Strafford

Accounting for Contributions, Pledges, Grants and Donations to Non-Profits

Navigating the Gray Areas Surrounding FAS 116 and FAS 117

TUESDAY, MAY 13, 2014, 1:00-2:50 pm Eastern

IMPORTANT INFORMATION

This program is approved for 2 CPE credit hours. To earn credit you must:

- Participate in the program on your own computer connection and phone line (no sharing) – if you need to register additional people, please call customer service at 1-800-926-7926 x10 (or 404-881-1141 x10). Strafford accepts American Express, Visa, MasterCard, Discover.
- **Respond to verification codes presented throughout the seminar**. If you have not printed out the "Official Record of Attendance", please print it now. (see "Handouts" tab in "Conference Materials" box on left-hand side of your computer screen). To earn Continuing Education credits, you must write down the verification codes in the corresponding spaces found on the Official Record of Attendance form.
- Complete and submit the "Official Record of Attendance for Continuing Education Credits," which is available on the program page along with the presentation materials. Instructions on how to return it are included on the form.
- To earn full credit, you must remain on the line for the entire program.

WHOM TO CONTACT

For Additional Registrations:
-Call Strafford Customer Service 1-800-926-7926 x10 (or 404-881-1141 x10)

For Assistance During the Program:
- On the web, use the chat box at the bottom left of the screen
- On the phone, press *0 ("star" zero)

If you get disconnected during the program, you can simply call or log in using your original instructions and PIN.

Tips for Optimal Quality

Sound Quality

If you are listening via your computer speakers, please note that the quality of your sound will vary depending on the speed and quality of your internet connection.

If the sound quality is not satisfactory, you may listen via the phone: dial **1-866-258-2056** and enter your PIN when prompted. Otherwise, please **send us a chat** or e-mail **sound@straffordpub.com** immediately so we can address the problem.

If you dialed in and have any difficulties during the call, press *0 for assistance.

Viewing Quality

To maximize your screen, press the F11 key on your keyboard. To exit full screen, press the F11 key again.

Program Materials

FOR LIVE EVENT ONLY

If you have not printed the conference materials for this program, please complete the following steps:

- Click on the ^ symbol next to “Conference Materials” in the middle of the left-hand column on your screen.
- Click on the tab labeled “Handouts” that appears, and there you will see a PDF of the slides and the Official Record of Attendance for today's program.
- Double-click on the PDF and a separate page will open.
- Print the slides by clicking on the printer icon.

Accounting for Contributions, Pledges, Grants and Donations to Non-Profits

May 13, 2014

Neely Duncan, Lane Gorman Trubitt

nduncan@lgt-cpa.com

Bill R. Moss, CPA

billmoss@sbcglobal.net

ACCOUNTING FOR CONTRIBUTIONS, PLEDGES, GRANTS AND DONATIONS TO NON-PROFITS

BY BILL MOSS, CPA, NEELY DUNCAN, CPA

FAS 116 & 117

Contribution defined:

Unconditional *transfer of assets or settlement/cancellation of its liabilities in* ***voluntary, nonreciprocal*** *transfer by another entity (person or Company) with no action as owner.*

FAS 116 & 117

- Differentiate – Contribution or Exchange Transaction

  - Contribution = any value to resource provider is incidental to potential public benefits.

  - Exchange Transaction = reciprocal transfer where each party receives/sacrifices approximately equal value

FAS 116 & 117

- Grants, awards & sponsorships:
  - Contribution if donor receives no value or value received is incidental to potential public benefits
    - *Note: be aware of sponsorship pitfalls that trigger UBIT*
  - Could be part contribution and part exchange transaction
    - *Proof is in the agreement!*

FAS 116 & 117

- Member dues vs. contribution
  - Dues if value received is commensurate with dues paid
    - Value may be intangible and difficult to measure

<u>*Example:*</u>

NFP dues = $100 – value to member represents newsletter valued at $25. NFP records the remainder ($75) as donation.

OMB GRANTS MGMT GUIDANCE

- "Proposed OMB Uniform Guidance: Cost Principles, Audit and Administrative Requirements for Federal Awards"
  - ***Purpose to create greater flexibility in time and effort reporting compliance***
  - Three Sub-groups:
    - Administrative Requirements (Subparts A through D)
    - Cost Principles (Subpart E)
    - Audit Requirements (Subpart F)

OMB GRANTS MGMT GUIDANCE

- ***Administrative Requirements***
  - Focus on performance rather than compliance for accountability
  - Encourages use of information technology and shared services
  - Strengthens oversight requirements

OMB GRANTS MGMT GUIDANCE

- ***<u>Cost Principles:</u>***
  - Limits allowable costs
  - Clarifies allowable spending for specific cost items
  - Provides consistent and transparent treatment of costs

OMB GRANTS MGMT GUIDANCE

- ***Audit Requirements:***
  - Reduces the pool of audited entities
  - Focuses on areas with highest risk of waste, fraud and abuse
  - Increases transparency/accountability
    - Audit reports to be available online
  - Encourages Federal agencies for more cooperative approach to audit resolution
    - Seeking remedy for internal control weaknesses

CHAPTER 5 – ACCOUNTING & AUDIT GUIDE

- First revision since 1996
- ***Noncash contributions***
  - Fundraising materials
  - Informational materials
  - Advertising media time and space

CHAPTER 5 – ACCOUNTING & AUDIT GUIDE

- ***Below-market interest rate loans***
  - Includes government and forgivable loans
  - Analyze for contributory intent
- No interest/low interest rate loans
  - Record imputed interest expense and contribution at fair value
    - Use difference between NFP borrowing rate and loan rate
    - Long-term loans recorded at FMV
    - Due-on-demand loans recorded at face-value
- Forgivable loans
  - Identify the "forgiveness" conditions

CHAPTER 5 – ACCOUNTING & AUDIT GUIDE

- ***Administrative costs of restricted contributions***
  - May ***<u>not</u>*** allocate a portion of restricted contributions to offset costs of raising or administering such contributions
    - Related to donor's enforceable rights of contributing
    - Exception if NFP has policy to allocate and communicates such policy to potential donors.

SUPPORT VS. REVENUE: CONTRIBUTIONS

- Support = contributions, registrations for events, registration fees for educational programming, etc.
- Revenue – includes "Support" and other income such as:
  - Member dues may be split between contribution and exchange transaction
  - Unrelated business income
  - Interest income
  - Gains and losses on investments

Slide Intentionally Left Blank

Accounting for Contributions, Pledges, Grants and Donations to Non-Profits

May 13, 2014

Prepared by: Bob Hambrecht, CPA
Presented by: Neely Duncan, CPA CFE FCPA
nduncan@lgt-cpa.com
214-461-1437

Conditional and Restricted Contributions

Conditional and Restricted Contributions

- Condition vs. Restriction:

  – Donor-Imposed Restriction – A stipulation and limitation in the use of contributed assets. These restrictions can be limited as to purpose, time, or both.

  – Donor-Imposed Condition – A future or uncertain event whose occurrence or failure to occur can result in the return of the assets transferred to the promisor or the release of the promisor from an obligation to transfer assets.

Conditional and Restricted Contributions

- **Donor-Imposed Restrictions (Continued)**
  - There are two types of restrictions:
    - Purpose – Require resources to be used for a specified purposes.
      - Related to a particular program.
      - Related to a specific expense.
    - Time – Require resources to be used in a certain period or after a specified date.
      - Temporary
      - Permanent – assets received must be held in perpetuity.
    - Or Both

Conditional and Restricted Contributions

- **Donor-Imposed Restrictions (Continued)**

- Donor-imposed restrictions may be met in same period as receipt of contribution. Non-profit has two options to record:

  – Record temporarily restricted contributions and show net assets released from restriction on a separate line.

  – Non-profit may adopt a policy (disclosed in footnotes) that would report all such contributions as unrestricted support. Policy must be reported consistently from year to year.

Conditional and Restricted Contributions

- **Donor-Imposed Conditions:**
  - Conditional Promise to Give: A conditional promise to give depends on the occurrence of a specified future and uncertain event to binder the promisor, shall be recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. A conditional promise to give is recognized as revenue when it becomes unconditional.
  - Unconditional Promise to Give: An unconditional promise is a promise to give that depends only on passage of time or demand by the promisee for performance. An unconditional promise to give is recognized as revenue when received.

Conditional and Restricted Contributions

- **Donor-Imposed Conditions (Continued):**
  - Conditional Promises to Give:
    - When to record
    - Assets transferred to organization
    - Conditions Met in Stages
    - Disclosure requirements

Conditional and Restricted Contributions

- **Donor-Imposed Conditions (Continued):**
  - As with all promises to give, in addition to the condition being met, there must be sufficient evidence in the form of verifiable documentation that a promise was made and received.

Contribution Recording in the Right Year

Contribution Recording in the Right Year

- Contributions should be recognized as revenues or gains in the period received.
  - Contributions that are part of an organization's ongoing central activities are reported as revenues;
  - Contributions that are peripheral or incidental to the organization's activities are reported as gains.
  - Restrictions on the contributions do not affect the valuation or period in which the contributions should be recognized.
  - Unconditional promises to give should be recognized when received, so long as there is sufficient evidence to support the promise made and received.

Contribution Recording in the Right Amount

Contribution Recording in the Right Amount

- Contributions should be recorded at fair value of the assets (cash or non-cash) received or services received (non-cash) or liabilities satisfied.
- **Valuing an unconditional promise to give (cash):**
  - Those that are due to be collected within one year are generally measured at fair value, but may also be recorded at their net realizable value, which is the best estimate of fair value.
  - Unconditional promises to give that are due beyond one year should be valued using a present value technique.
    - For cash transactions, the NPO needs to determine the amount and timing of future cash flows.
    - For non-cash transactions, the NPO needs to determine the quantity and nature of assets expected to be received.

Contribution Recording in the Right Amount

- Factors to consider when using present value:
  - When the promise is expected to be collected.
  - Donor's creditworthiness.
  - Past collection experience.
  - NPO's policy on enforcing promises to give.
  - Any uncertainty in the amount and timing of cash flows.

Contribution Recording in the Right Amount

- Determine the discount rate to be used.

- Discount rate should approximate the rate that an independent borrower and lender would have negotiated in a similar transaction.

- The discount amortization should be recorded as contribution revenue.

Contribution Recording in the Right Amount

- **Valuing an unconditional promise to give (non-cash):**
  - Collected within one year are generally measured at fair value, but may also be recorded at their net realizable value, which is the best estimate of fair value.
  - Unconditional promises to give that are due beyond one year should be valued using a present value technique.
    - » For non-cash transactions, the NPO needs to determine the quantity and nature of assets expected to be received.

Contribution Recording in the Right Amount

- NPO must also consider factors related to the timing and uncertainty of the items' future delivery, that is what discount rate to be used and the collectability of the promise.

- If projected FV is difficult to determine on underlying noncash assets, then FV of promise to give may be based on FV of assets when the promise is made, in which case, no discount rate should be applied. You would still need to determine the collectability of the promise.

Slide Intentionally Left Blank

Proper Disclosures of Contributions

Presented by: Neely D. Duncan, CPA CFE FCPA

nduncan@lgt-cpa.com

214-461-1437

May 13, 2014

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Proper Classification of Exchange Transactions

- FASB ASC 958-605-45-1 states that resources received in exchange transactions should be classified as unrestricted revenues and net assets, even in circumstances in which resource providers place limitations on the use of the resources.
- Example: resources received from governments in exchange transactions in which those governments have placed limitations on the use of the resources should be reported as unrestricted revenues and net assets, because those limitations are not donor imposed restrictions on contributions.

Proper Disclosures in the accounting policies portion of the financial statements

Accounting policies adopted should include:

- Whether the NFP implies time restrictions on the use of contributed long-lived assets (and contributions of cash and other assets restricted to purchasing them) received without donor stipulations about how long the contributed assets must be used.
- Whether the NFP classifies donor-restricted contributions as unrestricted or restricted support if restrictions are satisfied in the same reporting period in which the contributions are received.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Proper Disclosures in the accounting policies portion of the financial statements (cont.)

Accounting policies adopted should include:

- Whether the NFP recognizes contributions of collection items.
- Disclosure of how the NFP computes its fund-raising ratio if it includes that ratio in its financial statements.

Proper disclosures of contributions receivables

- Contributions receivable pledged as collateral or otherwise limited with regard to use.
- A schedule of contributions receivable (showing the total amount separated into amounts receivable in less than one year, in one to five years, and in more than five years) and the related allowance for uncollectible contributions receivable arising from subsequent decreases due to changes in the quantity or nature of the assets expected to be received and the unamortized discount.

Proper disclosures of contributions receivables (cont.)

- The amount of conditional promises to give – in total and, with descriptions, the amount of each group of similar promises.
- For example:
  - those conditioned upon the development of new programs,
  - upon the purchase or construction of new property and equipment, and
  - upon the raising of matching funds within a specified time period.

Proper disclosures of contributions receivables (cont.)

- Disclosures required of the fair value and carrying amounts for contributions receivable and all other financial instruments for which it is practicable to estimate fair value:
  - the method(s) and significant assumptions used to estimate the fair value of financial instruments, and
  - the changes in those methods and significant assumptions, if any, during the period, and
  - the level of the fair value hierarchy.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Proper disclosures of contributions receivables (cont.)

- Disclosures required regarding that if an individual donor or groups of donors constitutes a significant concentration of credit risk arising from contributions receivable, unless those disclosures are optional because of the criteria of FASB 825-10-50-3.
- Disclosures required if contributions receivable are subsequently measured at fair value.

Proper disclosures of contributions receivables (cont.)

- Disclosures if unconditional promises to give are not measured at fair value in the statement of financial position but for which the fair value is disclosed (public entities only)
- Disclosures if there is an election to report contributions receivable at fair value is made after initial recognition.
- Disclosures are required for imputation of interest.

Examples of accounting policies in the financial statements

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations. This category of net assets includes amounts appropriated by the Board of Trustees.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met by actions of the School and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

Examples of accounting policies in the financial statements (cont.)

- Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Examples of accounting policies in the financial statements (cont.)

- Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

- Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Accretion of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Examples of accounting policies in the financial statements (cont.)

- Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises are received.
- Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Proper disclosures of Donor imposed restrictions

- All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the NFP reports the support as unrestricted.

Examples of accounting policies in the financial statements (cont.)

- An allowance for uncollectible pledges receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution, the credit standing of applicable donors and nature of fund-raising activity.

Examples of accounting policies in the financial statements (cont.)

Charitable Remainder Trusts

- The School's charitable reminder trusts are held by third party trustees. Contribution revenue for the charitable remainder trusts are recognized at the date the agreement is established. The School records the contributions as temporarily restricted other income at the fair value of the assets received, less the present value of the estimated future payments to be distributed. Subsequent changes in fair value for the charitable reminder trusts are recorded as changes in value of charitable remainder trusts in the temporarily restricted net asset class in the accompanying statement of activities and changes in net assets.

LGT
LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Examples of accounting policies in the financial statements (cont.)

Pledges Receivable

- Restricted contributions are recorded at their estimated fair value when received or made rather than in the period for which the pledges are designated. Unconditional promises to give are recorded as revenue when the promise is made.
- To determine the net realizable value of contributions from the annual fundraising campaign, a loss provision is calculated as a percentage of pledges receivable. As described above, management assesses the risks of uncollectibility to determine a reasonable loss provision. If actual collection results differ significantly from expectations, contributions in a subsequent period may be adjusted accordingly.

Examples of accounting policies in the financial statements (cont.)

Contributed Services

- Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) required specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.
- A substantial number of unpaid volunteers have made significant contributions of their time to the School. The value of this contributed time is not reflected in the financial statements since it does not meet the criteria discussed above.

Examples of disclosures of contributions receivables (cont.)

Unconditional promises to give consist of the following as of June 30:

	< 1 year	1-5 years	> 5 years
Pledges receivable	$5,950,298	$9,836,877	$8,141,747
Allowance for doubtful pledges	(359,000)	-	-
Unamortized discount on pledges	(44,884)	(539,321)	(2,521,514)
Pledges receivable, net	$5,546,414	$9,297,556	$5,620,233

Unconditional promises to give are reflected at the present value of future cash flows using discount rates ranging from 0.36% to 2.52% for 2013, and 0.33% to 3.91% for 2012 and prior years.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Examples of disclosures of contributions receivables (cont.)

- Discount rates ranged from 4 percent to 4.5 percent and from 3.5 percent to 4 percent for 20X1 and 20X0, respectively.
- In 20X0, the NFP received $650 for a capital campaign which must be returned if the NFP does not receive $1,300 in donations to the capital campaign. The $650 received was recorded on the 20X0 statement of financial position as a refundable advance. In 20X1, the NFP received $500 in cash donations and $865 in unconditional promises to give to this campaign. As a result, the $650 was recognized as temporarily restricted contributions in 20X1.

Examples of disclosures of contributions receivables (cont.)

- In addition, the NFP received the following conditional promises to give that are not recognized as assets in the statements of financial position:

Conditional promise to give upon the establishment of a library program	$100
Conditional promise to give upon obtaining $2,500 in unconditional promises to give to the capital campaign.	$5,000

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Examples of disclosures of contributions receivables (cont.)

- [*The following disclosure is encouraged but not required*.]
- The NFP received an indication of an intention to give from an individual long-time donor. The anticipated gift is an extensive collection of pre-Columbian textiles with great historical and artistic significance. The value of this intended gift has not been established, nor has the gift been recognized as an asset or contribution revenue.

Examples of disclosures of contributions receivables (cont.)

- The School received pledges from members of the Board of Trustees and employees of the School of approximately $7,603,000 and $7,058,000 as of June 30, 2013 and 2012, respectively, which are included in pledges receivable in the accompanying statements of financial position.

Example of accounting policy for contributed property and equipment

- Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, the NFP has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as restricted support.

Example of accounting policy for contributed property and equipment (cont.)

- Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Examples of Contributed services

- The NFP recognizes contribution revenue for certain services received at the fair value of those services. Those services include the following items:

Home Outreach program	
Salaries:	$100
Management and general	
Accounting services	$300
Legal Services	$200

In addition, approximately 80,000 hours, for which no value has been assigned, were volunteered by tutors in the home outreach program.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Beneficial interest in Assets Held by Others

- In 19XX, the NFP transferred $1,000,000 from its investment portfolio to the Any Town Community Foundation to establish an endowment fund. Under the terms of the agreement, in the first quarter of each year, the NFP receives a distribution equal to the investment return generated by the transferred assets during the prior year. The NFP can withdraw all or a portion of the original amount transferred, any appreciation on those transferred assets, or both, provided that a majority of the governing boards of the NFP and the Foundation approve of the withdrawal. At the time of the transfer, the NFP granted variance power to the Foundation. That power gives the Foundation the right to distribute the investment income to another not-for-profit entity of its choice if the NFP ceases to exist or if the governing board of Any Town Community Foundation votes that support of the NFP (*a*) is no longer necessary or (*b*) is inconsistent with the needs of the Any Town community. At June 30, 20X1, the endowment fund has a value of $1,234,567, which is reported in the statement of financial position as beneficial interest in assets held by others.

Example of gifts in kind footnote

- Gifts in kind: The NFP receives gifts in kind, such as medical equipment, prescription drugs, and other medical supplies for use in treating disaster victims. Gifts in kind revenue is recognized in circumstances in which the NFP has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with FASB ASC 958-605-25. Accordingly, the recognition of gifts in kind revenue is limited to circumstances in which the NFP takes constructive possession of the gifts in kind and the NFP is the recipient of the gift, rather than an agent or intermediary (as defined by accounting standards). Gifts in kind received through donations are valued and recorded as revenue at their fair value at the time the contribution is received.

Example of gifts in kind footnote (cont.)

- In circumstances in which the NFP is functioning as an agent or intermediary with respect to the gifts in kind, the NFP reports an asset and corresponding liability measured at the fair value at the earlier of the time the goods are promised or received from the resource provider, and until the NFP remits the gifts in kind to the ultimate beneficiary.
- In circumstances in which the NFP distributes gifts in kind as part of its own programs, it reports an expense, which is reported in the functional classification for the program in which the gifts in kind were used. Although it is the NFP's policy to distribute gifts in kind as promptly as possible, the NFP may hold some gifts in kind at year-end. Undistributed gifts in kind at year-end are reported as inventory. Inventory is valued at the lower of cost or market (cost is determined as fair value at the date of gift plus any costs incurred).

Slide Intentionally Left Blank

Donated Goods and Services

Donated Goods and Services

- Organizations often receive significant amounts of donated volunteer services, including accounting and legal services, assistance in fund-raising activities, participation in program activities, etc. Contributed services relate to an individual's personal services, and they may or may not qualify for recognition as contributions. FASB ASC 958-605-25-16 (formerly SFAS No. 116) requires the fair value of donated services to be recognized in the financial statements if the services either:
  - create or enhance a nonfinancial asset **OR**
  - require specialized skills, are provided by entities or persons possessing those skills, *and* would be purchased if they were not donated.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- Services that do not meet either of the preceding criteria should not be recognized. The criteria have been established to limit recognition to only those services that are clearly relevant and measurable at a cost that does not exceed the benefits of the information.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

Most Common Errors:

• Contributions of services that appear to meet the recognition criteria were not recognized as contributions in the statement of activities. It was noted that financial statements included a note such as “the value of time contributed is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.” Difficulty in measuring contributed services is not an acceptable reason for not recognizing them. Services that meet the recognition criteria should be recognized using best estimates of value.

• Volunteer services were recorded in the financial statements that did not appear to meet the recognition criteria. The notes to the financial statements indicated that the services were recorded to meet grantor requirements. Financial statements should be reported in accordance with GAAP, which may differ from the requirements imposed in grant agreements.

• Financial statements with disclosures about donated services did not include a description of the programs or activities for which the services were used or the nature and extent of contributed services received for the period.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- Donated services that create or enhance a nonfinancial asset do not require specialized skills to be recognized as contributions. Nonfinancial assets are items such as inventory, land, buildings, equipment, and other tangible assets. When donated services create or enhance a nonfinancial asset, the value of the services is capitalized as part of the cost of the asset.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

When donated services do not create or enhance a nonfinancial asset, they must meet *all* of the following criteria before qualifying for recognition as contributions:

- The service requires specialized skills.
- The service is provided by individuals possessing those skills.
- The service would typically need to be purchased if it was not contributed.

Each of those conditions should be carefully evaluated before the organization recognizes contributed services.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- Sometimes individuals who possess specialized skills contribute services that do not relate to their particular expertise. For example, if a doctor serves as volunteer coordinator for a fund-raiser, the specialized skill condition is not met since the contributed service performed is not a specialized skill.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- It is common for organization volunteers to obtain training before providing certain types of ongoing program services. For example, museum docents and crisis hotline volunteers typically receive training to learn how to properly administer related programs. Does that mean the individuals possess specialized skills? Probably not. If an individual performs a service but does not possess specialized skills as defined (such as through official certification or licensing, for example), then the donated services do not meet the criteria for contribution recognition.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

Determining whether an organization would need to purchase services if they were not donated can be subjective. The organization should consider whether it would otherwise *need* to purchase the services, not whether it could *afford* to purchase the services at their fair value. Accordingly, the organization does not have to show that it could otherwise afford to purchase the services to meet the condition.

Although not inclusive, the following factors might indicate the organization would need to purchase the services if they were not donated:

• The services represent an integral part of the organization's programs (such as physician services at a community clinic).

• The services are required to fulfill part of the organization's ongoing administrative requirements (such as preparation of the organization's Form 990).

• Volunteer services make up a significant part of the organization's total program activities (such as teachers who train other volunteers who will in turn teach others to read).

• Similar services are also purchased from third parties when volunteer services are not available (such as legal services and accounting services).

LGT

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- In many cases, organizations determine that they would not purchase the donated services. Accordingly, the donated services would not meet the criteria for revenue recognition. **However, each circumstance should be evaluated individually.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- Donated services that meet the criteria for recognition as contributions should be recorded at their fair value. FASB ASC 820 (formerly SFAS No. 157) establishes a framework that uses marketplace inputs and valuation techniques to develop fair value measures. Fair value may be estimated based on fees or hourly rates charged for similar services under similar conditions. Donated services that create or enhance a nonfinancial asset may be recognized at the fair value of the donated services or the fair value of the asset created (or the increase in fair value of an enhanced asset).

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- Organizations sometimes receive contributed services from professionals such as attorneys or accountants who have high standard hourly billing rates. What rates should the organization use to value those contributed services—standard rates or discounted rates? The answer lies in the phrase "similar services under similar conditions." The value of the contributed services should represent an amount the organization would have been charged in similar circumstances.
- If the services are typically discounted to nonprofit organizations, the contributed services should also be valued to reflect the discounted rates.
- However, if the organization would normally pay standard rates for the services, they should be valued at those standard rates.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- Contributed services are generally recognized as contributions when the services are performed. When contribution revenue is recorded, a corresponding increase in either expenses or assets is also recorded. Thus, contributions resulting from contributed services generally are recognized as unrestricted contribution revenues because no net assets subject to restrictions result from the gift.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- **Board Member Services:** Individuals are sometimes appointed to an organization's board of directors because they possess skills the organization needs for a particular project.
- For example, an organization that is considering a significant acquisition and renovation of a facility might appoint an architect and engineer to its board to assist with construction as well as an attorney to assist with negotiating zoning changes and terms of loans and grants for the project.
- While board members often possess specialized skills, the value of their services should be recorded only if they meet the criteria (such as if they are used in connection with a building or renovation project or if their services would be purchased if not donated).

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- **Contributed Services from Affiliated Organizations:** The criteria for recognizing contributed services also apply to services provided by employees of separately governed affiliated organizations (other than those services provided in an advisory capacity).
- An organization receiving services from its affiliate should recognize those services if the affiliate regularly provides those services for the organization under the recipient organization's direction.
- However, if the financial statements of the affiliated organizations are included in consolidated financial statements and there is no need for financial statements of the organizations individually, the services need not be recognized.
- If the organizations choose to recognize the contribution received and made, those transactions would be eliminated in consolidation.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- **Promises to Give Services**: Promises to give services are often conditioned (either explicitly or implicitly) upon whether or not the individual promising the services will be available in the future.
- For example, a lawyer promising free legal services for five years might die and therefore not be able to fulfill that promise.
- Therefore, promises to give services will usually be conditional and should not be recognized as contributions until they are provided (that is, when the condition is met). However, there may be instances when promises to give services are recorded.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- **Organization Acts as Intermediary of Services:** Some organizations may act as an intermediary of services, simply bringing together the donor of the services and the organization that receives a benefit from those services.
- Even if the services meet the criteria discussed in paragraph 203.1, FASB ASC 958-605-55-81 (formerly SFAS No. 116, paragraph 180 of Appendix C) states that those transactions are not reflected as contributions in the intermediary organization's financial statements.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- **Contributed Services for Grant Purposes:** It is relatively common for certain types of grants such as government grants to impose matching requirements, requiring the organization to devote a specified amount of its own resources to the grant program.
- In many cases, those grants allow donated services to apply toward the organization's matching requirement.
- Contributed services that are allowable for such grant purposes may not meet the requirements for contribution recognition.
- If they do not, those services should not be recognized in financial statements that are presented in conformity with generally accepted accounting principles.
- As a result, there may be differences between contributed services reported for grant purposes and those recognized for financial reporting purposes.
- The organization should document and maintain a reconciliation of any such differences.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- An organization that relies significantly on donated services that it cannot recognize as expense and contribution revenue should consider what types of disclosures about those services would be useful in helping the financial statements' readers understand the organization's operations and its dependence upon volunteer services.
- At the very least, FASB ASC 958-605-50-1 (formerly paragraph 10 of SFAS No. 116) requires that organizations receiving donated services disclose the following:
  - The activities or programs for which those donated services were used.
  - The nature and extent of those services.
  - The amount recognized as revenue during the period.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Donated Goods and Services

- FASB ASC 958-605-50-1 (formerly Paragraph 10 of SFAS No. 116) also encourages organizations to disclose the fair value of services received but not recognized as contributions if it is practicable for the organization to make that disclosure.
- That information would help the financial statement users understand the organization's dependency on its volunteers and what programs would cost if services were not donated.
- In addition, an organization may want to provide that disclosure if a significant number of volunteers participate in the organization's programs, especially if the fact that those services are not reflected in the organization's financial statements results in high fund-raising and general and administrative ratios as a percentage of total expenses or total contribution revenue.

LANE GORMAN TRUBITT PLLC
Accountants & Advisors

Scenarios Involving Non-Profits

Scenarios Involving Non-Profits

- **Example of time and purpose restrictions:** If a donor contributes $100,000 in 2014, restricted to the organization's use in 2015. The donor has placed a time restriction on the associated net assets. If the donor gives the organization $100,000 for the purchase of equipment, the donor has placed a purpose restriction on the net assets received. If the donor contributes $100,000 in 2014 restricted to the organization's purchase of computer equipment in 2015, the donor has placed both time and purpose restrictions on the net assets received.

Scenarios Involving Non-Profits

- **Example of conditions being present on a promise to give:**
  - A donor states that they will give you $100,000 if you implement a new program.
  - A donor states that they promise to give $50,000 if donee raises $100,000 in contributions.