contribution received. 2(3) [Added 8/02.]

Superseded by the FASB Accounting Standards Codification on July 1, 2009.
Endnotes

1 (Popup - Footnote *)
Q&A 116/117 Footnote *—Karen F. Berk was a technical associate at the FASB at the date of issuance of this implementation guide and the positions and opinions expressed were hers. Revisions to this implementation guide have been made by current members of the FASB staff. Official positions of the FASB are determined only after extensive due process and deliberation.

2 (Popup - Footnote 1)
Q&A 116/117 Footnote 1—Additional reporting guidance is provided by a FASB staff announcement on March 21, 1996. That announcement is included in EITF Abstracts, Appendix D, Topic No. D-49, "Classifying Net Appreciation on Investments of a Donor-Restricted Endowment Fund." [Revised 12/98.]

3 (Popup - Footnote 2)
Q&A 116/117 Footnote 2—Paragraph 28 of Statement 117 describes fund-raising activities as including "publicizing and conducting fund-raising campaigns; maintaining donor mailing lists; conducting special fund-raising events; preparing and distributing fund-raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others." Paragraph 13.30 of the AICPA Audit and Accounting Guide, Not-for-Profit Organizations (Guide) elaborates on the definition of fund-raising activities in Statement 117 and provides, in part, as follows: "Fund-raising activities involve inducing potential donors to contribute money, securities, services, materials, facilities, other assets, or time."