



Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 116

Accounting for Contributions Received and
Contributions Made

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Statement of Financial Accounting Standards No. 116 Accounting for Contributions Received and Contributions Made

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Other Interpretive Release: FASB *Highlights*, "Time for a Change—Implementing FASB Statements 116 and 117," January 1995 (in *Current Text* Sections C67 and No5)

SUMMARY

This Statement establishes accounting standards for contributions and applies to all entities that receive or make contributions. Generally, contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values. Contributions made, including unconditional promises to give, are recognized as expenses in the period made at their fair values. Conditional promises to give, whether received or made, are recognized when they become unconditional, that is, when the conditions are substantially met.

This Statement requires not-for-profit organizations to distinguish between contributions received that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. It also requires recognition of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

This Statement allows certain exceptions for contributions of services and works of art, historical treasures, and similar assets. Contributions of services are recognized only 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. Contributions of works of art, historical treasures, and similar assets need not be recognized as revenues and capitalized if the donated items are added to collections held for public exhibition, education, or research in furtherance of public service rather than financial gain.

This Statement requires certain disclosures for collection items not capitalized and for receipts of contributed services and promises to give.

This Statement is effective for financial statements issued for fiscal years beginning after December 15, 1994, except for not-for-profit organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations, the Statement is effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged. This Statement may be applied either retroactively or by recognizing the cumulative effect of the change in the year of the change. The provisions for recognition of expirations of restrictions may be applied prospectively.

Statement of Financial Accounting Standards No. 116

Accounting for Contributions Received and Contributions Made

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INTRODUCTION

1. This Statement establishes standards of financial accounting and reporting for **contributions**¹ received and contributions made. Accounting for contributions is an issue primarily for **not-for-profit organizations** because contributions are a significant source of revenues for many of those organizations. However, this Statement applies to all entities (not-for-profit organizations and business enterprises) that receive or make contributions. This Statement also establishes standards for recognizing expirations of restrictions on contributions received and for accounting for **collections** of works of art, historical treasures, and similar assets acquired by contribution or by other means.

2. Guidance for accounting for contributions received by not-for-profit organizations is currently provided primarily by the AICPA Guides and Statement of Position (SOP) listed in Appendix A. This Statement is part of a broader FASB agenda project that considers several inconsistencies in that guidance. Because this Statement establishes standards for accounting for contributions, provisions in the Guides and SOP that are inconsistent with this Statement are no longer acceptable *specialized*² accounting and reporting principles and practices. This Statement's consideration of the classification of receipts of donor-restricted contributions and the recognition and display of expirations of donor restrictions is within the general framework for financial reporting

¹Words that appear in the glossary are set in **boldface type** the first time they appear.

²The term *specialized* is used to refer to those current accounting and reporting principles and practices in the existing AICPA Guides and SOPs that are neither superseded by nor contained in the Accounting Research Bulletins, APB Opinions, FASB Statements, and FASB Interpretations.

as set forth in FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

3. This Statement applies to contributions³ of cash and other assets, including **promises to give**. It does not apply to transfers of assets that are in substance purchases of goods or services—exchange transactions in which each party receives and sacrifices commensurate value. However, if an entity voluntarily transfers assets to another or performs services for another in exchange for assets of substantially lower value and no unstated rights or privileges are involved, the contribution inherent in that transaction is within the scope of this Statement.

4. This Statement does not apply to transfers of assets in which the reporting entity acts as an agent, trustee, or intermediary, rather than as a donor or donee. It also does not apply to tax exemptions, tax incentives, or tax abatements, or to transfers of assets from governmental units to business enterprises.

Definitions

5. A contribution is an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary **nonreciprocal transfer** by another entity acting other than as an owner. Other assets include securities, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, services, and **unconditional promises to give** those items in the future.

6. A promise to give is a written or oral agreement to contribute cash or other assets to another entity; however, to be recognized in financial statements there must be sufficient evidence in the form of verifiable documentation that a promise was made and received. A communication that does not indicate clearly whether it is a promise is considered an unconditional promise to give if it indicates an unconditional intention to give that is legally enforceable.

7. A **donor-imposed condition** on a transfer of assets or a promise to give specifies a future and uncer-

tain event whose occurrence or failure to occur gives the promisor a right of return of the assets transferred or releases the promisor from its obligation to transfer assets promised. In contrast, a **donor-imposed restriction** limits the use of contributed assets; it specifies a use that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Contributions Received

8. Except as provided in paragraphs 9 and 11, contributions received shall be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions received shall be measured at their fair values. Contributions received by not-for-profit organizations shall be reported as **restricted support** or **unrestricted support** as provided in paragraphs 14-16.

Contributed Services

9. Contributions of services shall be recognized 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. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen. Contributed services and promises to give services that do not meet the above criteria shall not be recognized.

10. An entity that receives contributed services shall describe the programs or activities for which those services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. Entities are encouraged to disclose the fair value of contributed services received but not recognized as revenues if that is practicable.

Contributed Collection Items

11. An entity need not recognize contributions of works of art, historical treasures, and similar assets if

³This Statement also uses terms such as *gift* and *donation* to refer to a contribution; however, it generally avoids terms such as *awards*, *grants*, *sponsorships*, and *appropriations* that often are more broadly used to refer not only to contributions but also to assets transferred in exchange transactions in which the *grantor*, *sponsor*, or *appropriator* expects to receive commensurate value.

the donated items are added to collections that meet all of the following conditions:

- a. Are held for public exhibition, education, or research in furtherance of public service rather than financial gain
- b. Are protected, kept unencumbered, cared for, and preserved
- c. Are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

12. For purposes of initial application of this Statement, entities are encouraged either to capitalize retroactively collections acquired in previous periods⁴ or to capitalize collections on a prospective basis. Capitalization of selected collections or items is precluded.

13. Contributed collection items shall be recognized as revenues or gains if collections are capitalized and shall not be recognized as revenues or gains if collections are not capitalized. An entity that does not recognize and capitalize its collections or that capitalizes collections prospectively shall disclose the additional information required by paragraphs 26 and 27.

Reporting by Not-for-Profit Organizations

14. A not-for-profit organization shall distinguish between contributions received with **permanent restrictions**, those received with **temporary restrictions**, and those received without donor-imposed restrictions. A restriction on an organization's use of the assets contributed results either from a donor's explicit stipulation or from circumstances surrounding the receipt of the contribution that make clear the donor's implicit restriction on use. Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an organization reports consistently from period to period and discloses its accounting policy. Restricted support increases **permanently restricted net assets** or **temporarily restricted net assets**.

Contributions without donor-imposed restrictions shall be reported as unrestricted support that increases **unrestricted net assets**.

15. Receipts of unconditional promises to give with payments due in future periods shall be reported as restricted support unless explicit donor stipulations or circumstances surrounding the receipt of a promise make clear that the donor intended it to be used to support activities of the current period. For example, receipts of unconditional promises to give cash in future years generally increase temporarily restricted net assets.

16. Gifts of long-lived assets received without stipulations about how long the donated asset must be used shall be reported as restricted support if it is an organization's accounting policy to imply a time restriction that expires over the useful life of the donated assets. Organizations that adopt a policy of implying time restrictions also shall imply a time restriction on long-lived assets acquired with gifts of cash or other assets restricted for those acquisitions. In the absence of that policy and other donor-imposed restrictions on use of the asset, gifts of long-lived assets shall be reported as unrestricted support. An organization shall disclose its accounting policy.

Expiration of Donor-imposed Restrictions

17. A not-for-profit organization shall recognize the expiration of a donor-imposed restriction on a contribution in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.⁵ If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue. For example, an expense does not fulfill an existing donor restriction if that expense is incurred for a purpose that is directly attributable to and reimbursed by a sponsored exchange agreement or a conditional

⁴Collections of works of art, historical treasures, and similar assets acquired in previous periods but not capitalized as assets may be retroactively capitalized at their cost or fair value at date of acquisition, current cost, or current market value, whichever is deemed most practical.

⁵If two or more temporary restrictions are imposed on a contribution, the effect of the expiration of those restrictions is recognized in the period in which the last remaining restriction has expired. Temporarily restricted net assets with time restrictions are not available to support expenses until the time restrictions have expired. Time restrictions implied on gifts of long-lived assets expire as the economic benefits of the acquired assets are used up; that is, over their estimated useful lives. In the absence of donor stipulations specifying how long donated assets must be used or an organization's policy of implying time restrictions, restrictions on long-lived assets, if any, or cash to acquire long-lived assets expire when the assets are placed in service.

award from a government agency, private foundation, or others. Pursuant to paragraph 19 of Statement 117, expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another (reclassifications) are reported separately from other transactions.

Contributions Made

18. Contributions made shall be recognized as expenses in the period made and as decreases of assets or increases of liabilities depending on the form of the benefits given. For example, gifts of items from inventory held for sale are recognized as decreases of inventory⁶ and contribution expenses, and unconditional promises to give cash are recognized as payables and contribution expenses. Contributions made shall be measured at the fair values of the assets given or, if made in the form of a settlement or cancellation of a donee's liabilities, at the fair value of the liabilities canceled.

Measurement at Fair Value

19. Contributions of services that create or enhance nonfinancial assets may be measured by referring to either the fair value of the services received or the fair value of the asset or of the asset enhancement resulting from the services. A major uncertainty about the existence of value may indicate that an item received or given should not be recognized.⁷

20. If a present value technique is used to measure the fair value of unconditional promises to give cash, subsequent accruals of the interest element shall be accounted for as contribution income by donees and contribution expense by donors. Not-for-profit organizations shall report the contribution income as an increase in either temporarily or permanently restricted net assets if the underlying promise to give is donor restricted.

21. Unconditional promises to give that are expected to be collected or paid in less than one year may be measured at net realizable value (net settlement value) because that amount, although not equivalent to the present value of estimated future cash flows, results in a reasonable estimate of fair value.

Conditional Promises to Give

22. **Conditional promises to give**, which depend on the occurrence of a specified future and uncertain event to bind 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 considered unconditional if the possibility that the condition will not be met is remote. For example, 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. A transfer of assets with a conditional promise to contribute them shall be accounted for as a refundable advance until the conditions have been substantially met.

23. Determining whether a promise is conditional or unconditional can be difficult if it contains donor stipulations that do not clearly state whether the right to receive payment or delivery of the promised assets depends on meeting those stipulations. It may be difficult to determine whether those stipulations are conditions or restrictions. In cases of ambiguous donor stipulations, a promise containing stipulations that are not clearly unconditional shall be presumed to be a conditional promise.

Disclosures of Promises to Give

24. Recipients of unconditional promises to give shall disclose the following:

- a. The amounts of promises receivable in less than one year, in one to five years, and in more than five years
- b. The amount of the allowance for uncollectible promises receivable.

25. Recipients of conditional promises to give shall disclose the following:

- a. The total of the amounts promised
- b. A description and amount for each group of promises having similar characteristics, such as

⁶If the fair value of an asset transferred differs from its carrying amount, a gain or loss should be recognized on the disposition of the asset (APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, paragraph 18).

⁷Contributed tangible property worth accepting generally possesses the common characteristic of all assets—future economic benefit or service potential. The future economic benefit or service potential of a tangible item usually can be obtained by exchanging it for cash or by using it to produce goods or services. However, if an item is accepted solely to be saved for its potential future use in scientific or educational research and has no alternative use, it may have uncertain value, or perhaps no value, and should not be recognized.

⁸[This footnote has been deleted. See Status page.]

amounts of promises conditioned on establishing new programs, completing a new building, and raising matching gifts by a specified date.

Financial Statement Presentation and Disclosure for Collections

26. An entity that does not recognize and capitalize its collections shall report the following on the face of its statement of activities, separately from revenues, expenses, gains, and losses:

- a. Costs of collection items purchased as a decrease in the appropriate class of net assets
- b. Proceeds from sale of collection items as an increase in the appropriate class of net assets
- c. Proceeds from insurance recoveries of lost or destroyed collection items as an increase in the appropriate class of net assets.

Similarly, an entity that capitalizes its collections prospectively shall report proceeds from sales and insurance recoveries of items not previously capitalized separately from revenues, expenses, gains, and losses.

27. An entity that does not recognize and capitalize its collections or that capitalizes collections prospectively shall describe its collections, including their relative significance, and its accounting and stewardship policies for collections. If collection items not capitalized are deaccessioned during the period, it also shall (a) describe the items given away, damaged, destroyed, lost, or otherwise deaccessioned during the period or (b) disclose their fair value. In addition, a line item shall be shown on the face of the statement of financial position that refers to the disclosures required by this paragraph. That line item shall be dated if collections are capitalized prospectively, for example, "Collections acquired since January 1, 1995 (Note X)."

Effective Date and Transition

28. This Statement shall be effective for financial statements issued for fiscal years beginning after De-

cember 15, 1994 and interim periods within those fiscal years, except for not-for-profit organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations, the effective date shall be for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

29. Unless this Statement is applied retroactively under the provisions of paragraph 30, the effect of initially applying this Statement shall be reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB Opinion No. 20, *Accounting Changes*, paragraph 19). The amount of the cumulative effect shall be based on a retroactive computation, except that the provisions of paragraph 17 for recognition of expirations of restrictions may be applied prospectively. A not-for-profit organization shall report the cumulative effect of a change in accounting on each class of net assets in the statement of activities between the captions "extraordinary items," if any, and "change in unrestricted net assets," "change in temporarily restricted net assets," and "change in permanently restricted net assets." A business enterprise shall report the amount of the cumulative effect in the income statement between the captions "extraordinary items" and "net income" (Opinion 20, paragraph 20).

30. This Statement may be applied retroactively by restating opening net assets for the earliest year presented or for the year this Statement is first applied if no prior years are presented. The provisions of paragraph 17 for recognition of expirations of restrictions may be applied prospectively. In the period that this Statement is first applied, a not-for-profit organization shall disclose the nature of any restatement and its effect on the change in net assets for each period presented. A business enterprise shall account for any restatement as a change in accounting principle applied retroactively (Opinion 20, paragraphs 27 and 28).

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was adopted by the affirmative votes of six members of the Financial Accounting Standards Board. Mr. Beresford dissented.

Mr. Beresford dissents from the issuance of this Statement because it requires recipients of unconditional promises to give to recognize assets and revenues in the period the promise is received. In particular, he questions whether the recognition of revenues for restricted gifts, especially for promises collectible in the distant future, results in more meaningful financial reporting. Further, Mr. Beresford believes there is too much subjectivity involved in distinguishing between promises to give and other communications of intentions to give. He suggests that, until these matters are satisfactorily resolved, improving disclosures about promises and precluding their recognition would be a better step.

Mr. Beresford is troubled by the potential for misunderstanding of financial information resulting from the requirement. Currently, most organizations that recognize promises to give also recognize deferred revenue. Organizations, particularly those that rely heavily on annual pledge drives, will report large increases in net assets if promises are recorded. He is concerned that the amounts will be regarded as surplus resources or otherwise misinterpreted by financial statement users.

It is not clear to Mr. Beresford that the distinction between a promise to give and a communication of intention to give is an appropriate basis for distinguishing an asset from a "nonasset." Both are communications that a donor will provide cash in the future for the support of the organization. The only difference may be in the percentage of the communications that ultimately results in future cash receipts, and this difference may be slight in many cases.

Mr. Beresford believes that it will be difficult to differentiate between promises and intentions in many cases. He is troubled that the subjectivity involved in making the distinction will result in an unacceptable level of inconsistency and that the motivations of some preparers of financial statements will increase that level of inconsistency. That inconsistency, when combined with the requirement to recognize revenues for unconditional promises to give, would make it difficult, if not impossible, for donors and other users of financial statements to compare different organizations' statements of activities and make informed resource allocation decisions. Therefore, Mr. Beresford would preclude recognition of promises to give to enhance comparability. He believes a period of experience with improved disclosures would allow time to resolve implementation concerns and to gain experience in using the information.

Members of the Financial Accounting Standards Board:

Dennis R. Beresford,
Chairman
Joseph V. Anania

Victor H. Brown
James J. Leisenring
Robert H. Northcutt

A. Clarence Sampson
Robert J. Swieringa

Appendix A

BACKGROUND INFORMATION

31. In March 1986, the Board added a project to its agenda to establish standards needed to resolve certain inconsistent accounting and reporting practices of not-for-profit organizations. The project has three parts: accounting for contributions, display of information in financial statements, and accounting for depreciation. The Board completed the part on depreciation in 1987 when it issued FASB Statement No. 93, *Recognition of Depreciation by Not-for-Profit Organizations*.

32. In October 1990, the Board issued an Exposure Draft of a proposed Statement, *Accounting for Con-*

tributions Received and Contributions Made and Capitalization of Works of Art, Historical Treasures, and Similar Assets. Many respondents to that Exposure Draft suggested that because the parts on accounting for contributions and on financial statement display are interrelated, it would be more productive if they were combined or more closely coordinated. The Board agreed and coordinated this Statement with Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

33. Accounting for contributions is described in the following AICPA documents:

- a. *Audits of Colleges and Universities*, 1973
- b. *Audits of Voluntary Health and Welfare Organizations*, 1974

- c. SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, 1978
- d. *Audits of Providers of Health Care Services*, 1990.

The requirements for accounting for contributions in those documents are similar in some respects. In other respects they differ from each other and from generally accepted accounting principles applicable to other entities.

34. For example, guidance for recognizing restricted contributions is inconsistent. The colleges and universities Guide and the health care services Guide suggest accounting for those contributions as direct additions to restricted fund balances (net assets). Both Guides suggest that temporarily restricted contributions be recognized as “revenues” when the restrictions are met. The health and welfare Guide suggests accounting for purpose-restricted contributions as revenues of a restricted fund and time-restricted contributions as deferred revenues. SOP 78-10 suggests accounting for current restricted contributions as liabilities until the restrictions on the gifts are met.

35. Guidance for recognizing certain other contributions also has been inconsistent. For example, page 14 of the health and welfare Guide says, “In the absence of clear evidence as to a specified program period, donations and pledges should be recorded as support when received.” However, paragraph 65 of SOP 78-10 says, “In the absence of a specified support period, . . . [legally enforceable] pledges scheduled to be received over a future period should be assumed to be support for that period and should be accounted for as deferred support in the balance sheet.” Paragraph 7.18 of the health care services Guide provides similar guidance for unrestricted pledges. The colleges and universities Guide differs significantly, since it permits but does not require recognition of a pledge as an asset or as revenue.

36. Criteria for recognition of contributed services also differ among the Guides. The health and welfare Guide requires recognition of revenue and expense under certain specified conditions and does not preclude recognition of other services received. The health care services Guide provides similar guidance. In contrast, SOP 78-10 precludes recognition of services other than those meeting conditions similar to the other Guides. The colleges and universities Guide does not provide criteria for recognition of contributed services.

37. Although generally accepted accounting principles require recognition of contributions of tangible assets at their fair value at date of receipt, SOP 78-10 permits an exception. Paragraph 114 of SOP 78-10 says the “. . . contributed value of current-period accessions . . . should be disclosed in the financial statements.” SOP 78-10 has been interpreted as allowing disclosure as an alternative to recognition of revenues in financial statements of museums, art galleries, botanical gardens, libraries, and similar entities that receive contributions of property for their “inexhaustible collections.”

38. Further, the specialized industry guidance of SOP 78-10, paragraph 113, encourages but does not require capitalization of “inexhaustible collections owned by museums, art galleries, botanical gardens, libraries, and similar entities.” The Board added this issue to the scope of this Statement as a result of responses to the Exposure Draft that led to Statement 93. In paragraph 39 of Statement 93, the Board indicated that the Statement on recognition of depreciation need not cover recognition of assets but that the Board would consider recognition of “collections,” both contributed and purchased, as part of its project on accounting for contributions. Accordingly, in addition to addressing recognition of contributions, this Statement considers accounting for works of art, historical treasures, and similar assets whether acquired by contribution or by other means.

39. The Board discussed how to resolve the inconsistencies in accounting for contributions at public Board meetings and public meetings of the FASB Task Force on Accounting Issues for Not-for-Profit Organizations. In October 1990, the Board issued its first Exposure Draft on contributions. More than 1,000 organizations and individuals provided written comments. Forty respondents presented their views at a public hearing in July 1991, and most agreed that there is a need to establish consistent standards for accounting for contributions.

40. The Board reconsidered the proposals in that Exposure Draft at public meetings of the Board and of the task force. The major changes resulting from the Board’s redeliberations were:

- a. Works of art, historical treasures, and similar items need not be capitalized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain. Disclosures about collections that are not capitalized are required.

- b. Criteria for recognition of contributed services were made more restrictive, and recognition of contributed services that do not meet the revised criteria is precluded rather than encouraged.
- c. Provisions for recognizing expirations of donor-imposed restrictions may be applied prospectively
- d. Disclosures about receipts of promises to give are required.

financial statements of not-for-profit organizations; however, participants also were encouraged to comment on the revised proposals for contributions. Most participants commented on provisions in both Exposure Drafts.

41. In November 1992, the Board issued a revised Exposure Draft, *Accounting for Contributions Received and Contributions Made*, which incorporated the above changes and certain other revisions. The Board received more than 280 comment letters on that revised Exposure Draft. In October 1992, the Board also issued a related Exposure Draft, *Financial Statements of Not-for-Profit Organizations*. Twenty-four organizations and individuals presented their views at a 2-day public hearing held in February 1993. That hearing was held to obtain additional information from participants about the proposals for

42. Twenty organizations also participated in a field test of the proposed Statements on financial statements and on accounting for contributions. Those organizations shared their recasted financial statements with 39 users of financial statements who also participated in the field test. The field test results, the details of which are confidential at the request of some participants, and the written comments and public hearing testimony of respondents to both proposed Statements were considered by the Board during its deliberations of the issues addressed by this Statement. The major issues and concerns raised by respondents and field test participants and the basis for the Board's conclusions on those issues and concerns are discussed in Appendix B.

Appendix B

BASIS FOR CONCLUSIONS

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Appendix B

Benefits and Costs

BASIS FOR CONCLUSIONS

Introduction

43. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain views and rejecting others. Individual Board members gave greater weight to some factors than to others.

Objectives

44. To accomplish its mission, the FASB strives to improve the usefulness of financial reporting by focusing on the primary characteristics of relevance and reliability and on the qualities of comparability and consistency. The usefulness of information about an entity increases if that information can be compared with similar information about other entities or about the same entity in other periods. To the extent that similar contributions are subject to the same requirements for recognition and disclosure, financial reporting will be improved. In return for some sacrifice of freedom of choice, adherence to externally imposed standards brings a gain from greater comparability and consistency and also a gain in credibility (FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, paragraph 16).

45. A major benefit of this Statement is the increased comparability, consistency, and credibility of financial reporting that will result from eliminating some of the inconsistencies in current guidance (Appendix A). The Board believes that financial reporting of not-for-profit organizations will significantly improve by consistently recognizing (a) restricted contributions as revenues, (b) unconditional promises to give as assets and revenues or as liabilities and expenses, and (c) certain contributed services. Increased disclosure of information about receipts of contributed services and conditional promises to give and about collections also will improve financial reporting.

46. The Board believes that consistent standards for recognizing contributions are needed. However, the value of the incremental improvement to financial reporting is impossible to quantify. Because there is no common gauge by which to judge objectively the costs to implement a standard against the need to improve information in financial statements, the Board's assessment of the costs and benefits is unavoidably subjective. Moreover, because the costs to implement a new standard are not borne directly by those who derive the benefits of the improved reporting, the Board must balance the diverse and often conflicting needs of preparers, investors, donors, creditors, and others who use financial statements.

47. The Board believes that the incremental costs of the requirements of this Statement have been reduced

in various ways: by not requiring contributions of works of art, historical treasures, and similar items to be capitalized if they are held in collections as defined; by restricting the criteria for recognition of contributed services; by allowing prospective application of provisions for expirations of restrictions; by extending the effective date of this Statement; and by allowing an additional one-year extension for small not-for-profit organizations. Reducing some of the incremental costs of the requirements of this Statement in those ways may reduce some of the benefits and possibly increase other costs. For example, allowing alternatives to capitalization of collections may increase the costs incurred by users of financial statements as they evaluate differing information about those items. The Board concluded that the overall benefits of the information provided by applying this Statement justify the costs of complying with these standards.

**Distinguishing Contributions from
Other Transactions**

48. The Board focused on three characteristics that help distinguish contributions from other transactions—contributions (a) are nonreciprocal transfers, (b) are transfers to or from entities acting other than as owners, and (c) are made or received voluntarily. Those characteristics distinguish contributions from exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximately equal value; from investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners; and from other nonreciprocal transfers, such as impositions of taxes or fines and thefts, which are not voluntary transfers.

***Distinguishing Contributions from
Exchange Transactions***

49. Because some exchange transactions may appear to be much like contributions, a careful assessment of the characteristics of the transaction is required to determine whether the recipient of a transfer of assets has given up an asset or incurred a liability of commensurate value. The Board believes that assessing the characteristics of transactions from the perspectives of both the resource provider and the recipient is necessary to determine whether a contribution has occurred.

50. For example, a resource provider may sponsor research and development activities at a research university and retain proprietary rights or other privi-

leges, such as patents, copyrights, or advance and exclusive knowledge of the research outcomes. The research outcomes may be intangible, uncertain, or difficult to measure, and may be perceived by the university as a sacrifice of little or no value; however, their value often is commensurate with the value that a resource provider expects in exchange. Similarly, a resource provider may sponsor research and development activities and specify the protocol of the testing so the research outcomes are particularly valuable to the resource provider. Those transactions are not contributions if their potential public benefits are secondary to the potential proprietary benefits to the resource providers.

51. Moreover, a single transaction may be in part an exchange and in part a contribution. For example, if a donor transfers a building to an entity at a price significantly lower than its market value and no unstated rights or privileges are involved, the transaction is in part an exchange of assets and in part a contribution to be accounted for as required by this Statement.

***Distinguishing Contributions from Agency and
Similar Transactions***

52. A transfer of assets also may appear to be a contribution when a donor uses an intermediary organization as its agent or trustee to transfer assets to a third-party donee, particularly if the agent indirectly achieves its mission by disbursing the assets. Although the transaction between the donor and the donee may be a contribution, the transfer of assets from the donor is not a contribution received by the agent, and the transfer of assets to the donee is not a contribution made by the agent.

53. The recipient of assets who is an agent or trustee has little or no discretion in determining how the assets transferred will be used. For example, if a recipient receives cash that it must disburse to *any* who meet guidelines specified by a resource provider or return the cash, those receipts may be deposits held by the recipient as an agent rather than contributions received as a donee. Similarly, if a recipient receives cash that it must disburse to individuals identified by the resource provider or return the cash, neither the receipt nor the disbursement is a contribution for the agent, trustee, or intermediary.

54. In contrast, if the resource provider allows the recipient to establish, define, and carry out the programs that disburse the cash, products, or services to the recipient's beneficiaries, the recipient generally is involved in receiving and making contributions.

Exclusion of Certain Transactions

55. Some respondents to the 1990 Exposure Draft asked whether the scope of this Statement was intended to include accounting for certain transfers that might be considered both voluntary and nonreciprocal, such as tax incentives, tax abatements, and transfers of land, buildings, or other assets by governments to entice businesses to their communities. The Board concluded that those transactions present specific complexities that may need special study and therefore excluded them from the scope of this Statement.

56. Some respondents to the 1992 Exposure Draft asked the Board to exclude all governmental transfers. Many colleges and universities, in particular, said determining whether specific grants, appropriations, loan guarantees, and similar governmental transfers are exchange transactions or are voluntary and nonreciprocal transfers—contributions—is difficult and often arbitrary. Some asserted that governmental transfers are never voluntary contributions. They suggested that all governmental transfers be reported as a separate category of revenue and be excluded from the scope of this Statement to allow their industry associations or the AICPA to provide industry-specific guidance. The Board believes that whether a grant is from a government agency, private foundation, or corporation, the difficulties in determining whether a transfer is an exchange transaction or a contribution are substantially the same. The Board acknowledges that to apply the provisions of this Statement requires a careful assessment of the characteristics of the transfers as discussed in paragraphs 48-54; however, it concluded that excluding all governmental transfers is neither necessary nor desirable because that would further delay improvements to practice.

Distinguishing Donor-imposed Restrictions from Conditions

57. This Statement distinguishes between unrestricted gifts, restricted gifts, and transfers of cash or other assets with conditions, which are similar to conditional promises to give. A donor-imposed restriction limits the use of donated assets; however, a condition creates a barrier that must be overcome before assets transferred or promised become contributions received or made. The distinction between a restriction and a condition, although clear in concept, sometimes is obscure in practice.

58. The Board concluded that a donor-imposed restriction, which limits or directs the use of donated assets, is not fundamentally different from an explicit or implied stipulation that donated assets be used to support an organization's broad charitable, educational, religious, or similar purposes. Both are expressions or directives that the donated assets be used to support an organization's activities, and both are gifts that increase the organization's capacity to provide services. A donor's directive may be more prescriptive; for example, that donated assets be used to support a particular program service, to support the acquisition of long-lived assets, or to create a permanent endowment or term-endowment fund. That prescription, however, does not change the fundamental and underlying event—the voluntary nonreciprocal transfer of economic benefits from a donor to a donee.

59. The Board also concluded that although an unrestricted gift and a restricted gift are similar events, information about the nature and extent of donor-imposed restrictions is relevant to users of financial statements (paragraphs 145-148). A donor-imposed restriction imposes special responsibilities on the management of an organization to ensure that it uses donated assets as stipulated. The limits imposed by those restrictions may impinge upon an organization's performance and its ability to provide a satisfactory level of services.

60. The Board concluded that a transfer of cash or other assets with a stipulation that the assets be returned if a specified future and uncertain event occurs or fails to occur is fundamentally different from both an unrestricted gift and a restricted gift. Imposing a condition creates a barrier that must be overcome before the recipient of the transferred assets has an unconditional right to retain those promised assets. For example, a transfer of cash with a promise to contribute that cash if a like amount of new gifts are raised from others within 30 days and a provision that the cash be returned if the gifts are not raised imposes a condition on which a promised gift depends.

61. By imposing a condition, the transferor of assets not only retains a right of return of the transferred assets, but also casts doubt on whether the intent of the transfer was to make a gift, to conditionally promise a gift, or, at the extreme, not to make a gift. Because donors impose very different kinds of conditions, the likelihood of meeting a condition can range from probable to remote. The Board concluded that if a transferor imposes a condition, a reasonable possibility exists that the condition will not occur and the

transferred assets will be returned and, thus, should be accounted for as a refundable advance.

62. Some respondents to the 1992 Exposure Draft, particularly foundations, said this Statement should make clear whether imposing administrative requirements, such as requiring routine annual reporting as a “condition” of a multiyear grant, would preclude recognition of an otherwise unconditional promise to give. Some also expressed concern that donors and donees may avoid recognition of unconditional promises to give by adding *trivial* conditions or requesting that they be added. Paragraph 22 clarifies that a promise to give is considered unconditional if the possibility that the condition will not be met is remote. Conditions on transfers of assets as described in this Statement are similar to those described in federal income tax laws and regulations. Title 26 of the Code of Federal Regulations says that if “a transfer for charitable purposes is dependent upon the performance of some act or the happening of a precedent event in order that it might become effective, no deduction is allowable unless the possibility that the charitable transfer will not become effective is so remote as to be negligible” (26 CFR Sec. 1.170A-1(e)).

63. Private foundations, governmental agencies, and some business enterprises transfer cash or other assets with both donor-imposed restrictions and stipulations that impose a condition on which a gift depends. Certain not-for-profit organizations use fund accounting and reporting methods that emphasize accountability for all funds received but may not distinguish between transfers of cash received with donor-imposed restrictions and those with conditions. This Statement, however, makes that distinction and provides that when a restriction and a condition exist, the transfer be accounted for as a refundable advance until the condition on which it depends is substantially met.

64. Some respondents to the 1990 and 1992 Exposure Drafts said that the distinction between a donor-imposed restriction and a condition is not significant. Many of those respondents said because donated assets received with a restriction would be returned if a restriction was not met, those transfers also should be accounted for as refundable advances (liabilities) until the restrictions are met. Others said that transfers of assets with restrictions are similar to advance payments for services to be rendered and should be accounted for as “deferred revenues” (liabilities). A few respondents that would not distinguish between restrictions and conditions said that transfers of assets with donor-imposed restrictions or conditions should

be accounted for as refundable advances but that both should be recognized as contributions received when it becomes *probable* that the restrictions or conditions will be met.

65. Failures to comply with donors’ restrictions, although rare, do occur, sometimes as a result of events occurring subsequent to receiving a contribution. The Board continues to believe that a presumption that an organization will use donated assets in accordance with the limitations specified is inherent in the acceptance of a contribution. Donors and donees both expect donors’ directives will be carried out.

66. The Board concluded that to require ongoing assessments of the probability of meeting a restriction in order to determine when to recognize a restricted gift is neither necessary nor practical. FASB Statement No. 5, *Accounting for Contingencies*, applies if a subsequent event raises the possibility that an organization may not satisfy a restriction. Paragraph 8 of Statement 5 requires that an estimated loss be recognized if information available prior to issuance of the financial statements indicates that it is probable an asset had been impaired or a liability had been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

67. The Board believes that a gift of cash or other assets given to increase an organization’s ability to carry out its charitable purposes differs significantly from an advance payment for services to be rendered in exchange. A donor’s restriction may emphasize specific program services that the donor wishes to support; however, designating that donated assets be used to support services provided to an organization’s beneficiaries, although viewed as “deferred revenues” by some respondents to the Exposure Drafts, is not the equivalent of an advance payment in exchange for services to be received. FASB Concepts Statement No. 6, *Elements of Financial Statements*, states that a restricted contribution involves a fiduciary responsibility, not an obligation:

The essence of a not-for-profit organization is that it obtains and uses resources to provide specific types of goods or services, and the nature of those goods or services is often critical in donors’ decisions to contribute cash or other assets to a particular organization. Most donors contribute assets (restricted as well as unrestricted) to an organization to increase its capacity to provide those goods or services, and receipt of

donated assets not only increases the assets of the organization but also imposes a fiduciary responsibility on its management to use those assets effectively and efficiently in pursuit of those service objectives.

That responsibility pertains to all of the organization's assets and does not constitute an equitable or constructive obligation . . . In other words, a not-for-profit organization's fiduciary responsibility to use assets to provide services to beneficiaries does not itself create a duty of the organization to pay cash, transfer other assets, or provide services to one or more creditors. Rather, an obligation to a creditor results when the organization buys supplies for a project, its employees work on it, and the like, and the organization therefore owes suppliers, employees, and others for goods and services they have provided to it.

A donor's restriction focuses that fiduciary responsibility on a stipulated use for specified contributed assets but does not change the basic nature of the organization's fiduciary responsibility to use its assets to provide services to beneficiaries. A donor's gift . . . imposes a responsibility to spend the cash or use the asset in accordance with the donor's instructions. In its effect on the liabilities of the organization, a donor's restriction is essentially the same as management's designating a specified use for certain assets. That is, the responsibility imposed by earmarking assets for specified uses is fundamentally different, both economically and legally, from the responsibility imposed by incurring a liability, which involves a creditor's claim. [Paragraphs 56-58, footnote reference omitted.]

68. The Board concluded that the distinction between donor-imposed restrictions and conditions is relevant to users of financial statements. The Board reaffirmed its conclusion that donor-imposed restrictions place limits on the use of contributed resources, but those limits do not create liabilities. To treat all restricted contributions as liabilities merely because a few may be returned would overstate an organization's liabilities. The Board also concluded that conditions cast significant doubts that assets will be retained, and those doubts are a cause for delaying recognition of a gift (paragraphs 75-81). The Board believes that consistent application of this distinction will result in a significant improvement over the current inconsistent accounting practices for restricted

gifts and transfers of assets with conditional promises to contribute them.

Ambiguous Donor Stipulations

69. The distinction between a condition and a restriction, although clear in concept, may not be clear in practice because of ambiguous donor stipulations. For example, a restricted contribution may appear to also be conditional if it contains stipulations that do not clearly state whether the right to retain assets transferred or to receive the promised assets is dependent on fulfilling the stipulation.

70. To minimize implementation problems, the Board concluded that a presumption is necessary when ambiguous donor stipulations cannot be resolved by a review of facts and circumstances surrounding the gift or communications with the donor. Paragraph 23 of this Statement provides that a promise that contains stipulations that are not clearly unconditional shall be presumed to be a conditional promise. A few respondents to the 1992 Exposure Draft requested further clarification for promises to give services. The Board believes promises to give services generally involve personal services that, if not explicitly conditional, are often implicitly conditioned upon the future and uncertain availability of specific individuals whose services have been promised. The Board also clarified that organizations may not recognize the receipt of an unconditional promise to give services of the kind that do not meet the criteria in paragraph 9.

71. Absence of a specified time for transfer of cash or other assets, by itself, does not necessarily lead to a determination that a promise to give is ambiguous. If the parties fail to express the time or place of performance and performance is unconditional, performance within a reasonable time after making a promise is an appropriate expectation; similarly, if a promise is conditional, performance within a reasonable time after fulfilling the condition is an appropriate expectation. The Board concluded that promises to give that are silent about payment terms but otherwise are clearly unconditional should be accounted for as unconditional promises to give.

Recognition, Measurement, and Disclosure of Contributions

72. Some not-for-profit organizations have disclosed information about certain noncash contributions and unconditional promises to give in notes to financial

statements but have not recognized those gifts as revenues. The Board believes that nonrecognition or delayed recognition generally omits relevant information about an entity's economic resources and obligations and about its activities during a period, making financial statements unnecessarily incomplete. The Board concluded that disclosures about contributions are not a satisfactory substitute for financial statement recognition.

Criteria for Recognition

73. The Board considered when contributions should be recognized. Paragraph 63 of FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, states that an item should be recognized in financial statements when four fundamental criteria are met:

Definitions—The item meets the definition of an element of financial statements.

Measurability—It has a relevant attribute measurable with sufficient reliability.

Relevance—The information about it is capable of making a difference in user decisions.

Reliability—The information is representationally faithful, verifiable, and neutral.

All four criteria are subject to a pervasive cost-benefit constraint. To be useful and worth providing, the expected benefits of information should justify the perceived costs of providing and using it.

74. Difficulty in measuring reliably and uncertainty of realization are sometimes cited as reasons for not recognizing certain contributions received. It is sometimes suggested that accounting and financial reporting should reflect "conservatism" whenever uncertainties exist. Those arguments suggest that if significant doubt exists about whether to recognize an item, financial reporting should err on the side of understating assets or overstating liabilities. However, accounting procedures that deliberately err in the direction of understatement of net assets introduce a bias into financial reporting. Deliberate bias conflicts with representational faithfulness, neutrality, and comparability. Thus, the doctrine of conservatism cannot be used to justify deferring recognition of revenues or gains beyond the time that adequate evidence of their existence becomes available, or to justify recognizing expenses or losses before adequate evidence that they have been incurred becomes available.

Effects of Conditions on Timing of Recognition

75. In certain circumstances, uncertainties may be so significant that recognition of an asset or liability must be delayed until there is adequate evidence that it exists, has value, and can be reliably measured. If an asset or liability is recognized before uncertainty is sufficiently resolved, the resulting information may be unreliable. Paragraph 76 of Concepts Statement 5 states:

Reliability may affect the timing of recognition. The first available information about an event that may have resulted in an asset, liability, or change therein is sometimes too uncertain to be recognized: it may not yet be clear whether the effects of the event meet one or more of the definitions or whether they are measurable, and the cost of resolving those uncertainties may be excessive. Information about some items that meet a definition may never become sufficiently reliable at a justifiable cost to recognize the item. For other items, those uncertainties are reduced as time passes, and reliability is increased as additional information becomes available.

76. Uncertainty is inherent in a transfer of assets with a conditional promise to contribute those assets. Until the specified condition occurs, it is uncertain whether the transfer will become a right to retain those assets or an obligation to relinquish them. Several factors affect whether a condition will be met. They include whether the condition of the promise is an event outside the organization's control and whether work necessary to meet the condition requires additional funding from other sources. These factors make it difficult to determine reliably when, if at all, the conditional promise will become a right giving the promisee sufficient control of the promised asset and a duty making the promisor unable to avoid future sacrifice.

77. Uncertainties about meeting a condition typically diminish over time. Makers of conditional promises generally can avoid a future sacrifice of assets if they provide promisees with timely notification of the cancellation of their conditional promise. However, as time passes that ability diminishes. Case law and public policy suggest that once a promisee has begun efforts in reliance on a conditional promise, both parties should be held to their promises. Promisors generally are not allowed to escape their promises until and unless a reasonable period of time

has elapsed for the promisee to meet the condition, and promisees generally are held to their part of the agreement, which includes meeting the condition. However, until the specified future and uncertain event that is the subject of the condition occurs or fails to occur, a promisee does not have an unconditional right to retain the assets transferred or to demand payment.

78. Some respondents to the 1990 and 1992 Exposure Drafts said delaying recognition until a conditional right becomes unconditional defers recognition of conditional transfers of assets and conditional promises to give beyond the time that adequate evidence of the existence of the asset is available. They said that evidence of a probable future economic benefit is sufficient to recognize an asset. Some said that at a minimum, recognition of an asset on a percentage-of-completion basis should be allowed.

79. The Board believes that until the condition is substantially met, there is insufficient basis to make a presumption about the expected outcome. Doubt remains about whether all or none of the promised assets will be realized. Presently, there are no cost-effective techniques to measure with sufficient reliability the value of a conditional right to receive a promised gift or a conditional obligation to deliver a promised gift. The Board concluded that substantially meeting the condition is the underlying event resulting in a contribution to the promisee from the promisor and until that event occurs a contribution should not be recognized, regardless of whether the promisor has already transferred the assets or has promised to transfer the assets in the future.

80. The Board noted, however, that certain promises become unconditional in stages because they are dependent on several or a series of conditions—milestones—rather than on a single future and uncertain event and are recognized in increments as each of the conditions is met. Similarly, other promises are conditioned on promisees' incurring certain qualifying expenses (or costs). Those promises become unconditional and are recognized to the extent that the expenses are incurred. The accounting for that type of conditional promise results in recognition of assets and revenues as allowable costs are incurred, which resembles contractor accounting for government cost plus fixed fee arrangements where the contractor's

right to partial payment becomes unconditional in advance of delivery of a finished product.

81. The Board considered whether a waiver of a condition is implicit in a promisor's decision to transfer assets after a conditional promise was made but before the condition is substantially met. It concluded that a change in the original conditions of the agreement between promisor and promisee should not be implied without an explicit waiver. A transfer of assets after a conditional promise to give is made and before the conditions are met is the same as a transfer of assets with a conditional promise to contribute those assets. By imposing a condition, a promisor retains its right of return of its assets if the condition is not met. It is reasonable to believe that by imposing a condition rather than promising unconditionally, a promisor has evidenced a strong and continuing interest in seeing that the specified condition occurs.

Basic Conclusions about Recognition and Measurement

82. Information about contributions of assets generally is relevant and should be recognized in financial statements. To be recognized in financial statements an item also must have a relevant attribute that is measurable with reasonable reliability and information about it must be representationally faithful, verifiable, and neutral.

83. The Board concluded that the fair value of the asset transferred, liability incurred, or liability canceled or settled is the relevant attribute for measuring contributions received or made. That conclusion reaffirms the conclusion reached in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and the relevant AICPA Guides and SOP 78-10.⁹ Specifically, Opinion 29 provides that

... a nonmonetary asset received in a non-reciprocal transfer should be recorded at the fair value of the asset received. A transfer of a nonmonetary asset . . . in a nonreciprocal transfer should be recorded at the fair value of the asset transferred, and a gain or loss should be recognized on the disposition of the asset.
[paragraph 18]

The Board also concluded that contributions generally are measurable with sufficient reliability. Contributions of monetary assets generally do not cause

⁹The AICPA's health care services Guide, paragraph 2.07, the colleges and universities Guide, page 48, the health and welfare Guide, page 20, and SOP 78-10, paragraph 71, generally specify that gifts of nonmonetary assets received should be measured at the fair value of the item received at the date of gift.

measurability problems, and although contributions of nonmonetary assets may present difficulties, they generally are measurable by both donors and donees.

84. However, a major uncertainty about the existence of value may indicate that a specific item received or given should not be recognized. If an item is accepted solely for a potential educational value or historical significance and has no alternative use, it may have uncertain value, or no value, and should not be recognized. For example, contributions of flora, fauna, photographs, and objects that are identified with historic persons, places, or events often have no value or have highly restricted alternative uses. The benefits of information about items, received or given, that may not have values are negligible.

85. Based on its considerations about the relevance of information about contributions and the measurability of contributed assets, the Board reached the following basic conclusions:

- a. A contribution made and a corresponding contribution received should be recognized by both the donor and the donee at the same time, that is, upon occurrence of the underlying event—the nonreciprocal transfer of an economic benefit.
- b. Donor-imposed restrictions place limits on the use of contributed resources and may affect an entity's performance and its ability to provide services. However, limitations on the use of donated resources do not change the fundamental nature of the contribution transaction or conclusions about when to recognize the underlying event.
- c. Certain forms of contributed resources may be more difficult to measure reliably than others, but the form of the contributed resources alone should not change conclusions about whether to recognize the underlying event.

86. The Board considered whether those basic conclusions about recognition and measurement should be applied to all contributions received or whether certain exceptions permitted by the Guides and SOP 78-10 should continue. The Board specifically considered the recognition of promises to give, contributed services, and contributed works of art, historical treasures, and similar assets.

Promises to Give

87. This Statement defines the term *promise to give* using the common meaning of the word promise—a

written or oral agreement to do (or not to do) something. A promise to give is a written or oral agreement to contribute cash or other assets to another entity. A promise carries rights and obligations—the recipient of a promise to give has a right to expect that the promised assets will be transferred in the future, and the maker has a social and moral obligation, and generally a legal obligation, to make the promised transfer.

88. Other sources have used other terms to describe promises to give. For example, legal treatises often use the term *subscription*, as in *charitable subscription*, as does the colleges and universities Guide. A similar promise made by corporate and governmental entities has sometimes been described as a *grant agreement*, *grant award*, or *sponsored agreement*; however, those terms have also been used for exchange contracts.

89. The 1990 Exposure Draft used the term *pledge* to describe a promise to give, as do the health care services and health and welfare Guides and SOP 78-10. However, some respondents to that Exposure Draft said that they use that term to describe promises as well as other indications of intentions to give that are not promises. Although the Board continues to believe that most pledges are promises to give, this Statement avoids use of the term *pledge* because it may be misinterpreted.

90. Paragraph 6 of this Statement provides additional guidance to minimize implementation concerns raised by respondents to the Exposure Drafts. First, it clarifies that sufficient evidence in the form of verifiable documentation must exist to recognize a promise to give. That clarification is intended to mitigate concerns that accounting results may be manipulated by recognizing potentially nonexistent assets; however, it does not preclude recognition of verifiable oral promises, such as those documented by tape recordings, written registers, or other means that permit subsequent verification. This Statement also clarifies that a written or oral communication that does not indicate clearly whether it is a promise is considered an unconditional promise to give if it indicates an unconditional intention to give that is legally enforceable. The Board decided that presumption is necessary to resolve ambiguities that cannot otherwise be resolved by a review of the facts and circumstances or by communications with the other party. The Board believes that in those circumstances it is reasonable to assume that a communication is a promise if it is legally enforceable.

91. The Board concluded that promises to give should be recognized on a basis consistent with recognition of other contributions. The making or receiving of an unconditional promise to give is an event that meets the fundamental recognition criteria. Accordingly, this Statement requires the promisee to recognize the promise as an asset and a contribution revenue or gain and the promisor to recognize the promise as a liability and a contribution expense. A conditional promise to give, like a transfer of assets with a conditional promise to contribute them, is recognized as a contribution at the time the condition is substantially met.

Meeting the definition of an asset or a liability

92. The Board concluded that an unconditional promise to give meets the definition of an asset when received and the definition of a liability when made. Concepts Statement 6 says that “assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events” and “liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events” (paragraphs 25 and 35, footnote references omitted). Concepts Statement 6 discusses the three essential characteristics of assets and liabilities.

93. The first essential characteristic of an asset is that “it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows” (Concepts Statement 6, paragraph 26). Similarly, the first essential characteristic of a liability is that “it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand” (Concepts Statement 6, paragraph 36).

94. A promise by one entity to make a nonreciprocal transfer of assets to another entity in the future has the first essential characteristic of an asset and of a liability. That promise reflects a clear duty or requirement of the promisor to transfer promised assets in the future at a specified or determinable date or, if conditional, upon occurrence of a specified event.

95. In addition, an unconditional promise clearly is a precursor of a probable future benefit to the promisee. Inherent in that promise to give is a reasonable expectation that the promisor will deliver and the promisee will receive, and evidence suggests that promises to give generally are kept. A conditional pledge, which involves future and uncertain events, raises significant uncertainties about obtaining the economic benefits promised.

96. The second essential characteristic of an asset is that “a particular entity can obtain the benefit and control others’ access to it”; the second essential characteristic of a liability is that “the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice” (Concepts Statement 6, paragraphs 26 and 36).

97. The Board believes that because of social and moral sanctions promisors commonly feel bound by their unconditional promises, regardless of their legal status. Paragraph 40 of Concepts Statement 6 states:

... although most liabilities stem from legally enforceable obligations, some liabilities rest on equitable or constructive obligations. . . . Liabilities stemming from equitable or constructive obligations are commonly paid in the same way as legally binding contracts, but they lack the legal sanction that characterizes most liabilities and may be binding primarily because of social or moral sanctions or custom. An equitable obligation stems from ethical or moral constraints rather than from rules of common or statute law, that is, from a duty to another entity to do that which an ordinary conscience and sense of justice would deem fair, just, and right—to do what one ought to do rather than what one is legally required to do.

The equitable obligation that results from making a promise gives the promisee the ability to obtain the future benefit of the promised assets regardless of the legal status of the promise.

98. The availability of legal remedies provides another means of obtaining control over the promised assets, even if those legal remedies are seldom exercised. The Board consulted lawyers and reviewed the

research of others¹⁰ about the legal enforceability of promises to give. It understands that charitable promises generally have been enforced in this country, with the courts often applying the principles of contract law. Promises are universally enforced if some consideration exists; some courts go far in their efforts to discover consideration sufficient to support a promise to give. Other courts, to make a promise enforceable, adopt the doctrine of promissory estoppel as the equivalent of consideration; that is, the promisor is estopped from raising the defense of lack of consideration if the promisor makes a promise that should reasonably be expected to induce action or forbearance of a substantial character on the part of a promisee. Still other courts will uphold a promise to give as valid and enforceable as a matter of public policy.

99. The Board concluded that unconditional promises result in equitable or legal obligations; conditional promises may not. Promisors may not feel bound by their conditional promises until the promisee begins meeting the condition or until the condition has been met.

100. The third essential characteristic of an asset is that “the transaction or other event giving rise to the entity’s right to or control of the benefit has already occurred”; the third essential characteristic of a liability is that “the transaction or other event obligating the entity has already happened” (Concepts Statement 6, paragraphs 26 and 36). For unconditional promises, the Board concluded that the transaction or other event—the promise—giving rise to the entity’s right to the benefit has already occurred. For conditional promises, the Board concluded that the event that should result in recognition is substantially meeting the condition.

Measurability, relevance, and reliability

101. The Board concluded that unconditional promises to give also meet the criteria of measurability, relevance, and reliability. The Board concluded that promises to give generally are measurable with sufficient reliability and, consistent with measuring contributions received at their fair value at date of gift,

those receivables and payables should be measured at their fair value at the date the promise is received.

102. The Board concluded that information about promises to give, whether received or made, is relevant. Donors, creditors, and other users are interested in information about probable future transfers of cash or other economic resources. That information is useful in assessing an entity’s financial position and ability to generate public support and continue to operate. If the promisor is a not-for-profit organization whose primary purpose is to make contributions to others in the furtherance of its own mission, information about promises made is helpful in assessing the organization’s performance. Thus, information about promises to give meets the test of relevance since it is “capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct expectations” (Concepts Statement 2, paragraph 47).

Respondents’ comments about recognition of promises to give

103. Most respondents to the 1990 Exposure Draft, including users of financial statements, said that not-for-profit organizations should not be required to recognize promises to give. Some of those respondents suggested that the Board establish standards to improve the disclosures of information about receipts of promises to give (pledges) and permit rather than require recognition of those promises as assets in financial statements.

104. The Board concluded that to permit rather than require recognition of unconditional promises to give would not improve existing practice. Since the 1970s, the Guides have required recognition of pledges by hospitals, voluntary health and welfare organizations, and most organizations other than colleges and universities. In 1979, the FASB designated that guidance as the preferred specialized industry practices for organizations considering a change in their accounting practice. The Board is aware that

¹⁰M. F. Budig, G. T. Butler, and L. M. Murphy, *Pledges to Non-Profit Organizations: Are They Enforceable and Must They Be Enforced?* New York University. In press.

large numbers of colleges and universities and religious organizations do not recognize pledges receivable as assets although most maintain records of their pledges.¹¹ The Board believes that to permit, rather than require, recognition of pledges receivable would not further comparability between organizations and thus would not improve practice. The Board also concluded that disclosures that provide relevant information about an organization's future cash flows would be a useful improvement to practice and the 1992 Exposure Draft proposed that all organizations that receive promises to give provide the information required by paragraphs 24 and 25 of this Statement. Considerably fewer comments were received on the 1992 Exposure Draft; however, most of those respondents also disagreed with this Statement's required recognition of unconditional promises.

105. The Board also considered whether, as a few respondents suggested, it should preclude recognition of unconditional promises to give. The Board concluded that precluding recognition of unconditional promises to give would not faithfully represent an entity's assets or liabilities at the end of a period or its revenues or expenses during a period. That omission of relevant information about an entity's assets or liabilities and its revenues or expenses would make financial statements of all organizations unnecessarily incomplete. Furthermore, precluding recognition of unconditional promises to give would not improve comparability; rather, that would make unlike circumstances appear the same.

106. Some respondents said that promises to give that are binding primarily because of social and moral sanctions are indistinguishable from statements of intent to give and that making a distinction between the two will result in similar transactions being accounted for differently. Most would not recognize promises or statements of intent; a few would recognize both. Because social and moral sanctions obligate a promisor, the Board concluded that if a communication of intention to give is in substance a promise, it should be recognized. The Board does not intend, however, that entities recognize communications that clearly are not promises.

107. Several other respondents to the 1990 Exposure Draft said that only legally enforceable promises to give should be recognized. Many of those respondents contended that promises to give generally are not legally enforceable. The 1992 Exposure Draft noted that research examined by the Board indicates that most courts enforce promises to give, although in a few states promises are not enforceable except under the doctrine of promissory estoppel. The Board considered whether *only* legally enforceable promises to give should be recognized, and concluded that doing so would result in recognizing transactions with the same economic substance differently because of the differences in states' laws.

108. Many of the respondents to the 1990 Exposure Draft said that unconditional promises to give are not assets because donees would not use legal remedies to enforce a promise. They said that legal remedies are inconsistent with the nature of a contribution or that enforcement would jeopardize future fund raising. The Board acknowledges that legal remedies are often impractical; however, legal remedies seldom are necessary because promises generally are kept. Further, it is the *availability* of legal remedies, rather than the intent to use them, that provides an entity with an additional means of obtaining the future benefit. Although few respondents to the 1992 Exposure Draft asserted that unconditional promises are not assets, many respondents continued to recommend limiting recognition to only legally enforceable promises.

109. A few respondents to the 1990 and 1992 Exposure Drafts said an unconditional promise to give is similar to a purchase order. They said that both are legally enforceable and are indications of future cash flows. They suggested that, like purchase orders, promises to give should not be recognized before they are partially executed. The critical difference is that a promise to give is a nonreciprocal transfer, while a purchase order is part of an exchange transaction. To a seller, a purchase order involves a right to receive cash and an obligation to deliver goods or services in the future in approximately offsetting amounts. An unconditional promise to give involves

¹¹A 1985 survey and review of college and university annual reports found that of the 344 private institutions reviewed, only 10 percent recognized pledges receivable as assets in their balance sheet, 37 percent disclosed information about their pledges in notes to their financial statements, and more than 50 percent did neither, possibly because the pledges were not material (*Principles & Presentation: Higher Education*, [New York, Peat, Marwick, Mitchell & Co.: 1985], 39). A September 1987 survey conducted by the FASB staff had similar findings for colleges and universities and for religious organizations (9 percent and 18 percent, respectively, recognizing unrestricted pledges as assets) but noted that most (67 percent) hospitals recognized their unrestricted pledges and almost all organizations (more than 94 percent) maintained records of their pledges (Adams, Bossio, and Rohan, FASB Special Report, *Accounting for Contributed Services: Survey of Preparers and Users of Financial Statements of Not-for-Profit Organizations*, 52).

a right to receive assets without an obligation to deliver assets or services.

110. Some respondents to the 1990 Exposure Draft contended that complying with recognition requirements for promises to give would hinder fund-raising efforts. This was the most frequently cited concern of respondents to the 1992 Exposure Draft. Some said recognition of unconditional promises to give would make entities appear to have excess spendable funds and, thus, have a reduced need for contributions. Others said that documenting information so that promises to give can be distinguished from other communications would damage trusting relationships between an entity and its donors. Still others asserted that requiring donors to recognize multiyear unconditional promises would discourage that kind of long-term giving. The extent of those consequences is highly uncertain. The Board concluded that donors and other users need information about promises to give to make informed decisions about allocation of resources to not-for-profit organizations and the information must report promises as faithfully as possible without coloring the image it communicates for the purpose of influencing behavior in any particular direction.

Measurement of unconditional promises to give

111. The Board considered whether, as suggested by respondents to the 1990 Exposure Draft, it should provide further guidance on measuring the fair value of unconditional promises to give. The 1990 Exposure Draft said that APB Opinion No. 21, *Interest on Receivables and Payables*, provides the relevant standards for discounting future receipts or payments. Several respondents to that Exposure Draft said further guidance on measuring the fair value of unconditional promises to give is necessary or would be helpful. The 1992 Exposure Draft proposed and the Board concluded in this Statement that the present value of estimated future cash flows using a discount rate commensurate with the risks involved is an appropriate measure of fair value for unconditional promises to give cash.

112. Several respondents to the Exposure Drafts said that the undiscounted amount of cash promised should be used to measure all promises to give or all promises due within a period of no more than 5 years. Some of those respondents said that although a zero percent interest rate is unreasonable in a bargained-for exchange, that rate is appropriate to measure a promise to give because it is a voluntary

nonreciprocal transfer. Others said the sum of the undiscounted promised cash flows is consistent with the amount the donor intended as a contribution. Still others said discounting would add costs and complexities without providing sufficiently useful information for promises that are due within relatively short periods (up to five years). The Board believes that failure to discount a promise to give does not faithfully represent its fair value. Cash to be received or paid in the future does not have the same value or utility as cash that is available now.

113. This Statement permits measuring unconditional promises to give that are expected to be collected or paid within one year at their net realizable value because that amount, although not equivalent to the present value of estimated future cash flows, results in a reasonable estimate of fair value. That provision, which was not in the 1990 Exposure Draft, was added for practical reasons. The Board concluded that the requirements for measuring promises to give should be no more stringent than requirements for measuring trade receivables.

114. This Statement also permits measuring a portfolio of short-term promises to give that result from mass fund-raising appeals by using estimates of future cash flows based on experience gained from similar appeals. Annual campaigns, mail solicitations, telethons, or phonathons generally result in many promises of small dollar amounts that are due in less than one year and are unconditional. To measure individually the present value of estimated cash flows for promises to give resulting from those campaigns generally is impracticable. Measurement difficulties are compounded because the solicitation process may result in some spurious promises. The Board concluded that an entity may estimate the cash flows of a portfolio of short-term promises from mass fund-raising appeals using collection experience gained in previous similar appeals and that the promises may be measured at net realizable value because that measurement results in a reasonable estimate of fair value.

115. The 1992 Exposure Draft proposed that, consistent with guidance in Opinion 21, the subsequent accrual of the interest element on a multiyear promise to give should be reported as interest income by the donee and interest expense by the donor. A significant majority of respondents commenting on that proposal disagreed, including those that support recognition of promises to give at their present value. Some said that the interest element is a component of

the contribution or that donors perceive it as part of their contribution. They contend that reporting that component as interest would add confusion that would exceed any potential benefit. The Board reconsidered its decision and concluded that the interest element should be accounted for as contribution income by donees and contribution expense by donors. The Board agreed that is likely to result in more understandable reporting. It also notes that reporting the interest element as a component of contribution income or contribution expense is consistent with accounting for the element of interest involved in certain other transactions; such as, the costs of pensions or of other postretirement benefits.

Disclosures

116. The 1992 Exposure Draft proposed that recipients be required to provide information about both promises to give and unrecognized communications that indicate an intention to give. The Board concluded that information about both would be useful in assessing a not-for-profit organization's ability to provide services in the future. The Board also concluded that this Statement should not require disclosures for makers of promises and indications of intentions to give because Statement 5 and Statement No. 47, *Disclosure of Long-Term Obligations*, provide the relevant standards.

117. Many respondents to the 1992 Exposure Draft said that the proposed disclosures for intentions to give would provide information of dubious value that would not justify the costs to provide that information. The Board continues to believe that information about intentions to give may be helpful to users of financial statements, especially if significant difficulties and uncertainties are encountered in distinguishing intentions to give from receipts of promises to give or when intentions to give are regularly solicited. However, the Board is sensitive to concerns raised about the costs of quantifying and verifying amounts of intentions to give, including negative consequences that might result from required audit procedures imposed during a delicate gift solicitation (precommitment) phase. The Board decided that this Statement should neither require nor preclude disclosures for intentions to give because it is not clear, at this time, that the potential benefits of information about the amount of intentions to give would justify the costs to provide that information.

Contributed Services

118. Most not-for-profit organizations receive and use contributed services in their operations, but few

recognize them as revenues and expenses. The health and welfare Guide says that "because of the difficulty of placing a monetary value on donated services, and the absence of control over them, the value of these services often is not recorded as contributions [revenue] and expense" (page 21). However, the Guide requires recognition of revenue and expense under certain specified conditions, and although it does not encourage recognition of services received under other conditions, it does not preclude their recognition. In contrast, SOP 78-10, paragraph 67, precludes recognition of services not meeting similar conditions, and it has been interpreted by some as permitting rather than requiring recognition of contributed services meeting its conditions.

119. The Board considered that guidance, and the 1990 Exposure Draft proposed conditions for recognition of contributed services that generally are measurable with sufficient reliability. That Exposure Draft also encouraged recognition of other contributed services if they could be measured with sufficient reliability and at a reasonable cost. Permitting entities to recognize other measurable services was believed to be a reasonable step to allow practice to continue to evolve.

120. Some respondents to the 1990 Exposure Draft said that recognition of contributed services should not be required under any circumstances because the benefits of reporting information about their fair values would not exceed the cost to provide that information. Some respondents suggested recognizing only services that are donated by qualified entities if they would normally be purchased or suggested other conditions that focused on services integral to an organization's mission. Still other respondents, including users of financial statements, expressed concern about encouraging recognition of measurable services that did not meet the conditions. They questioned whether those services would be measured reliably and said standards are necessary to limit rather than encourage diverse recognition practices.

121. Because of user skepticism about the information provided by recognizing most contributed services and concerns raised about the cost to provide that information, the Board decided to revise the recognition criteria proposed by the 1990 Exposure Draft. The Board believes the conditions of paragraph 9 of this Statement limit recognition to only those services that will provide information that is clearly relevant, clearly measurable, and obtainable at a cost that does not exceed the benefits of the information provided.

By drawing on existing industry guidance, the revised criteria should help minimize disruption to practice yet also should improve practice by eliminating certain inconsistencies in the existing guidance.

122. The Board also decided, for practical reasons, to preclude recognition of contributed services received that do not meet the conditions of paragraph 9 of this Statement. Respondents to the 1990 Exposure Draft expressed strong concerns about any permissive recognition. They said that methods of measurement and assumptions would vary considerably between entities, that resulting financial information often would not be reliable, or that discretionary recognition would lead to differing accounting practices or perhaps practices biased toward presenting favorable ratios of program or fund-raising cost to total expenses. The Board believes that the disadvantages of inconsistent recognition practices outweigh the advantages of permitting discretionary recognition as a means for practice to evolve.

123. The Board also concluded that nonmonetary information about the nature and extent of contributed services received is useful in understanding an organization's operations, including its dependence on contributed services. Accordingly, the Board decided that organizations should describe the programs or activities for which contributed services are received and used. Nonmonetary information, such as the number and trends of donated hours received or service outputs provided by volunteer efforts, may be helpful in assessing the success and long-term viability of the organization. Other monetary information about contributed services received also may be helpful, such as the fair values of contributed services not recognized or the dollar amount of contributions raised by volunteers.

124. Views of respondents to the 1992 Exposure Draft differed on recognition of contributed services. Some said that the revised criteria are a significant improvement over the original proposal. Others said the criteria are too restrictive and preclude recognition of some contributed services that are both relevant and measurable with sufficient reliability. Some reiterated concerns raised in paragraph 120. The Board considered those comments and concluded that the criteria in paragraph 9 are necessary 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 provided.

Collection Items

125. This Statement considers certain specialized industry practices that permit but do not require certain organizations to capitalize works of art, historical treasures, and similar items held in their inexhaustible collections (paragraphs 37 and 38). In 1978, the accounting standards division of the AICPA said:

... it is often impracticable to determine a value for [inexhaustible] collections [owned by museums, art galleries, botanical gardens, libraries, and similar entities] and accordingly [the division] has concluded that they need not be capitalized. If records and values do exist for the collections, the division encourages capitalization, at cost, if purchased, and at a fair value, if acquired by donation. If historical cost is indeterminable, the alternative methods of valuing described in the section on fixed assets should be used. . . .

The nature and the cost or contributed value of current-period accessions and the nature of and proceeds from deaccessions should be disclosed in the financial statements. [SOP 78-10, paragraphs 113 and 114]

Some museums and similar entities recognize their "inexhaustible collections" as assets; however, most do not.

126. The 1990 Exposure Draft generally would have required all entities to recognize works of art, historical treasures, and similar items as assets in the period acquired and retroactively capitalize those items. The few respondents that supported that proposal generally said that recognition of these items as assets in financial statements is necessary to provide users of financial statements with information to assess an entity's financial position, the results of its operations, and how its managers have discharged their responsibilities for the custody and safekeeping of the entity's assets. However, almost all of the other respondents said that for most museums and similar entities that hold collections, the costs to capitalize works of art, historical treasures, and similar assets would outweigh the benefits of the information that capitalization would provide.

127. The Board reaffirmed its conclusion that works of art, historical treasures, and similar items are assets, regardless of the owner or the owner's intent to sell or hold the items as part of a collection. The Board also concluded, however, that because information necessary to recognize those items was not

compiled in the past and may no longer be available or may be too costly to obtain, the incremental benefits of the information gained by recognizing works of art, historical treasures, and similar items held in “collections” as assets often would not justify the cost to provide that information. Accordingly, the 1992 Exposure Draft proposed that under certain specific circumstances entities need not recognize as assets works of art, historical treasures, and similar items held as part of a collection.

Definition of a collection

128. The Board’s objective in defining collections (paragraph 11) is to exempt from recognition only those works of art, historical treasures, and similar assets that are held for public exhibition, education, or research in furtherance of public service and that are to be preserved and protected. Collections, as used in this Statement, generally are held by museums, botanical gardens, libraries, aquariums, arboretums, historic sites, planetariums, zoos, art galleries, nature, science and technology centers, and similar educational, research, and public service organizations that have those divisions; however, the definition is not limited to those entities nor does it apply to all items held by those entities.

129. This Statement’s definition of a collection is based on the American Association of Museums’ *Code of Ethics for Museums* (1991) and its “Accreditation: Self-Study” (1989). The definitions in those documents are widely used by the kinds of organizations for which the Board believes the relevant cost and benefit problem exists. The Board decided that having an organizational policy that requires that the proceeds from collection items sold be used to acquire other items for collections demonstrates a commitment and a probability that the collections will and can be maintained. The Board believes that commitment is particularly relevant to its considerations about both the benefits and costs of providing information about those assets.

Collection items are assets

130. Collection items, although generally held for long periods of time and seldom sold, are assets that continue to provide economic benefit or service po-

tential through their use. In a not-for-profit organization, that service potential or future economic benefit is used to provide desired or needed goods or services to beneficiaries. Those items also provide future cash flows from admissions, rentals, and royalties, and often are the reason for contributions in support of the entity’s mission. The Board concluded that collection items have the common characteristics possessed by all assets—the scarce capacity to provide services or benefits to the entity that uses those items (Concepts Statement 6, paragraph 28).

131. Some respondents said that works of art, historical treasures, and similar assets that are part of “collections” are “held in trust” for the public and are not assets of the collectors. Many equated the “inability” to sell items from collections with forgoing the economic benefit inherent in those items. The Board concluded, however, that holders of collection items continue to reap economic benefits from those assets and it would be inappropriate to preclude their recognition and capitalization as assets.

Benefits and costs of capitalizing collections

132. Respondents to the 1990 Exposure Draft provided information useful to the Board in considering the benefits and costs of recognizing collection items. Most respondents said that they had experienced little or no demand for information about the value of collections held by museums and similar entities. Many also said that because of the extraordinarily long lives of most collection items, measures of their cost or fair value at date of gift are irrelevant. Although current values for collections or selected items may be of interest to an organization’s managers, particularly in relation to decisions about the level of protection or insurance for assets, most respondents said to maintain current values on an annual basis would be cost prohibitive. The Board believes that information about the existence of collection items and changes in the nature of those assets is relevant to many, if not most, users of financial statements. However, the Board is unaware of a significant demand among external users of general-purpose financial statements for dollar-value information about collection items.¹²

¹²In response to a 1989 FASB survey of users and potential users of financial statements, some users said that information about the dollar amount of donated collection items could be useful in evaluating a museum; however, most did not believe the usefulness of information gained by retroactive capitalization of prior acquisitions would exceed the costs to provide that information.

Interviews with others “uncovered no evidence of the usefulness of dollar-value information about collections” (Henry R. Jaenicke and Alan S. Glazer, *Accounting for Museum Collections and Contributions of Collection Items* [Washington, D.C.: American Association of Museums, 1991], 4 and 75-78).

133. Almost all respondents to the 1990 Exposure Draft said that the cost to retroactively capitalize collections would be excessive because records of the cost of purchased items or of the fair value at the date of contribution of donated items generally do not exist. They also said that the extraordinary human resources required to value the large collections of most organizations are neither currently available nor likely to be affordable in the future. Further, some said that galleries would have to be closed to the public to appraise objects on display and that removing objects from storage and returning them to storage would require additional cost and involve risk of damage.

134. The Board concluded that the cost of retroactively capitalizing collections often would exceed the incremental benefit of the information gained, especially for entities that have been in existence for several decades or more. The Board also concluded that the disclosures required by paragraphs 26 and 27 of this Statement, which were proposed by the 1992 Exposure Draft, will provide information that is useful in assessing how managers of an entity are discharging their responsibilities for the custody and safekeeping of collections without imposing significant costs to provide that information. The Board believes that this disclosure alternative to required recognition is a practical step that will improve current reporting practices.

135. The Board also concluded that works of art, historical treasures, and similar items that are not part of a collection should be recognized as assets in financial statements. Some entities that hold these items do not espouse the mission of public education, exhibition, and research and the attendant responsibilities to protect, keep unencumbered, care for, and preserve the items, and some entities that do maintain collections have some items that are not part of its collections. The Board found no reason to exempt items that are not part of a collection from recognition as assets.

Capitalization of collections is encouraged

136. The Board believes that, although often not practical, retroactive capitalization is conceptually the proper accounting for works of art, historical treasures, and similar assets and encourages entities that have capitalized their collections to continue that practice. However, the Board also believes that it would be inappropriate and potentially confusing to users of financial statements if entities selectively

capitalize or omit some gifts or some purchases of collection items. Accordingly, an entity that has capitalized only a portion of its collections should assess the costs and benefits of capitalization and determine whether (a) recognition of all gifts and purchases either retroactively or prospectively from a date of adoption or (b) no capitalization and no recognition of gifts is most appropriate.

137. To assist entities that are considering retroactive capitalization, the Board decided to permit entities to measure collection items acquired in previous periods at their cost or fair value at date of acquisition, current cost, or current market value, whichever is deemed most practical. The Board expects that individual entities will use the measure that is most readily determinable with reasonable reliability. Additionally, the Board decided to permit entities to measure one attribute of some collection items or groups of items and a different attribute of other collection items or groups of items if that would be practical. Flexibility in the attributes used to measure the amount to be capitalized will reduce the usefulness of the information provided; however, the Board decided that allowing entities a one-time option to capitalize collection items at the measure they deem most practical is a reasonable step to help reduce the costs of retroactive capitalization.

138. Many, if not most, respondents to the 1990 Exposure Draft that hold collections said they are unwilling to retroactively capitalize their collections because the costs of doing so would outweigh the benefits of information gained. However, the substantial one-time costs and disruptions that often make retroactive capitalization impracticable generally do not exist at the time donated items are received, and no costs or disruptions are associated with capitalizing purchased items. Because the Board believes that collection items are assets and are measurable and that information about collections generally is relevant and reliable, it decided to permit prospective recognition provided an entity capitalizes all collection items acquired after the date of initial adoption of this Statement.

139. The Board also considered whether to permit or preclude recognition of revenues for contributed collection items if an entity does not capitalize collections. The Board believes recognition of revenues for contributed collection items would be confusing if the amount recognized is also reported as a decrease in net assets rather than as an asset. Further, the Board believes that if an entity decides to incur the

costs necessary to report contribution revenues, that entity should capitalize its collections, either prospectively or retroactively. Thus, the Board concluded that contributed collection items shall be recognized as revenues or gains if collections are capitalized and shall not be recognized as revenues or gains if collections are not capitalized.

Disclosures required if collections are not capitalized retroactively

140. Several respondents to the 1990 Exposure Draft, including the American Association of Museums' Accounting for Contributions Task Force, suggested disclosures that might compensate for weaknesses in financial reporting that result from not capitalizing collections. The Board concluded that the disclosures required by paragraphs 26 and 27 of this Statement are necessary to overcome financial reporting weaknesses and anomalies that result from not capitalizing collections. For example, an entity

that does not capitalize collections reports its purchases of collection items as a decrease to its net assets in the statement of activities, but that decrease is neither an expense nor a loss. Under generally accepted accounting principles, an expenditure for the acquisition of a long-lived tangible asset does not result in a decrease in net assets. Further, an entity might fail to report information about gifts made to other entities and uninsured losses from fires, thefts, or impairments of assets because the items have no carrying value.

141. The Board decided that certain transactions involving collection items should be reported separately from items of revenues, gains, expenses, and losses to reduce confusion resulting from the anomalies that result from not capitalizing collection items. The following illustrates one possible format¹³ that may be used to satisfy the financial disclosure provisions of this Statement.

**Organization M
Statement of Activities
For the Year Ended June 30, 19XX**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support	XXX	XXX	XXX	XXX
Gain on sale of art that is not held in a collection	1			1
Net assets released from restrictions	<u>XXX</u>	<u>(XXX)</u>	<u> </u>	<u> </u>
Total revenues, gains, and other support	<u>XXX</u>	<u>XX</u>	<u>XXX</u>	<u>XXX</u>
Expenses	<u>XXX</u>	<u> </u>	<u> </u>	<u>XXX</u>
Change in net assets before changes related to collection items not capitalized	<u>XX</u>	<u>XX</u>	<u>XXX</u>	<u>XXX</u>
Change in net assets related to collection items not capitalized:				
Proceeds from sale of collection items	5		10	15
Proceeds from insurance recoveries on destroyed collection items			1	1
Collection items purchased but not capitalized			(25)	(25)
	<u>5</u>	<u> </u>	<u>(14)</u>	<u>(9)</u>
Change in net assets	<u>XX</u>	<u>XX</u>	<u>XXX</u>	<u>XXX</u>

¹³Appendix C of Statement 117 contains illustrations of several formats of statements of activities that might be adapted to comply with the provisions of this Statement.

142. The Board concluded that users need additional disclosures if collections are not capitalized. To increase users' understanding of the size and significance of the collections and management's responsibilities for the collections, the Board decided to require a general description of the collection and its significance and a description of management's stewardship efforts. To ensure that users of the financial statements understand that significant assets of the entity are omitted, the Board decided to require disclosure of accounting policies for collections and a line item on the face of the statement of financial position that refers to all required note disclosures. To provide information about losses or impairments of collection items if those items were not capitalized, the Board decided to require a description of items given away, damaged, destroyed, lost, or otherwise deaccessioned or disclosure of their fair value.

143. The Board also considered the suggestion by some respondents that the Board require all entities that do not capitalize their collections to provide a schedule that reconciles from period to period the number of items held in each of their major collections. The Board decided not to require that reconciliation because it believes that other forms of disclosure may be more useful than item counts.

144. Most museums and other respondents to the 1992 Exposure Draft that commented on the provisions for recognition of and disclosures about collections supported the provisions in this Statement. Some museums that endorse the provisions of paragraphs 11(a) and (b) but are not committed to reinvesting proceeds from sales of collection items to acquire other items for collections (paragraph 11(c)) asked the Board to allow nonrecognition of their collection items. Having an organizational policy and demonstrated commitment to reinvest in collection items is particularly relevant to the Board's conclusions about collection assets.

Reporting Information about Donor-imposed Restrictions

145. Contributions are a primary source of revenues for many not-for-profit organizations; often they are donor restricted. Donor-imposed restrictions place limits on the use of assets received that affect the types and levels of service that an organization can provide. Because those limitations generally are pervasive, recurring, and sometimes permanent, the Board believes that financial reporting should reflect the extent and nature of donor-imposed limits and changes in them.

Information about Three Classes of Net Assets

146. Some restrictions limit the organization's ability to sell or exchange the asset received; more commonly, the restriction applies to an amount of net assets. Some donor-imposed restrictions impose limits that are permanent, for example, stipulating that resources be invested in perpetuity (not used up). Others are temporary, for example, stipulating that resources may be used only after a specified date, for particular programs or services, or to acquire buildings and equipment. The nature and extent of the limits resulting from donor-imposed restrictions are relevant to donors and other users, as well as management, when making their resource allocation decisions. The Board concluded that not-for-profit organizations should distinguish between contributions received that increase permanently restricted net assets, that increase temporarily restricted net assets, and that increase unrestricted net assets (paragraph 14).

147. Donors, creditors, and other resource providers are interested in knowing not only that an organization's net assets have increased (or decreased) but also how and why. Concepts Statement 6 says:

Since donor-imposed restrictions affect the types and levels of service a not-for-profit organization can provide, whether an organization has maintained certain classes of net assets may be more significant than whether it has maintained net assets in the aggregate. For example, if net assets were maintained in a period only because permanently restricted endowment contributions made up for a decline in unrestricted net assets, information focusing on the aggregate change might obscure the fact that the organization had not maintained the part of its net assets that is fully available to support services in the next period. [paragraph 106]

148. The Board believes that information about a minimum of three classes of net assets, based on the presence or absence of donor-imposed restrictions and their nature, generally is necessary to gain an adequate understanding of the financial position and results of operations of a not-for-profit organization. Information about permanent restrictions is useful in determining the extent to which an organization's net assets are not a source of cash for payments to present or prospective lenders, suppliers, or employees and thus are not expected to be directly available

for providing services or paying creditors. Information about the extent of unrestricted net assets and of temporarily restricted net assets is useful in assessing an organization's ability and limitations on its ability to allocate resources to provide services or particular kinds of services or to make cash payments to creditors in the future.

Implicit Donor Restrictions

149. The 1990 Exposure Draft said that donor-imposed restrictions result from either a donor's explicit stipulation or a donee's explicit representation to donors. Some respondents noted that certain contributions contain implicit donor restrictions and asked whether those contributions would be reported as donor restricted. The Board clarified that donor-imposed restrictions also may result from circumstances at the time a gift is received that make clear a donor's implicit restriction of the use of contributed assets. The Board identified two situations in which it believes implied donor restrictions exist—contributions of unconditional promises to give with payments due in future periods and contributions of long-lived assets.

150. The Board concluded that a time restriction is implicit in an unconditional promise to give with payments due in future periods. That time restriction is implied unless a donor explicitly states that the gift is to support current activities or other circumstances make that clear. The Board believes that it is reasonable to assume that by specifying future payment dates donors indicate that their gift is to support activities in each period in which a payment is scheduled.

151. The 1992 Exposure Draft also proposed that time restrictions be implied on gifts of long-lived assets unless the donor explicitly states that the donated asset is to be sold to provide proceeds for unrestricted use or other circumstances make that clear. A significant majority of the respondents to the 1992 Exposure Draft did not comment on whether a time restriction is implicit in a gift of a long-lived asset, perhaps indicating tacit agreement with the proposal. However, nearly all of the minority of respondents commenting on this matter disagreed with the Exposure Draft.

152. Some respondents said that implying a time restriction is inconsistent with the Board's fundamental conclusion that donor-imposed restrictions result from either a donor's explicit stipulation or a donee's

explicit representation to donors. Those respondents agreed that a donor restriction exists on gifts of cash or other assets to acquire long-lived assets; however, they said those are explicit restrictions that are satisfied when the stipulated acquisition occurs. Others said that implying a time restriction adds unnecessary recordkeeping costs for long-lived assets that are acquired with multiple sources of funding and raises other accounting complexities for the gifted portion. Still others said the Board should make clear that the implied time restriction is required only in circumstances where donor-restricted amounts are material in relation to total funding sources for long-lived assets.

153. The Board continues to believe that it is reasonable to assume that by contributing long-lived assets without saying they may be sold immediately, donors indicate that those assets are to be used to provide services in future periods and that a similar implicit restriction exists for gifts of cash or other assets restricted to acquisition of long-lived assets. However, in light of the implementation concerns raised and the lack of a compelling legal basis or general acceptance for implying a time restriction on gifts of long-lived assets, the Board concluded that without further study it would be inappropriate to require or preclude organizations from applying that accounting convention. Accordingly, paragraph 16 of this Statement permits but does not require organizations to adopt a policy of implying a time restriction for donations of long-lived assets and because that choice is allowed, organizations must disclose the policy adopted.

Exception to Reporting Gifts as Donor Restricted

154. Some respondents to the 1992 Exposure Draft suggested that broadly restricted contributions—for activities that ordinarily occur in the normal course of operations—should be classified as unrestricted revenues. They said information about *restricted* gifts would be more meaningful if only donor-restricted gifts that permit the organization to undertake activities it would not otherwise conduct were separately reported as restricted gifts. They also said defining donor restrictions in that way would avoid reporting of virtually automatic reclassifications for expirations of restrictions that they contend provides information of little value and adds unnecessary bookkeeping.

155. The Board concluded there is no need to redefine donor restrictions. However, it decided, for practical reasons, to permit contributions with restrictions that are met in the same reporting period to be reported as unrestricted support provided that an

organization reports consistently from period to period and discloses its accounting policy (paragraph 14). That reporting, if elected, would not affect the reported amounts for change in temporarily restricted net assets for the period or temporarily restricted net assets at the end of a period. Thus, the expected benefits from applying the basic provisions of this Statement are not reduced significantly by the allowed exception, which the Board believes could help reduce the costs of implementing this Statement.

Expiration of Restrictions

Recognition of the Expiration

156. The Board concluded that an expiration of a donor-imposed restriction on a not-for-profit organization's net assets is an event that affects the entity and that financial statements should recognize the effects of that event in the period in which it occurs (paragraph 17). Information about the expiration of restrictions is useful in assessing the extent to which a not-for-profit organization used resources obtained in past periods for activities of the current period. Additionally, recognizing expirations of restrictions is necessary in determining the nature and extent to which net assets remain restricted at the end of the period.

157. Some respondents to the 1990 Exposure Draft asked the Board to clarify whether its intent was to specify that temporarily restricted net assets should be decreased when both unrestricted and purpose-restricted net assets are available for the same expenditure. Some, but not all of those respondents said that if both unrestricted and purpose-restricted net assets are available, restrictions expire when management identifies an expense with a restricted gift. They said that this method reflects the way that the organization's managers have discharged their stewardship responsibilities. The Board rejected that method of reporting, which it believes would result in different accounting for similar events because of differences in management objectives.

158. Other respondents said that donors assume that their gifts will be spent after unrestricted funds allocated to the same purpose have been exhausted, that is, that they have given incremental funds. The Board believes that restrictions should not be implied unless circumstances make clear that the donor restricted use of the contribution. The Board does not believe that it is reasonable to imply that a donor prevents use of contributed resources until unrestricted resources are exhausted.

159. The 1992 Exposure Draft retained the provision of the 1990 Exposure Draft that would require recognition of the expiration of a donor-imposed restriction when that event occurs and clarified that the recognition of an expense that satisfies a donor-imposed restriction decreases temporarily restricted net assets. The 1992 Exposure Draft also noted that this Statement would not specify or limit management discretion in determining which source of temporarily restricted net assets is decreased if an expense is incurred for a purpose for which more than one source of temporarily restricted net assets is available.

160. A minority of respondents to the 1992 Exposure Draft, mostly colleges and universities, said that the additional guidance provided about when donor restrictions expire is inadequate, too prescriptive, or too difficult to implement. Generally, they repeated previous suggestions that organizations be allowed to recognize expirations of donor restrictions when the institutional fiduciary charged with executing the terms of the gift determines an expense has been incurred for the specified purpose. The Board continues to reject that suggestion. The Board believes that this Statement's permitted exception for gifts with restrictions received and met in the same period may help reduce implementation concerns raised by those respondents.

161. Paragraph 17 of this Statement also provides that if an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred *unless the expense is for a purpose that is directly attributable to another specific external source of revenue*. The latter provision and an example were added to avoid unintended negative economic consequences that could result from the more prescriptive guidance of the 1992 Exposure Draft.

Reporting Expiration of Restrictions

162. This Statement specifies when to recognize expirations of donor-imposed restrictions, and Statement 117 specifies how to report the effects of those expirations in financial statements. The latter Statement specifies that expirations of restrictions that simultaneously decrease restricted net assets and increase unrestricted net assets (reclassifications) are reported separately from other transactions.

163. Some respondents to the 1990 Exposure Draft said that reporting expirations of restrictions in financial statements is unnecessary or potentially confusing. Generally, those respondents suggested reporting restricted contributions as deferred revenue until the restriction is met, thereby avoiding the need for reclassifications among classes of net assets. They also said that delaying recognition of the revenue from restricted contributions would achieve a better “match” of revenues and expenses. Some respondents to the 1992 Exposure Draft reiterated those comments.

164. The Board concluded that information about the relationship between inflows and outflows of a period and the relationship between restricted resources and the expenses or other activities they support generally is useful in assessing whether activities during a period have drawn upon, or contributed to, past or future periods. The Board also concluded that delaying recognition of revenue from a restricted gift is not necessary to provide information about those relationships. Further, as discussed in paragraphs 57-68, restricted contributions do not result in deferred revenues. Nonreciprocal transfers seldom involve matching procedures because “nonreciprocal transfers to an entity rarely result directly and jointly from the same transactions as expenses [and] most contributions and expenses are much more closely related to time periods than to each other” (Concepts Statement 6, paragraph 151).

165. The Board believes that reporting the relationship between gifts restricted to support specific program expenses and the expenses they support can be achieved by reporting expirations of donor-imposed restrictions. First, reporting the relationship of gifts to periods is achieved by recognizing contributions in the period received. Second, the relationship between the restricted contribution and the expense it supports is reported because a restriction generally expires in the period when the specified expense occurs. For example, an expiration of a purpose restriction decreases temporarily restricted net assets and increases unrestricted net assets at the same time as the expense that satisfies the restriction is reported as a decrease in unrestricted net assets. Thus, the relationship is reported in the unrestricted class of net assets in the period the restricted resources are used to support expenses.

166. That same type of relationship is reported with gifts that are time restricted. For example, a gift of a term endowment that is to be invested for five years

is recognized as restricted support (revenue or gain) in the period it is received. In year 5, when that term endowment becomes unrestricted, a reclassification is reported to reflect the decrease in temporarily restricted net assets and the increase in unrestricted net assets. Thus, the related effects of that time-restricted gift are reported in the period of receipt as well as the period in which the nature of the restriction changes.

167. The Board also believes that its clarification of expirations of restrictions and its conclusions about implicit restrictions on unconditional promises to give and on gifts of long-lived assets may help eliminate other “matching” concerns raised by some respondents. Most unconditional promises to give with payments due in future periods will be recognized as temporarily restricted support with time restrictions that expire in the periods those payments are due. That recognition should avoid misunderstandings that some respondents said would occur if promises to give due in future periods were recognized as unrestricted revenue and were perceived by users of financial statements as currently available funds.

168. Some respondents said misunderstanding would occur if gifts of long-lived assets (or long-lived assets acquired with restricted gifts of cash) were reported as current revenues or perceived to result in currently available funds. Some of those respondents would initially report those gifts as so-called capital contributions, or report the contributions and assets in a discrete fund group, or both. The Board believes that with appropriate labeling of land, buildings, equipment, and other long-lived assets in statements of financial position, users of financial statements will understand that those assets differ from cash and other liquid assets, whether or not they are initially reported as contributions that increase unrestricted net assets. The Board also concluded reporting long-lived assets in a separate fund group is not necessary. Nonetheless, this Statement allows organizations the option to recognize most gifts of long-lived assets as temporarily restricted support with implied time restrictions and report the expirations of those restrictions over the useful life of the assets. That reporting option provides a means to avoid the potential misunderstandings that are of concern to some respondents.

Effective Date and Transition

169. The 1992 Exposure Draft proposed that this Statement generally be effective for annual financial statements issued for fiscal years beginning after December 15, 1994. The Board believes that providing

ample time before this Statement becomes effective is desirable so organizations can coordinate its implementation with Statement 117.

170. The Board also concluded that a delay to fiscal years beginning at least one year (and up to 18 months) after the date of this Statement's issuance would be reasonable for most not-for-profit organizations. The Board believes that this Statement's effective date (fiscal years beginning after December 15, 1994) would allow many small not-for-profit organizations and their external advisors sufficient time to assimilate the requirements of this Statement, obtain information that may be required, and put in place the systems necessary to gather required information.

171. Nonetheless, a national association representing more than 400 human services organizations (and a few other respondents) requested an additional one-year delay for small not-for-profit organizations. About one-third of the association's members have annual budgets of less than \$1 million and the association said the extended transition period would allow them sufficient time to utilize the initial experience gained by larger organizations and CPAs. They believe that experience could help them find cost-effective ways to implement this Statement and

Statement 117. Board members believe a further delay generally is not necessary. However, because small organizations are often dependent on outside volunteers and are particularly sensitive to any incremental one-time costs, the Board decided to grant a one-year delay for organizations with less than \$5 million in total assets and less than \$1 million in annual expenses.

172. Earlier application of this Statement is encouraged where practicable. Applying this Statement early may result in some loss of comparability of reporting among organizations during the transition period; however, the Board concluded that the benefits of the information gained by permitting early application outweigh its disadvantages. Because retroactive application of the provisions of paragraph 17 may be difficult, and perhaps impossible, if an organization no longer has the necessary records or past procedures did not require those records, the Board decided to permit rather than require retroactive application of the provisions of that paragraph. Respondents to the 1992 Exposure Draft generally agreed with its proposed effective date and transition provisions.

Appendix C

EXAMPLES OF THE APPLICATION OF THIS STATEMENT TO SPECIFIC SITUATIONS

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Appendix C

EXAMPLES OF THE APPLICATION OF THIS STATEMENT TO SPECIFIC SITUATIONS

Introduction

173. This appendix provides additional discussion and examples that illustrate application of this Statement to some specific situations. The examples do not address all possible applications of this Statement and assume that all items addressed are material.

Scope and Definition

174. Some transfers of assets that are exchange transactions may appear to be contributions if the services or other assets given in exchange are perceived to be a sacrifice of little value and the exchanges are compatible with the recipient's mission. Furthermore, a single transaction may be in part an exchange and in part a contribution. A careful assessment of the characteristics of the transaction, from the perspectives of both the resource provider and the recipient, is necessary to determine whether a contribution has occurred. Examples 1 and 2 illustrate the need to assess the relevant facts and circumstances to distinguish between the receipt of resources in an exchange and the receipt of resources in a contribution.

175. A transfer of assets also may appear to be a contribution when a donor uses an agent, a trustee, or an intermediary to transfer assets to a donee. Receipts of resources as an agent, trustee, or intermediary of a donor are not contributions received to the agent. Deliveries of resources as an agent, trustee, or intermediary of a donor are not contributions made by the agent. Similarly, contributions of services (time, skills, or expertise) between donors and donees that are facilitated by an intermediary are not contributions received or contributions made by the intermediary. Examples 3-5 illustrate the need to assess the relevant facts and circumstances to distinguish between the receipt of resources as a donee and the receipt of resources as an agent, a trustee, or an intermediary organization.

Example 1—Receipt of Resources in an Exchange

176. University A, a large research university with a cancer research center, regularly conducts research to discover more effective methods of treating cancer and often receives contributions to support its efforts. University A receives resources from a pharmaceuti-

cal company to finance the costs of a clinical trial of an experimental cancer drug the company developed. The pharmaceutical company specifies the protocol of the testing, including the number of participants to be tested, the dosages to be administered, and the frequency and nature of follow-up examinations. The pharmaceutical company requires a detailed report of the test outcome within two months of the test's conclusion. Because the results of the clinical trial have particular commercial value for the pharmaceutical company, receipt of the resources is not a contribution received by University A, nor is the disbursement of the resources a contribution made by the pharmaceutical company.

Example 2—Receipt of Resources Partially in Exchange and Partially as a Contribution

177. Charitable Organization B receives \$100,000 in cash from a donor under a charitable remainder annuity trust agreement designating Organization B as the trustee and charitable remainder beneficiary—a donee. The terms of the trust agreement require that Organization B, as trustee, invest the trust assets and pay \$5,000 each year to an annuitant (an income beneficiary specified by the donor) for the remainder of the annuitant's life. Upon death of the annuitant, Organization B may use its remainder interest for any purpose consistent with its mission.

178. Organization B, as a donee, would recognize the contribution received as revenue in the period the trust is established. The transfer is partially an exchange transaction—an agreement for annuity payments to a beneficiary over time—and partially a contribution. The contribution received by Organization B is the unconditional right to receive the remainder interest of the annuity trust. The amount of the contribution received by Organization B is the fair value of the trust assets (\$100,000 cash transferred) less the fair value of the estimated annuity payments (the present value of \$5,000 to be paid annually over the expected life of the annuitant). Because Organization B must invest the underlying donated assets until the annuitant's death, the revenue recognized for this type of contribution—temporarily restricted support—should be distinguished from revenues from gifts that are either unrestricted or permanently restricted (paragraph 14). The death of the annuitant determines when the required annuity payments cease and when the trust expires and effectively removes all restrictions on the net assets of Organization B. If the terms of this agreement had

specified that upon death of the annuitant Organization B is to use its remainder interest to establish a permanent endowment, the revenue would be recognized as permanently restricted support rather than temporarily restricted support.

Example 3—Receipt of Resources as an Agent Rather Than as a Donee

179. Organization C receives relief supplies from Individual D with instructions to deliver the supplies to specified third-party beneficiaries. Organization C accepts responsibility for delivering those supplies because it has a distribution network and a mutual interest in serving the needs of the specified beneficiaries. Organization C has no discretion in determining the parties to be benefited; it must deliver the resources to the specified beneficiaries. Receipt of those goods is not a contribution received to Organization C, nor is the delivery of those goods to the beneficiaries a contribution made by Organization C. Rather, a contribution of goods is made by Individual D and received by the third-party beneficiaries.

Example 4—Intermediary between Donor and Donee

180. Organization E develops and maintains a list of lawyers and law firms that are interested in providing services without charge to charitable organizations and certain individuals. Organization E encourages individuals in need of free legal services to contact Organization E for referral to lawyers in the individual's community that may be willing to serve them. The decision about whether and how to serve a specific individual rests with the lawyer. Under those circumstances, Organization E merely acts as an intermediary in bringing together a willing donor and donee. The free legal services are not a contribution received by Organization E.

Example 5—Intermediary between Government Provider and Its Beneficiary

181. Hospital F provides health care services to patients that are entitled to Medicaid assistance under a joint federal and state program. The program sets forth various administrative and technical requirements covering provider participation, payment mechanisms, and individual eligibility and benefit provisions. Medicaid payments made to Hospital F on behalf of the program beneficiaries are third-party payments for patient services rendered. Hospital F provides patient care for a fee—an exchange trans-

action—and acts as an intermediary between the government provider of assistance and the eligible beneficiary. The Medicaid payments are not contributions to Hospital F.

Contributions Received

182. Contributions are received in several different forms. Most often the item contributed is an asset, but it also can be forgiveness of a liability. The types of assets commonly contributed include cash, marketable securities, land, buildings, use of facilities or utilities, materials and supplies, other goods or services, and unconditional promises to give those items in the future. This Statement requires entities receiving contributions to recognize them at the fair values of the assets received. However, recognition of contributions of works of art, historical treasures, and similar assets is not required if the donated items are added to collections (paragraph 11). Recognition of contributions of services is required for those contributed services received that meet one of the specified conditions of paragraph 9 of this Statement and is precluded for contributed services that do not. Examples 6-16 illustrate application of the recognition and measurement principles in this Statement.

Example 6—Contribution of Real Property

183. Mission G, a religious organization, receives a building (including the land on which it was constructed) as a gift from a local corporation with the understanding that the building will be used principally as an education and training center for organization members or for any other purpose consistent with the organization's mission. Educating and training its members is an important activity of the mission.

184. Mission G would recognize the contributed property as an asset and as support and measure that property at its fair value (paragraph 8). Information necessary to estimate the fair value of that property could be obtained from various sources, including amounts recently paid for similar properties in the locality and estimates of its replacement cost adjusted to reflect the price that would be received for the contributed property. This contribution is unrestricted support because the donated assets may be used for any purpose and Mission G does not have a policy of implying time restrictions on gifts of long-lived assets (paragraph 16). If Mission G's policy is to imply a time restriction, the contribution is temporarily restricted support and the restriction expires over the useful life of the building.

Example 7—Contribution of a Work of Art

185. Museum H, which preserves its collections as described in paragraph 11, receives a gift of a valuable painting from a donor. The donor obtained an independent appraisal of the fair value of the painting for tax purposes and furnished a copy to the museum. The museum staff evaluated the painting to determine its authenticity and worthiness for addition to the museum's collection. The staff recommended that the gift be accepted, adding that it was not aware of any evidence contradicting the fair value provided by the donor and the donor's appraiser.

186. If Museum H capitalizes its collections, Museum H would recognize the fair value of the contributed work of art received as revenue and capitalize it as an asset at its fair value (paragraph 13). If Museum H does not capitalize its collections, Museum H is precluded from recognizing the contribution (paragraph 13) and would provide the information required by paragraphs 26 and 27.

187. If Museum H accepted the painting with the donor's understanding that it would be sold rather than added to its collection, Museum H would recognize the contribution of the painting received as unrestricted revenue and as an asset at its fair value (paragraphs 8 and 16).

Example 8—Contribution of Historical Objects

188. Historical Society I receives several old photographs as a gift from a long-time local resident. The photographs depict a particular area as it was 75 years ago. After evaluating whether the photographs were worthy of addition to the historical society's collection, the staff concluded the photographs should be accepted solely because of their potential historical and educational use; that is, the photographs may be of interest to future researchers, historians, or others interested in studying the area. The photographs are not suitable for display and no alternative use exists.

189. Regardless of whether Historical Society I capitalizes its collections, Historical Society I would not recognize the contributed photographs in this example as assets because there is major uncertainty about the existence of value and no alternative use exists (paragraph 19).

Example 9—Contribution of Utilities

190. Foundation J operates from a building it owns in City K. The holding company of a local utility has been contributing electricity on a continuous basis subject to the donor's cancellation.

191. The simultaneous receipt and use of electricity or other utilities is a form of contributed assets and not services. Foundation J would recognize the fair value of the contributed electricity as both revenue and expense in the period it is received and used (paragraph 8). Foundation J could estimate the fair value of the electricity received by using rates normally charged to a consumer of similar usage requirements.

Example 10—Contribution of Use of Property

192. Charity L receives the free use of 10,000 square feet of prime office space provided by a local company. The local company has informed Charity L that it intends to continue providing the space as long as it is available, and although it expects it would be able to give the charity 30 days advance notice, it may discontinue providing the space at any time. The local company normally rents similar space for \$14 to \$16 annually per square foot, the going market rate for office space in the area. Charity L decides to accept this gift—the free use of office space—to conduct its daily central administrative activities.

193. The simultaneous receipt and use of facilities is a form of contributed assets and not services. Charity L would recognize the fair value of the contributed use of facilities as both revenue and expense in the period it is received and used (paragraph 8).

194. If the local company explicitly and unconditionally promises the use of the facility for a specified period of time (for example, five years), the promise would be an unconditional promise to give. In that case, Charity L would recognize the receipt of the unconditional promise as a receivable and as restricted support at its fair value. The donor would recognize the unconditional promise when made as a payable and an expense at its fair value (paragraph 18).

Example 11—Contribution of Services

195. Institute M decides to construct a building on its property. It obtains the necessary architectural plans and specifications and purchases the necessary continuing architectural services, materials, permits, and so forth at a total cost of \$400,000. A local construction company contributes the necessary labor

and equipment. An independent appraisal of the building (exclusive of land), obtained for insurance purposes, estimates its fair value at \$725,000.

196. Institute M would recognize the services contributed by the construction company because the contributed services received meet condition (a)—the services received create or enhance nonfinancial assets—or because the services meet condition (b)—the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation (paragraph 9). Contributions of services that create or enhance nonfinancial assets may be measured by referring to either the fair value of the services received or the fair value of the asset or of the asset enhancement resulting from the services (paragraph 19). In this example, the fair value of the contributed services received could be determined by subtracting the cost of the purchased services, materials, and permits (\$400,000) from the fair value of the asset created (\$725,000), which results in contributed services received of \$325,000. Alternatively, the amount the construction company would have charged could be used if more readily available.

197. If some of the labor did not require specialized skills and was provided by volunteers, those services still would be recognized because they meet condition (a).

Example 12—Contribution of Services

198. Faculty salaries are a major expense of University N. The faculty includes both compensated faculty members (approximately 80 percent) and uncompensated faculty members (approximately 20 percent) who are associated with religious orders and contribute their services to the university. The performance of both compensated and uncompensated faculty members is regularly and similarly evaluated; both must meet the university's standards and both provide services in the same way.

199. University N would recognize both revenue and expense for the services contributed by the uncompensated faculty members because the contribution meets condition (b) of paragraph 9. Teaching requires specialized skills; the religious personnel are qualified and trained to provide those skills; and University N typically would hire paid instructors if the religious personnel did not donate their services. University N could refer to the salaries it pays similarly qualified compensated faculty members to determine fair value of the services received.

200. Similarly, if the uncompensated faculty members in this example were given a nominal stipend to help defray certain of their out-of-pocket expenses, University N still would recognize both revenue and expense for the services contributed. The contribution received would be measured at the fair value of the services received less the amount of the nominal stipend paid.

Example 13—Contribution of Services

201. A member of the Board of Trustees of Civic Organization O is a lawyer and from time to time in the capacity of a trustee provides advice on general business matters, including questions about business opportunities and risks and ethical, moral, and legal matters. The advice provided on legal matters is provided as a trustee in the role of a trustee, not as a lawyer, and the opinions generally are limited to routine matters. Generally, the lawyer suggests that Civic Organization O seek the opinion of its attorneys on substantive or complex legal questions. All of the organization's trustees serve without compensation, and most trustees have specialized expertise (for example, a chief executive officer, a minister, a physician, a professor, and a public accountant) that makes their advice valuable to Civic Organization O. The trustee-lawyer also serves without compensation as a trustee for two other charitable organizations.

202. Civic Organization O would be precluded from recognizing the contributed services it receives from its trustee-lawyer or its other trustees because the services contributed do not meet either of the conditions of paragraph 9 of this Statement. Condition (a) is not relevant. The trustee-lawyer's services do not meet condition (b) because the substantive or complex legal questions that require the specialized skills of a lawyer are referred to the organization's attorneys or because the advice provided by trustees typically would not be purchased if not provided by donation.

Example 14—Contribution of Services

203. Hospital P provides short-term inpatient and outpatient care and also provides long-term care for the elderly. As part of the long-term care program, the hospital has organized a program whereby local high school students may contribute a minimum of 10 hours a week, from 3:00 p.m. to 6:00 p.m., to the hospital. These students are assigned various duties, such as visiting and talking with the patients, distributing books and magazines, reading, playing chess,

and similar activities. The hospital does not pay for these services or similar services. The services are accepted as a way of enhancing or supplementing the quality of care and comfort provided to the elderly long-term care patients.

204. Hospital P would be precluded from recognizing the contributed services because the services contributed do not meet either of the conditions of paragraph 9 of this Statement. Condition (a) is not relevant. Condition (b) has not been met because the services the students provide do not require specialized skills nor would they typically need to be purchased if not provided by donation.

Example 15—Contribution of Services

205. College Q conducts an annual fund-raising campaign to solicit contributions from its alumni. In prior years, College Q recruited unpaid student volunteers to make phone calls to its alumni. This year, a telemarketing company, whose president is an alumnus of College Q, contributed its services to College Q for the annual alumni fund-raising campaign. The company normally provides telemarketing services to a variety of clients on a fee basis. College Q provided the company with a list of 10,000 alumni, several copies of a typed appeal to be read over the phone, and blank contribution forms to record pledges received. The company contacted most of the 10,000 alumni.

206. College Q would be precluded from recognizing the contributed services of the telemarketing company. Condition (a) of paragraph 9 is not relevant. Condition (b) has not been met because the services do not require specialized skills or because College Q typically would not need to purchase the services if they were not provided by donation. College Q normally conducts its campaign with untrained students in a manner similar to the manner used by the telemarketing firm.

Example 16—Contribution of an Interest in an Estate

207. In 19X0, Individual R notifies Church S that she has remembered the church in her will and provides a written copy of the will. In 19X5, Individual R dies. In 19X6, Individual R's last will and testament enters probate and the probate court declares the will valid. The executor informs Church S that the will has been declared valid and that it will receive 10 percent of Individual R's estate, after satis-

fying the estate's liabilities and certain specific bequests. The executor provides an estimate of the estate's assets and liabilities and the expected amount and time for payment of Church S's interest in the estate.

208. The 19X0 communication between Individual R and Church S specified an intention to give. The ability to modify a will at any time prior to death is well established; thus in 19X0 Church S did not receive a promise to give and did not recognize a contribution received. When the probate court declares the will valid, Church S would recognize a receivable and revenue for an unconditional promise to give at the fair value of its interest in the estate (paragraphs 8, 20, and 21). If the promise to give contained in the valid will was instead conditioned on a future and uncertain event, Church S would recognize the contribution when the condition was substantially met. A conditional promise in a valid will would be disclosed in notes to financial statements (paragraph 25).

Appendix D

GLOSSARY

209. This appendix contains definitions of certain terms used in this Statement.

Collections

Works of art, historical treasures, or similar assets that are (a) held for public exhibition, education, or research in furtherance of public service rather than financial gain, (b) protected, kept unencumbered, cared for, and preserved, and (c) subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.

Conditional promise to give

A promise to give that depends on the occurrence of a specified future and uncertain event to bind the promisor.

Contribution

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.

Donor-imposed condition

A donor stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred or releases the promisor from its obligation to transfer its assets.

Donor-imposed restriction

A donor stipulation that specifies a use for the contributed asset that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association. A restriction on an organization's use of the asset contributed may be temporary or permanent.

Nonreciprocal transfer

A transaction in which an entity incurs a liability or transfers an asset to another entity (or receives an asset or cancellation of a liability) without directly receiving (or giving) value in exchange.

Not-for-profit organization

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 (Concepts Statement 4, paragraph 6). Organizations that clearly fall outside this definition include all investor-owned enterprises and entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance companies, credit unions, farm and rural electric cooperatives, and employee benefit plans (Concepts Statement 4, paragraph 7).

Permanent restriction

A donor-imposed restriction that stipulates that resources be maintained permanently but permits the organization to use up or expend part or all of

the income (or other economic benefits) derived from the donated assets.

Permanently restricted net assets

The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations (Concepts Statement 6, paragraph 92).

Promise to give

A written or oral agreement to contribute cash or other assets to another entity. A promise to give may be either conditional or unconditional.

Restricted support

Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets. Also refer to **Unrestricted support**.

Temporarily restricted net assets

The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations (Concepts Statement 6, paragraph 93).

Temporary restriction

A donor-imposed restriction that permits the donee organization to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the organization.

Unconditional promise to give

A promise to give that depends only on passage of time or demand by the promisee for performance.

Unrestricted net assets

The part of net assets of a not-for-profit organization that is neither permanently restricted nor

temporarily restricted by donor-imposed stipulations (Concepts Statement 6, paragraph 94).

Unrestricted support

Revenues or gains from contributions that are not restricted by donors. Also refer to **Restricted support**.