Statement of Financial Accounting Standards No. 136

FAS136 Status Page
FAS136 Summary

Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others

June 1999

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

Statement of Financial Accounting Standards No. 136

Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others

June 1999

CONTENTS

FAS 136: Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others

FAS 136 Summary

This Statement establishes standards for transactions in which an entity—the *donor*—makes a contribution by transferring assets to a not-for-profit organization or charitable trust—the *recipient organization*—that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to another entity—the *beneficiary*—that is specified by the donor. It also establishes standards for transactions that take place in a similar manner but are not contributions because the transfers are revocable, repayable, or reciprocal.

This Statement requires a recipient organization that accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified unaffiliated beneficiary to recognize the fair value of those assets as a liability to the specified beneficiary concurrent with recognition of the assets received from the donor. However, if the donor explicitly grants the recipient organization variance power or if the recipient organization and the specified beneficiary are financially interrelated organizations, the recipient organization is required to recognize the fair value of any assets it receives as a contribution received. Not-for-profit organizations are financially interrelated if (a) one organization has the ability to influence the operating and financial decisions of the other and (b) one organization has an ongoing economic interest in the net assets of the other.

This Statement does not establish standards for a trustee's reporting of assets held on behalf of specified beneficiaries, but it does establish standards for a beneficiary's reporting of its rights to assets held in a charitable trust.

This Statement requires that a specified beneficiary recognize its rights to the assets held by a recipient organization as an asset unless the donor has explicitly granted the recipient organization variance power. Those rights are either an interest in the net assets of the recipient organization, a beneficial interest, or a receivable. If the beneficiary and the recipient organization are financially interrelated organizations, the beneficiary is required to recognize its interest in the net assets of the recipient organization and adjust that interest for its share of the change in net assets of the recipient organization. If the beneficiary has an unconditional right to receive all or a portion of the specified cash flows from a charitable trust or other identifiable pool of assets, the beneficiary is required to recognize that beneficial interest, measuring and

subsequently remeasuring it at fair value, using a valuation technique such as the present value of the estimated expected future cash flows. If the recipient organization is explicitly granted variance power, the specified beneficiary does not recognize its potential for future distributions from the assets held by the recipient organization. In all other cases, a beneficiary recognizes its rights as a receivable.

This Statement describes four circumstances in which a transfer of assets to a recipient organization is accounted for as a liability by the recipient organization and as an asset by the resource provider because the transfer is revocable or reciprocal. Those four circumstances are if (a) the transfer is subject to the resource provider's unilateral right to redirect the use of the assets to another beneficiary, (b) the transfer is accompanied by the resource provider's conditional promise to give or is otherwise revocable or repayable, (c) the resource provider controls the recipient organization and specifies an unaffiliated beneficiary, or (d) the resource provider specifies itself or its affiliate as the beneficiary and the transfer is not an equity transaction. If the transfer is an equity transaction and the resource provider specifies itself as beneficiary, it records an interest in the net assets of the recipient organization (or an increase in a previously recognized interest). If the resource provider specifies an affiliate as beneficiary, the resource provider records an equity transaction as a separate line item in its statement of activities, and the affiliate named as beneficiary records an interest in the net assets of the recipient organization. The recipient organization records an equity transaction as a separate line item in its statement of activities.

This Statement requires certain disclosures if a not-for-profit organization transfers assets to a recipient organization and specifies itself or its affiliate as the beneficiary or if it includes in its financial statements a ratio of fundraising expenses to amounts raised.

This Statement incorporates without reconsideration the guidance in FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power,* and supersedes that Interpretation.

This Statement is effective for financial statements issued for fiscal periods beginning after December 15, 1999, except for the provisions incorporated from Interpretation 42, which continue to be effective for fiscal years ending after September 15, 1996. Earlier application is encouraged. This Statement may be applied either by restating the financial statements of all years presented or by recognizing the cumulative effect of the change in accounting principle in the year of the change.

INTRODUCTION

1. Paragraph 4 of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* states, "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." The Board was asked how to differentiate situations in which a not-for-profit organization acts as an agent, trustee, or intermediary from situations in which a not-for-profit organization acts as a donor and a donee. The Board was told that those determinations are especially difficult if, as

part of its charitable mission, an organization solicits and collects cash, products, or services and distributes those assets, the return on investment of those assets, or both to other organizations.

2. The Board also was asked how an organization that has that mission should report receipts and disbursements of assets if those transfers are not its contributions as defined in Statement 116. Additionally, some organizations asked whether a beneficiary should report its rights to the assets held by a recipient organization and, if so, how those rights should be reported.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

3. Paragraphs 8–16 of this Statement apply to transactions in which an entity—the *donor*—makes a contribution by transferring assets to a not-for-profit organization or charitable trust—the *recipient organization*—that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to an unaffiliated [1] entity—the *beneficiary*—that is specified by the donor. [2]

4. Paragraphs 17–19 of this Statement apply to transactions that take place in a similar manner but are not contributions for one of the following reasons:

a. The entity that transfers the assets to the recipient organization—the *resource provider* [3]—is related to the beneficiary in a way that causes the transfer to be reciprocal.
b. Conditions imposed by the resource provider or the relationships between the parties make the transfer of assets to the recipient organization revocable or repayable.

5. Paragraph 20 of this Statement applies to all not-for-profit organizations that disclose a ratio of fundraising expenses to amounts raised, including organizations that are not involved in transfers of the types described in paragraphs 3 and 4.

6. This Statement applies to transfers of cash and other assets, including the assets described in paragraph 5 of Statement 116: "securities, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, services, and unconditional promises to give those items in the future."

7. This Statement supersedes FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power*. Paragraph 2 of Interpretation 42 is carried forward without reconsideration in paragraph 12 of this Statement.

Intermediary

8. Although in general usage the term *intermediary* encompasses a broad range of situations in which an organization acts between two or more other parties, use of the term in paragraph 4 of Statement 116 is more narrow and specific. The term is used to refer to situations in which a recipient organization acts as a facilitator for the transfer of assets between a potential donor and a potential beneficiary (donee) but is neither an agent or trustee nor a donee and donor as contemplated by Statement 116. [4] If an intermediary receives cash or other financial assets, [5] it shall recognize its liability to the specified beneficiary concurrent with its recognition of the assets received from the donor. Both the liability and the assets shall be measured at the fair value of the assets received. If an intermediary receives nonfinancial assets, it is permitted, but not required, to recognize its liability and those assets provided that the intermediary reports consistently from period to period and discloses its accounting policy.

Trustee

9. A recipient organization acts as a *trustee* if it has a duty to hold and manage assets for the benefit of a specified beneficiary in accordance with a charitable trust agreement. This Statement does not establish standards for a trustee's reporting of assets held on behalf of a specified beneficiary, but paragraphs 15 and 16 establish standards for the beneficiary's reporting of its rights to trust assets—its beneficial interest in the charitable trust.

Agent

10. An *agent* acts for and on behalf of another. Although the term *agency* has a legal definition, the term is used in this Statement with a broader meaning to encompass not only legal agency, but also the relationships described in this Statement. A recipient organization acts as an agent for and on behalf of a donor if it receives assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary. A recipient organization acts as an agent for and on behalf of a beneficiary if it agrees to solicit assets from potential donors specifically for the beneficiary's use and to distribute those assets to the beneficiary. A recipient organization also acts as an agent if a beneficiary can compel the organization to make distributions to it or on its behalf.

11. Except as described in paragraphs 12 and 14 of this Statement, a recipient organization that accepts assets from a donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary is not a donee. It shall recognize its liability to the specified beneficiary concurrent with its recognition of cash or other financial assets received from the donor. Both the liability and the assets shall be measured at the fair value of the assets received. Except as described in paragraphs 12 and 14 of this Statement, a recipient organization that receives nonfinancial assets is permitted, but not

required, to recognize its liability and those assets provided that the organization reports consistently from period to period and discloses its accounting policy.

12. A recipient organization that is directed by a donor to distribute the transferred assets, the return on investment of those assets, or both to a specified unaffiliated beneficiary acts as a donee, rather than an agent, trustee, or intermediary, if the donor explicitly grants the recipient organization variance power—that is, the unilateral power to redirect the use of the transferred assets to another beneficiary. In that situation, *explicitly grants* means that the recipient organization's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets, and *unilateral power* means that the recipient organization can override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party.

Financially Interrelated Organizations

13. The recipient organization and the specified beneficiary are *financially interrelated organizations* if the relationship between them has both of the following characteristics:

a. One organization has the ability to influence the operating and financial decisions of the other. The ability to exercise that influence may be demonstrated in several ways:
   (1) The organizations are affiliates.
   (2) One organization has considerable representation on the governing board of the other organization.
   (3) The charter or bylaws of one organization limit its activities to those that are beneficial to the other organization.
   (4) An agreement between the organizations allows one organization to actively participate in policymaking processes of the other, such as setting organizational priorities, budgets, and management compensation.
b. One organization has an ongoing economic interest in the net assets of the other. If the specified beneficiary has an ongoing economic interest in the net assets of the recipient organization, the beneficiary's rights to the assets held by the recipient organization are residual rights; that is, the value of those rights increases or decreases as a result of the investment, fundraising, operating, and other activities of the recipient organization. Alternatively, but less common, a recipient organization may have an ongoing economic interest in the net assets of the specified beneficiary. If so, the recipient organization's rights are residual rights, and their value changes as a result of the operations of the beneficiary.

14. If a recipient organization and a specified beneficiary are financially interrelated organizations and the recipient organization is not a trustee, the recipient organization shall recognize a contribution received when it receives assets (financial or nonfinancial) from the donor that are specified for the beneficiary. For example, a foundation that exists to raise, hold, and invest assets for the specified beneficiary or for a group of affiliates of which the specified

beneficiary is a member generally is financially interrelated with the organization or organizations it supports and recognizes contribution revenue when it receives assets from the donor.

Beneficiary

15. A specified beneficiary shall recognize its rights to the assets (financial or nonfinancial) held by a recipient organization as an asset unless the recipient organization is explicitly granted variance power. Those rights are either an interest in the net assets of the recipient organization, a beneficial interest, or a receivable. If the beneficiary and the recipient organization are financially interrelated organizations, the beneficiary shall recognize its interest in the net assets of the recipient organization and adjust that interest for its share of the change in net assets of the recipient organization. [6] If the beneficiary has an unconditional right to receive all or a portion of the specified cash flows from a charitable trust or other identifiable pool of assets, the beneficiary shall recognize that beneficial interest, measuring and subsequently remeasuring it at fair value, using a valuation technique such as the present value of the estimated expected future cash flows. In all other cases, a beneficiary shall recognize its rights to the assets held by a recipient organization as a receivable and contribution revenue in accordance with the provisions of Statement 116 for unconditional promises to give. [7]

16. If the donor explicitly grants a recipient organization variance power, the specified unaffiliated beneficiary shall not recognize its potential for future distributions from the assets held by the recipient organization.

Transfers of Assets That Are Not Contributions

17. A transfer of assets to a recipient organization is not a contribution and shall be accounted for as an asset by the resource provider and as a liability by the recipient organization if one or more of the following conditions is present:

a. The transfer is subject to the resource provider's unilateral right to redirect the use of the assets to another beneficiary.
b. The transfer is accompanied by the resource provider's conditional promise to give or is otherwise revocable or repayable.
c. The resource provider controls the recipient organization and specifies an unaffiliated beneficiary.
d. The resource provider specifies itself or its affiliate as the beneficiary and the transfer is not an equity transaction (paragraph 18).

18. A transfer of assets to a recipient organization is an equity transaction if all of the following conditions are present:

a. The resource provider specifies itself or its affiliate as the beneficiary.

b. The resource provider and the recipient organization are financially interrelated organizations.
c. Neither the resource provider nor its affiliate expects payment of the transferred assets, although payment of investment return on the transferred assets may be expected.

If a resource provider specifies itself as beneficiary, it shall report an equity transaction as an interest in the net assets of the recipient organization (or as an increase in a previously recognized interest). If a resource provider specifies an affiliate as beneficiary, the resource provider shall report an equity transaction as a separate line in its statement of activities, and the affiliate named as beneficiary shall report an interest in the net assets of the recipient organization. A recipient organization shall report an equity transaction as a separate line item in its statement of activities.

Disclosures

19. If a not-for-profit organization transfers assets to a recipient organization and specifies itself or its affiliate as the beneficiary, it shall disclose the following information for each period for which a statement of financial position is presented:

a. The identity of the recipient organization to which the transfer was made
b. Whether variance power was granted to the recipient organization and, if so, a description of the terms of the variance power
c. The terms under which amounts will be distributed to the resource provider or its affiliate
d. The aggregate amount recognized in the statement of financial position for those transfers and whether that amount is recorded as an interest in the net assets of the recipient organization or as another asset (for example, as a beneficial interest in assets held by others or a refundable advance).

20. If a not-for-profit organization discloses in its financial statements a ratio of fundraising expenses to amounts raised, it also shall disclose how it computes that ratio.

EFFECTIVE DATE AND TRANSITION

21. Except for the provisions of paragraph 12, the provisions of this Statement shall be effective for financial statements issued for fiscal periods beginning after December 15, 1999. Earlier application is encouraged. The provisions of paragraph 12, which are carried forward from Interpretation 42, shall continue to be effective for fiscal years ending after September 15, 1996. Unless this Statement is applied retroactively under the provisions of paragraph 22, 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 cumulative effect shall be based on a retroactive computation.

22. This Statement may be applied retroactively by restating opening net assets for the earliest year presented or for the year in which this Statement is first applied if no prior years are presented. In the period in which this Statement is first applied, an entity shall disclose the nature of any restatement and its effect on the change in net assets and each class of net assets for each period presented.

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

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Edmund L. Jenkins, *Chairman*
Joseph V. Anania
Anthony T. Cope
John M. Foster
Gaylen N. Larson
James J. Leisenring
Gerhard G. Mueller

Appendix A: ILLUSTRATIVE GUIDANCE

Introduction

23. This appendix provides a diagram to assist entities in the application of this Statement and examples that illustrate the application of the standards in specific situations. The diagram is a visual supplement to the written standards section. It should not be interpreted to alter any requirements of this Statement, nor should it be considered a substitute for those requirements. The relevant paragraphs of the standards section of this Statement and of FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* are identified in the parenthetical notes. The examples do not address all possible situations or applications of this Statement.

Diagram

24. The diagram depicts the process for determining the appropriate accounting for a transfer of assets from a donor to a recipient organization that accepts the assets and agrees to use those assets on behalf of a beneficiary specified by the donor or transfer those assets, the return on investment of those assets, or both to a beneficiary specified by the donor. (For additional

information about how a beneficiary is specified, refer to paragraphs 68 and 69.) The diagram also depicts the process for determining the appropriate accounting for a transfer from a resource provider that takes place in a similar manner but is not a contribution because the transfer is revocable, repayable, or reciprocal.

		RESOURCE PROVIDER OR DONOR	RECIPIENT ORGANIZATION	SPECIFIED BENEFICIARY
Transfer assets, including unconditional promises to give, to the recipient organization. ↓				
Does the resource provider retain the right to redirect the assets to another beneficiary? ↓No	Yes →	Debit: Refundable advance Credit: Asset or payable (paragraph 17)	Debit: Asset Credit: Refundable advance (paragraph 17)	No entry
Is the transfer accompanied by a conditional promise to give or otherwise revocable or repayable? ↓No	Yes →	Debit: Refundable advance Credit: Asset (paragraph 17)	Debit: Asset Credit: Refundable advance (paragraph 17)	No entry
Does the resource provider control the recipient organization and specify an unaffiliated beneficiary? ↓No	Yes →	Debit: Refundable advance Credit: Asset or payable (paragraph 17)	Debit: Asset Credit: Refundable advance (paragraph 17)	No entry
Does the resource provider specify itself or its affiliate as the beneficiary? ↓Yes (No ↓)				
Does the transfer meet all of the criteria in paragraph 18 (an equity transaction)? ↓Yes	No →	Debit: Asset Credit: Asset or payable (paragraph 17)	Debit: Asset Credit: Liability to resource provider (paragraph 17)	No entry except the one on the books of the resource provider when it is also the beneficiary
Did the resource provider specify itself as beneficiary? ↓No	Yes →	Debit: Interest in net assets of recipient organization Credit: Asset or payable (paragraph 18)	Debit: Asset Credit: Equity transaction (a separate line item in its statement of activities) (paragraph 18)	No entry except the one on the books of the resource provider

The resource provider specifies its affiliate as beneficiary.	→	Debit: Equity transaction Credit: Asset or payable (a separate line item in its statement of activities) (paragraph 18)	Debit: Asset Credit: Equity transaction (a separate line item in its statement of activities) (paragraph 18)	Debit: Interest in net assets of recipient organization Credit: Equity transaction (a separate line item in its statement of activities) (paragraph 18)
Did the donor grant variance power to the recipient organization?	**Yes** →	Debit: Expense Credit: Asset or payable (Statement 116, paragraph 18)	Debit: Asset Credit: Contribution revenue (paragraph 12)	No entry (paragraph 16)
↓No				
Are the recipient organization and the specified beneficiary financially interrelated organizations as defined in paragraph 13?	**Yes** →	Debit: Expense Credit: Asset or payable (Statement 116, paragraph 18)	Debit: Asset Credit: Contribution revenue (paragraph 14) (no entry is specified if the recipient organization is a trustee (paragraph 9))	Debit: Interest in net assets of recipient organization Credit: Change in interest in recipient organization (this entry is generally recorded periodically rather than contemporaneously (paragraph 15))
↓No				
Is the asset transferred to the recipient organization cash or another financial asset?	**Yes** →	Debit: Expense Credit: Asset or payable (Statement 116, paragraph 18)	Debit: Asset Credit: Liability (paragraph 8 or 11) (no entry is specified if the recipient organization is a trustee (paragraph 9))	Debit: Receivable or beneficial interest Credit: Contribution revenue (paragraph 15)
↓No				
The transferred asset is a nonfinancial asset.	→	Debit: Expense Credit: Asset or payable (Statement 116, paragraph 18)	No entry necessary (paragraph 8 or 11)	Debit: Receivable or beneficial interest Credit: Contribution revenue (paragraph 15)

Example 1—Gifts to a Federated Fundraising Organization

25. Federated Fundraising Organization provides three choices to donors in its annual workplace campaign. Donors can give without restriction, direct their gifts to one of four community needs identified by Federated Fundraising Organization, or specify that their gifts be transferred to an organization of their choice. The campaign literature informs donors that if they choose to specify an organization to which their gift should be transferred, the organization must be a social welfare organization within the community that has tax-exempt status under Internal Revenue Code Section 501(c)(3). The campaign literature also provides a schedule of the administrative fees that will be deducted from all gifts that are to be transferred to the donor's chosen organization.

26. Federated Fundraising Organization would recognize the fair values of the unrestricted gifts as contribution revenue that increases unrestricted net assets. It would recognize the fair values of the gifts targeted to the four specified community needs as contribution revenue that increases temporarily restricted net assets. It would recognize the fair values of gifts that are to be transferred to organizations chosen by the donors as increases in its assets and as liabilities to those specified beneficiaries (paragraph 11). However, if some of the gifts that are intended for specified beneficiaries are gifts of nonfinancial assets, Federated Fundraising Organization would recognize those nonfinancial assets and its liability to transfer them to the specified beneficiaries if that were its policy; otherwise, it would recognize neither the nonfinancial assets nor a liability (paragraph 11). Federated Fundraising Organization would recognize as revenue the administrative fees withheld from amounts to be transferred to the donors' chosen organizations.

27. The organizations chosen by the donors would recognize the fair value of the transferred assets as contribution revenue in accordance with the provisions of Statement 116 for unconditional promises to give (paragraph 15). Thus, the revenue would increase temporarily restricted net assets unless the donor specified a permanent restriction or it was clear that the donor intended the gift to support activities of the current period (Statement 116, paragraph 15). In accordance with paragraph 24 of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* the beneficiaries would report the gross amounts of the gifts as contribution revenue and the administrative fees withheld by Federated Fundraising Organization as expenses. The net amount would be recognized as a receivable (paragraph 15).

28. Instead of conducting the campaign as described above, Federated Fundraising Organization's campaign literature, including the form that donors use to specify a beneficiary, clearly states that if donors choose to give and specify a beneficiary, the allocation committee has the authority to redirect their gifts if the committee perceives needs elsewhere in the community that are greater. By giving under those terms, donors explicitly grant Federated Fundraising Organization variance power. Thus, Federated Fundraising Organization would recognize an unrestricted contribution (paragraph 12), and the specified beneficiaries would be

precluded from recognizing their potential for future distributions from the assets (paragraph 16).

Example 2—Gifts to a Community Foundation for the Benefit of a Not-for-Profit Organization

29. The governing board of City Botanical Society decides to raise funds to build an endowment. The governing board signs an agreement to establish a fund at Community Foundation. Community Foundation and City Botanical Society are not financially interrelated organizations. City Botanical Society solicits gifts to the fund. The campaign materials inform donors that the endowment will be owned and held by Community Foundation. The materials explain that the gifts will be invested and that the return from their investment will be distributed to City Botanical Society, subject to Community Foundation's spending policy and to Community Foundation's right to redirect the return to another beneficiary without the approval of the donor, City Botanical Society, or any other party if distributions to City Botanical Society become unnecessary, impossible, or inconsistent with the needs of the community. The donor-response card also clearly describes Community Foundation's right to redirect the return of the fund. The campaign materials indicate that donors should send their contributions to Community Foundation using a preaddressed envelope included for that purpose.

30. Community Foundation would recognize the fair value of gifts received as assets and as contribution revenue. The donors explicitly granted variance power by using a donor-response card that clearly states that gifts are subject to Community Foundation's unilateral power to redirect the return to another beneficiary (paragraph 12).

31. City Botanical Society is precluded from recognizing its potential rights to the assets held by Community Foundation because the donors explicitly granted variance power (paragraph 16). City Botanical Society would recognize only its annual grants from Community Foundation as contributions.

32. Whether a donor intended to make a contribution to Community Foundation may not be clear if the donor responds to the campaign materials by sending a contribution and the donor-response card directly to City Botanical Society. City Botanical Society could resolve the ambiguity by a review of the facts and circumstances surrounding the gift, communications with the donor, or both. If it is ultimately determined that the donor intended to make a gift to the fund owned and held by Community Foundation and to explicitly grant variance power, City Botanical Society would be an agent responsible for transferring that gift to Community Foundation (paragraph 11).

Example 3—Cash Transfer from a Not-for-Profit Organization to Another Not-for-Profit Organization for the Benefit of an Individual

33. Local Church transfers cash to Seminary and instructs Seminary to use the money to grant a scholarship to Individual, who is a parishioner of Local Church.

34. Seminary would recognize the cash and a liability to Individual in the same amount because it merely is facilitating the cash transfer from Local Church to Individual (paragraph 8).

Example 4—Assets Transferred from an Individual to a Bank to Establish a Charitable Trust for the Benefit of a Not-for-Profit Organization

35. Individual transfers assets to National Bank to establish an irrevocable charitable trust for the sole benefit of Museum. National Bank will serve as trustee. Individual sets forth in the trust agreement the policies that direct the economic activities of the trust. The trust term is five years. Each year, the income received on the investments of the trust will be distributed to Museum. At the end of year 5, the corpus of the trust (original assets and net appreciation on those assets) will be paid to Museum.

36. This Statement does not establish standards for the trustee, National Bank (paragraph 9). Because Museum is unable to influence the operating or financial decisions of the trustee, Museum and National Bank are not financially interrelated organizations (paragraph 13(a)). Therefore, Museum would recognize its asset (a beneficial interest in the trust) and contribution revenue that increases temporarily restricted net assets (paragraph 15). Museum would measure its beneficial interest at fair value, using a valuation technique such as the present value of the estimated expected future cash receipts from the trust's assets (paragraph 15). That value generally can be measured by the fair value of the assets contributed to the trust.

Example 5—Gift of Nonfinancial Assets to an Institutionally Related Foundation

37. Corporation sends dental supplies to University Foundation to be used by students in University's dental clinic. University Foundation's bylaws state that it is organized for the purpose of stimulating voluntary financial support from alumni and other donors for the benefit of University, especially for addressing the long-term academic priorities of University. As with most gifts it receives, University Foundation can choose the timing of the distribution to University and can place additional limitations on the distribution if those limitations are consistent with Corporation's restrictions. University does not control University Foundation.

38. University Foundation recognizes the fair value of the dental supplies (nonfinancial assets) as an increase in assets and as contribution revenue that increases temporarily restricted net assets because University and University Foundation are financially interrelated organizations (paragraph 14). University can influence the financial and operating decisions of University Foundation because the bylaws of University Foundation limit its activities to those that benefit University (paragraph 13(a)). University has an ongoing economic interest in the net assets of University Foundation because the results of University Foundation's activities accrue to the benefit of University (paragraph 13(b)). When University Foundation distributes the dental supplies to University, it reduces its assets and recognizes an expense and the expiration of the restriction.

39. Periodically, in conjunction with preparing its financial statements, University recognizes the change in its interest in the net assets of University Foundation, which would include the gift of nonfinancial assets received by the foundation (paragraph 15). Because payments from University Foundation are due in future periods, the increase (or decrease) in University's interest would be classified as a change in temporarily restricted net assets unless donors placed permanent restrictions on their gifts (footnote 6 to paragraph 15). When the dental supplies and other assets are distributed to it, University would recognize the assets received and decrease its interest in the net assets of University Foundation. [8]

40. If, instead, University controlled University Foundation, University would be able to access at will any assets held by University Foundation. Implying a time restriction on the gifts held by University Foundation would be inappropriate. When recognizing the change in its interest in University Foundation, University would report the resulting net assets in the same net asset classifications as University Foundation.

Example 6—Cash Gift to a Healthcare Foundation That Supports Three Affiliated Organizations

41. Corporation transfers cash to Healthcare Foundation and requests that Healthcare Foundation use the gift to provide healthcare benefits to the community. Healthcare Foundation's bylaws state that it is organized for the purpose of stimulating voluntary financial support from donors for the benefit of Hospital, Nursing Home, and Walk-in Clinic, all of which are located in the community. Hospital, Nursing Home, Walk-in Clinic, and Healthcare Foundation are affiliates that are controlled by Healthcare System.

42. Healthcare Foundation would recognize cash and contribution revenue that increases unrestricted net assets because Corporation did not specify a beneficiary for its gift. Healthcare Foundation can choose how to distribute the gift among the three affiliates (paragraph 69).

43. Periodically, in conjunction with preparing their financial statements, Hospital, Nursing Home, and Walk-in Clinic recognize the changes in their interests in the net assets of Healthcare Foundation (paragraph 15). When measuring its interest in Healthcare Foundation, each affiliate would include only the net assets of Healthcare Foundation that are restricted to that affiliate's use. None of them would include in their individual interest the net assets resulting from the gift received from Corporation because Healthcare Foundation can choose how to distribute the gift among the three affiliates. Healthcare System would include the net assets resulting from the gift received from Corporation, as well as other changes in the net assets of Healthcare Foundation, in its interest in the net assets of the foundation. [9]

44. If Healthcare Foundation, Hospital, Nursing Home, and Walk-in Clinic entered into an agreement that specified how unrestricted gifts to Healthcare Foundation should be divided, each affiliate would also include its share of Healthcare Foundation's unrestricted net assets,

computed in accordance with that agreement, when it measured its interest in Healthcare Foundation. Similarly, if Healthcare System directed that unrestricted gifts to Healthcare Foundation be distributed to the three affiliates in accordance with a specified formula, each affiliate would include its share of unrestricted net assets, computed in accordance with that formula, when it measured its interest in Healthcare Foundation.

45. If Corporation had specified that its gift be used for the benefit of Walk-in Clinic rather than giving without restriction, Healthcare Foundation would recognize contribution revenue that increases temporarily restricted net assets because Hospital, Nursing Home, Walk-in Clinic, and Healthcare Foundation are financially interrelated organizations (paragraph 14). Their relationship meets both requirements of paragraph 13. Hospital, Nursing Home, and Walk-in Clinic can influence the financial and operating decisions of Healthcare Foundation because all four organizations are under common control and the bylaws of Healthcare Foundation limit its activities to support of its three affiliates (paragraph 13(a)). Hospital, Nursing Home, and Walk-in Clinic each have an ongoing economic interest in the net assets of Healthcare Foundation because their rights to the assets held by Healthcare Foundation are residual rights in an ongoing relationship (paragraph 13(b)). Walk-in Clinic would include the net assets resulting from the gift received from Corporation in its interest in the net assets of Healthcare Foundation.

Example 7—Cash Gift to a Foundation That Supports Two Unaffiliated Not-for-Profit Organizations

46. Individual transfers cash to Arts Foundation and specifies that the money be used to support the expenses of the ballet. Arts Foundation's bylaws state that it is organized for the purpose of stimulating voluntary financial support from donors for the benefit of Community Ballet and Community Theater. At the time Arts Foundation was created, the three organizations entered into an agreement that specifies that if a donor does not specify the organization to which the gift should be transferred, the gift will be split equally between Community Ballet and Community Theater. The agreement also specifies that (a) representatives from the three organizations will meet annually and determine campaign priorities for the next year and (b) the costs of operating Arts Foundation will be equally split between Community Ballet and Community Theater. Arts Foundation is not controlled by Community Ballet, Community Theater, or Individual.

47. Arts Foundation would report assets and contribution revenue that increases temporarily restricted net assets because Community Ballet and Arts Foundation are financially interrelated organizations (paragraph 14). Community Ballet has the ability to influence the operating and financial decisions of Arts Foundation because the agreement allows Community Ballet to participate in the policymaking processes of Arts Foundation (paragraph 13(a)). The agreement also establishes Community Ballet's rights as residual rights because it specifies how the revenues and expenses of Arts Foundation will be shared (paragraph 13(b)). When Arts Foundation distributes assets to Community Ballet, it reduces its assets and recognizes an expense.

48. Periodically, in conjunction with preparing their financial statements, Community Ballet and Community Theater recognize the changes in their interests in the net assets of Arts Foundation (paragraph 15). Community Ballet would include the net assets resulting from the gift received from Individual in its interest in the net assets of Arts Foundation because Individual specified that the gift be used to support the ballet and Arts Foundation's bylaws limit it to supporting Community Ballet. Community Ballet would also include in its interest all other gifts restricted to its benefit and its share of unrestricted net assets. Because payments from Arts Foundation are due in future periods, the increase (or decrease) in Community Ballet's interest would be classified as a change in temporarily restricted net assets unless donors placed permanent restrictions on their gifts (footnote 6 to paragraph 15). When assets are distributed to Community Ballet, it recognizes the assets received and decreases its interest in the net assets of Arts Foundation.

49. In contrast to this example, some foundations and associations raise contributions for a large number of unaffiliated not-for-profit organizations (often referred to as member organizations). By virtue of their numbers, those member organizations generally do not individually influence the operating and financial decisions of the foundation (or association). Thus, any one member organization and the foundation (or association) are not financially interrelated organizations (paragraph 13(a)). Because the organizations are not financially interrelated, the foundation (or association) recognizes a liability if a donor to the foundation (or association) specifies that the gift should be transferred to a particular member organization (paragraph 11). The specified member organization would recognize a receivable and contribution revenue that increases temporarily restricted net assets unless the donor specified a permanent restriction or it was clear that the donor intended the gift to support activities of the current period (paragraph 15 and footnote 6).

Example 8—Gift of a Nonfinancial Asset to a Federated Fundraising Organization for Transfer to Another Not-for-Profit Organization

50. Individual transfers a car to Federated Fundraising Organization and requests that the car be transferred to Local Daycare Center. Individual specifies that Federated Fundraising Organization may use the car for one year before transferring it to Local Daycare Center. Local Daycare Center is a member organization of Federated Fundraising Organization, but that status does not confer any ability to actively participate in the policymaking processes of Federated Fundraising Organization.

51. Because Federated Fundraising Organization and Local Daycare Center are not financially interrelated organizations, Federated Fundraising Organization would recognize the car as an asset and a liability to Local Daycare Center if its policy were to recognize nonfinancial assets; otherwise, it would recognize neither the nonfinancial assets nor a liability (paragraph 11). If, instead of refusing the gift of the use of the car, Federated Fundraising Organization decides to use it for a year before transferring it to Local Daycare Center, Federated Fundraising

Organization would recognize the fair value of the gift of one-year's use of the car in accordance with paragraph 8 of Statement 116. (The use of a car is a contributed asset and not a contributed service.)

52. Local Daycare Center would recognize a receivable and contribution revenue that increases temporarily restricted net assets (paragraph 15). It would measure the contribution received at the fair value of the car; however, if Federated Fundraising Organization chooses to use the car for a year before transferring it, the fair value would be reduced accordingly.

Example 9—Transfer of Assets from a Not-for-Profit Organization to a Community Foundation to Establish an Endowment for the Benefit of the Not-for-Profit Organization

53. Symphony Orchestra receives a large unrestricted gift of securities from Individual. Because it has no investment expertise, Symphony Orchestra transfers the securities to Community Foundation to establish an endowment fund. The agreement between Symphony Orchestra and Community Foundation states that the transfer is irrevocable and that the transferred assets will not be returned to Symphony Orchestra. However, Community Foundation will make annual distributions of the income earned on the endowment fund, subject to Community Foundation's spending policy. The agreement also permits Community Foundation to substitute another beneficiary in the place of Symphony Orchestra if Symphony Orchestra ceases to exist or if the governing board of Community Foundation votes that support of Symphony Orchestra (a) is no longer necessary or (b) is inconsistent with the needs of the community. (That is, Symphony Orchestra explicitly grants variance power to Community Foundation.) The agreement does not permit either organization to appoint members to the other organization's governing board or otherwise participate in the policymaking processes of the other.

54. Community Foundation would recognize the fair value of the transferred securities as an increase in investments and a liability to Symphony Orchestra because Symphony Orchestra transferred assets to Community Foundation and specified itself as beneficiary (paragraph 17(d)). The transfer is not an equity transaction because Community Foundation and Symphony Orchestra are not financially interrelated organizations (paragraph 18(b)). Symphony Orchestra is unable to influence the operating or financial decisions of Community Foundation (paragraph 13(a)).

55. Symphony Orchestra would recognize the fair value of the gift of securities from Individual as contribution revenue. When it transfers the securities to Community Foundation, it would recognize the transfer as a decrease in investments and an increase in an asset, for example, as a beneficial interest in assets held by Community Foundation (paragraph 17(d)). Also, Symphony Orchestra would disclose in its financial statements the identity of Community Foundation, the terms under which Community Foundation will distribute amounts to Symphony Orchestra, a description of the variance power granted to Community Foundation, and the aggregate amount reported in the statement of financial position and how that amount is

described (paragraph 19).

56. In this example, Symphony Orchestra would recognize an asset and Community Foundation would recognize a liability because the transaction is deemed to be reciprocal (paragraph 96). Symphony Orchestra transfers its securities to Community Foundation in exchange for future distributions. Community Foundation, by its acceptance of the transfer, agrees that at the time of the transfer distributions to Symphony Orchestra are capable of fulfillment and consistent with the foundation’s mission. Although the value of those future distributions may not be commensurate with the value of the securities given up (because Symphony Orchestra is at risk of cessation of the distributions), the transaction is accounted for as though those values are commensurate. In comparison, the donors to Community Foundation in Example 2 explicitly grant variance power to Community Foundation in a nonreciprocal transfer. In that example, it is clear that the donors have made a contribution because they retain no beneficial interests in the transferred assets. Because the donors in Example 2 explicitly grant variance power to Community Foundation, it, rather than City Botanical Society, is the recipient of that contribution.

Example 10—Transfer of Investments from a Not-for-Profit Organization to a Foundation It Creates to Hold Those Assets

57. The governing board of Private Elementary School creates a foundation to hold and manage the school’s investments. It transfers its investment portfolio to the newly created PES Foundation. An agreement between Private Elementary School and PES Foundation allows the school to request distributions from both the original investments and the return on those investments, subject to approval by the governing board of PES Foundation, which will not be unreasonably withheld. The agreement also permits Private Elementary School to transfer additional investments in the future.

58. PES Foundation would recognize the fair value of the investments as assets and a liability to Private Elementary School because Private Elementary School transferred assets to PES Foundation and specified itself as beneficiary (paragraph 17(d)). The transfer of assets is not an equity transaction because Private Elementary School expects repayment of the transferred assets, and thus the transaction does not meet the criterion in paragraph 18(c).

59. Private Elementary School would decrease its investments and recognize another asset, for example, a beneficial interest in assets held by PES Foundation (paragraph 17(d)). Also, Private Elementary School would disclose in its financial statements the identity of PES Foundation, the terms of the agreement under which it can receive future distributions, including the fact that the distributions are not subject to variance power, and the aggregate amount reported in the statement of financial position and how that amount is described (paragraph 19).

Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

CONTENTS

Paragraph Numbers

Appendix B: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

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

Background Information

61. The Board issued FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* in June 1993. In May 1995, at the request of several community foundations and other interested parties, the Board decided to provide an interpretation of paragraph 4 of Statement 116 to address whether a transfer of assets from a donor to a community foundation is a contribution received by the community foundation if the donor (a) directs the foundation to distribute the transferred assets, the return on investment of those assets, or both to a specified beneficiary and (b) grants the foundation variance power to redirect the use of the transferred assets away from the specified beneficiary.

62. Subsequently, other not-for-profit organizations, including federated fundraising organizations and institutionally related foundations, asked the Board to expand the scope of the project to describe the circumstances in which they could report contributions received for transfers of assets that ultimately would be transferred to another organization. Some organizations, particularly federated fundraising organizations and institutionally related foundations, said that if paragraph 4 of Statement 116 were interpreted in a broad way, many or most of their current activities no longer would be accounted for as contributions received and contributions made. They asserted that recording only some of their fundraising activities as contributions received would understate the amounts raised, result in misleading financial statements, and render meaningless many key financial ratios used in the industry. The Board considered the concerns expressed by those organizations and decided to address the applicability of paragraph 4 of Statement 116 for all not-for-profit organizations that receive and distribute assets for charitable purposes.

63. In December 1995, the Board issued an Exposure Draft of a proposed Interpretation, *Transfers of Assets in Which a Not-for-Profit Organization Acts as an Agent, Trustee, or Intermediary*. That Exposure Draft would have clarified the use of the terms *agent, trustee,* and *intermediary* in Statement 116. The Board received 115 comment letters on the Exposure Draft.

The Board considered the concerns raised by respondents at several public meetings. In September 1996, the Board issued FASB Interpretation No. 42, *Accounting for Transfers of Assets in Which a Not-for-Profit Organization Is Granted Variance Power,* which had a narrower scope than that of the Exposure Draft. Interpretation 42 clarified that an organization that receives assets acts as a donee and a donor, rather than as an agent, trustee, or intermediary, if the donor specifies an unaffiliated beneficiary or beneficiaries and explicitly grants the recipient organization variance power, that is, grants the unilateral power to redirect the use of the assets away from the specified beneficiary or beneficiaries. With only minor editorial changes, the guidance in that Interpretation is incorporated in paragraph 12 of this Statement.

64. Concurrent with its decision to issue Interpretation 42, the Board also agreed to consider the following three situations in a second phase of the project: (a) accounting by a recipient organization that is not granted variance power, (b) accounting by a beneficiary if a donor transfers assets to a recipient organization and specifies that the assets must be conveyed to the beneficiary or used for its benefit, and (c) accounting for transfers in which the resource provider and the beneficiary are the same party.

65. In July 1998, the Board issued an Exposure Draft of a proposed Statement, *Transfers of Assets involving a Not-for-Profit Organization That Raises or Holds Contributions for Others.* The Board received over 450 comment letters from representatives of over 280 entities. Most respondents commented only on the issue of accounting by agents and intermediaries; the majority of them were federated fundraising organizations. The concerns raised by respondents were considered by the Board at four public meetings. The redeliberation of the issues addressed by this Statement did not result in substantive changes in the proposed requirements; however, disclosure requirements, clarifications, and illustrative guidance were added. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing.

Basis for Conclusions

66. Paragraph 4 of Statement 116 states that that Statement does not apply in situations in which an organization acts as an agent, trustee, or intermediary between two or more other parties but is not itself a donee and donor. Paragraphs 52–54 and 175 of Statement 116, as well as Examples 2–5 in paragraphs 177–181 of Statement 116, indicate the Board's intentions. Those examples focus on an organization that is both a trustee and a donee (Example 2), an organization that is an agent for the receipt of goods (Example 3), an organization that facilitates a transfer of assets between other parties and is neither a donee nor a donor (Example 4), and an organization that is an intermediary in processing a transfer payment between other parties (Example 5).

Recipient Organizations

Intermediary

67. In general usage, the term intermediary encompasses a broad range of situations in which an organization acts between two or more other parties. In some of those situations, the organization may be both a donee (when it receives a gift) and a donor (when it makes a gift to a beneficiary). In other situations, the organization does not itself receive or make a gift, but it may be a facilitator, conduit, agent, or trustee between a donor and a donee. The use of the term intermediary in paragraph 4 of Statement 116 is not intended to preclude charitable and other not-for-profit organizations from accounting for transfers of assets they receive and transfers of assets they make as contributions if they are donees and donors. Instead, the use of the term intermediary in Statement 116 is narrow and specific and refers to situations in which an organization facilitates the transfer of assets but does not itself receive or make a gift.

Agent and Trustee

68. In some agency and some trustee arrangements, a resource provider has not made a gift because it can derive future economic benefit from the transferred assets. In other cases, it is clear that the resource provider is a donor and has made a gift; however, it may not be clear who the donee is because the donor transfers the assets to the recipient organization but specifies another entity as beneficiary of the gift. A donor may specify the beneficiary (a) by name, (b) by stating that all entities that meet a set of donor-defined criteria are beneficiaries, or (c) by actions surrounding the transfer that make clear the identity of the beneficiary, such as by responding to a request from an organization that exists to raise assets for the beneficiary. Because paragraph 53 of Statement 116 states that "the recipient of assets who is an agent or trustee has *little or no discretion* in determining how the assets transferred will be used" (emphasis added), the Board considered whether a recipient organization can recognize a contribution received if its discretion is limited by the donor's specification of a beneficiary.

69. By contrasting three situations, paragraphs 53 and 54 of Statement 116 indicate the Board's view that an organization has discretion sufficient to recognize a contribution received if it can choose the beneficiaries of the assets. Paragraph 53 describes two situations that may be agency transactions: (a) a recipient organization that receives cash that it must disburse to all that meet guidelines specified by the resource provider or return the cash and (b) a recipient organization that receives cash that it must disburse to individuals identified by the resource provider or return the cash. Paragraph 54 contrasts those two situations to a situation in which ". . . 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. . . ." In that latter situation, Statement 116 specifies that ". . . the recipient generally is involved in receiving and making contributions" (paragraph 54). Thus, if a donor uses broad generalizations to describe beneficiaries or to indicate a field of interest, such as Midwestern flood victims, homeless individuals, or teenaged

children, the recipient organization has the ability to choose the beneficiaries of the assets and is a donee.

70. Similarly, the recipient organization has the ability to choose the beneficiaries if neither the language used by the donor nor the representations of the recipient organization cause the donor to believe that it can direct the gift to a specified beneficiary. For example, a recipient organization might request that a donor indicate an organization that best serves the needs of the community and tell the donor that the information will be considered by the allocation committee when it makes its distributions to community organizations. If that request is conveyed in a manner that leads a donor to reasonably conclude that its role is merely to propose a possible allocation, the recipient organization has the discretion to choose the beneficiary of the assets.

71. Conversely, if that request is conveyed in a manner that creates a donor's reasonable expectation that the gift will be used for the benefit of or will be transferred to the indicated beneficiary, the recipient organization does not have discretion to choose the beneficiary unless the donor explicitly grants variance power. Paragraph 2 of Interpretation 42 stated that "a recipient organization that is directed by a resource provider to distribute the transferred assets . . . to a specified third-party beneficiary acts as a donee and a donor . . . if the resource provider explicitly grants the recipient organization the unilateral power to redirect the use of the transferred assets to another beneficiary" (footnote reference omitted).

72. The Board considered whether discretion to determine the timing of the distribution to the specified beneficiary, by itself, gives the recipient organization discretion sufficient to recognize a contribution. The Board concluded that that limited discretion is not sufficient. The ability to choose a payment date does not relieve an entity from its obligation to pay.

Meeting the Definition of a Liability

73. To qualify as a liability of a recipient organization, an agreement to transfer assets to the beneficiary specified by the donor must obligate the recipient organization, leaving it little or no discretion to avoid a future sacrifice of assets without significant penalty. FASB Concepts Statement No. 6, *Elements of Financial Statements,* states, "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" (paragraph 35; footnote references omitted).

74. The Board concluded that when a recipient organization accepts assets from a donor and agrees to use them on behalf of or transfer them to a beneficiary specified by the donor, the recipient organization assumes an obligation that meets the definition of a liability unless the donor explicitly grants variance power. The recipient organization represents to the donor that it will deliver the assets, the return on investment of those assets, or both to the beneficiary specified by the donor. The donor relies on that representation and expects the recipient organization to carry out its duties in due course or at the time specified by the donor. Thus,

unless the recipient organization explicitly reserves a right to do so, it cannot, at its own discretion, avoid its transfer to the specified beneficiary or make the transfer to a different beneficiary. The donor has a right to expect that the assets will be transferred to the specified beneficiary in the future, and the recipient organization has a social and moral obligation, and most likely a legal obligation, to make the transfer. Consequently, if it is the donor's understanding that the recipient organization will transfer the contributed assets to its intended beneficiary, that beneficiary, not the recipient organization, has received the contribution.

75. The Board concluded that a representation made to a donor to transfer assets to a specified beneficiary differs from other representations made to donors when accepting gifts, such as representations to use assets in a particular program or to buy a fixed asset. That second type of representation (a donor-imposed restriction) is a fiduciary responsibility, and ". . . 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" (Concepts Statement 6, paragraph 57). The donor's identification of a specific beneficiary to which the assets must be transferred differentiates the transaction from time- and purpose-restricted contributions and makes the recipient organization's representation to the donor one that constitutes a present obligation of the recipient organization to another entity.

Meeting the Definition of an Asset

76. To qualify as an asset of the recipient organization, an asset received from a donor must provide a recipient organization with a future economic benefit that it can control. Concepts Statement 6 states, "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (paragraph 25; footnote reference omitted).

77. The Board concluded that a recipient organization should recognize an asset because it has the ability to obtain and control the future economic benefits of the assets transferred to it, albeit temporarily. The recipient organization has an asset because, until it must transfer cash to the beneficiary, it can invest the cash received, use it to pay other liabilities or to purchase goods or services, or otherwise use the cash for its own purposes. Similarly, most financial assets received also can be temporarily used for the recipient organization's own purposes. Those assets should be recognized in the financial statements along with the liability to transfer the assets to the specified beneficiary.

78. However, the nature of nonfinancial assets (for example, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, or services) usually limits the ability of an intermediary or agent to use the assets for its own benefit before it transfers them to the beneficiary. For example, fiduciary responsibilities of the intermediary or agent prevent it from using the assets if they are of a type that could be used up or would diminish in value if used. Also, if the assets are nonfinancial assets, the intermediary or agent is likely to deliver to the

beneficiary the same assets that it received from the donor. Thus, any changes in the value of those assets during the holding period would accrue to the beneficiary (rather than the intermediary or agent). Additionally, excluding nonfinancial assets from the recognition requirement also has the practical effect of relieving an intermediary or agent from the burden of obtaining fair values for food, supplies, and similar items that it holds only for a short time.

79. The Board decided to permit, but not require, the recipient organizations described in paragraphs 8 and 11 of this Statement to recognize transferred nonfinancial assets and the liability to transfer those nonfinancial assets to the specified beneficiary. Several respondents to the Exposure Draft commented on reporting nonfinancial assets; half of them agreed with the Board's conclusions. The majority of the respondents that disagreed said that recipient organizations should recognize all nonfinancial assets that they hold. The Board acknowledges that a standard that permits, but does not require, the recognition of nonfinancial assets may result in reporting that excludes some items from the statement of financial position even though they are assets of the recipient organization because it can temporarily obtain some economic benefits from those items. However, a standard that requires recognition of all nonfinancial assets might result in inclusion of items in the statement of financial position that do not meet the definition of an asset in Concepts Statement 6 because the recipient organization does not control any economic benefits from those items; thus, that standard, also, would arguably be flawed. The Board was not convinced that requiring recognition of all nonfinancial assets would be preferable, and it decided to retain the conclusions of the Exposure Draft.

80. The Board considered whether recipient organizations that are trustees of charitable trusts should recognize an asset and a liability for trust assets but decided that this Statement should not establish standards for accounting by trustees. The Board specified two reasons for that decision. First, a recipient organization that is a trustee may not have an asset because a trustee's ability to obtain the benefits of trust assets is usually significantly limited by its fiduciary responsibilities and by the trust agreement. For example, the trust agreement often requires separate identification of trust property, defines permissible investments, and describes allocation of investment return. Second, current financial reporting requirements for trustees that are banks differ from requirements for trustees that are not-for-profit organizations,[10] primarily in the area of whether the trustees include the assets and liabilities of trusts in their own financial statements. A separate project on consolidated financial statements is expected to provide guidance for determining when, if ever, a trustee controls a trust and should include the assets and liabilities of the trust in its consolidated financial statements.

81. Only a few respondents to the Exposure Draft commented on the exclusion of standards for trustees, and none of those respondents indicated that the existing guidance needed improvement. One respondent asked whether the Board intended to exclude certain not-for-profit organizations from the scope of this Statement by its decision to exclude standards for trustees. That respondent explained that in some states not-for-profit organizations are organized under trust law rather than as corporations. Those organizations are not trustees as described in paragraph 9 of this Statement because, under those statutes, they hold assets "in

trust" for the community or some other broadly described group, rather than for a specific beneficiary. Thus, those organizations are included within the scope of this Statement.

Transfers in Which the Donor Grants Variance Power

82. This Statement supersedes Interpretation 42 and incorporates its conclusions without reconsideration. Paragraphs 12–15 of the basis for conclusions of that Interpretation are also incorporated as paragraphs 83–86 of this Statement.

83. The Board concluded that an organization that receives assets has discretion sufficient to recognize a contribution received if it can choose the beneficiary of the assets. For example, if a donor instructs a recipient organization to use the assets only within a particular field of interest, the recipient organization has discretion to choose a specific beneficiary and, accordingly, has received a contribution. In interpreting the application of Statement 116 to situations in which a donor specifies an unaffiliated beneficiary, the Board concluded that a recipient organization can choose the beneficiary if the donor explicitly grants the recipient organization variance power, that is, the power to override the donor's instructions without approval by another party.

84. A recipient organization may obtain the power to redirect the use of assets transferred to it through various means, including standard provisions in donor-choice forms or explicit donor stipulation in gift instruments. For example, community foundations may obtain the unilateral power to redirect the use of assets transferred to them through explicit reference to the variance power granted to them by donors in written gift instruments. The variance power may be explicitly referred to in the terms of the gift instrument and further explained in the community foundation's declaration of trust, articles of incorporation, or governing instruments. Variance power, required by the U.S. Treasury Regulations for trust-form community foundations, is described in those Regulations as the power to

> . . . modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations if in the sole judgment of the governing body (without the necessity of the approval of any participating trustee, custodian, or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. [1.170A–9(e)(11)(v)(B)(1)]

85. Some say that variance power, as described in the U.S. Treasury Regulations, is conditional. They say that until a change in circumstances occurs and the recipient organization exercises its power to redirect the use of the assets transferred by the donor, the recipient organization should not recognize a contribution (or revenue) because it does not control the future economic benefits of the transferred assets. Some also say that organizations use variance power infrequently because use of that power is typically conditioned on a change in circumstances.

86. The Board believes that while variance power, as described in the U.S. Treasury

Regulations, has the appearance of being conditional, the asserted "condition" is not effective because (a) the condition can be substantially met solely by a declaration of the governing board of the recipient organization that states that a distribution to a specified beneficiary is unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or organizations being served and (b) the variance power is unilateral—exercise of the power does not require approval from the donor, beneficiary, or any other interested party. The Board concluded that an organization that is explicitly granted variance power has the ability to use assets it receives to further its own purpose—meeting community needs—from the date it accepts the assets. In that situation, the recipient organization should account for receipt of funds by recognizing an asset and corresponding contribution revenue. Respondents to the December 1995 Exposure Draft generally agreed with the Board's conclusion that an organization that is explicitly granted variance power has sufficient discretion to recognize assets and contribution revenue.

87. The Board's conclusions about transactions in which a resource provider grants variance power but specifies itself or its affiliate, rather than a third party, as beneficiary are discussed in paragraph 96.

Beneficiaries

88. The Board considered whether a beneficiary's rights to the assets transferred to a recipient organization should be recognized as an asset of the beneficiary. The Board concluded that the beneficiary should recognize those rights as an asset if the recipient organization is not explicitly granted variance power. Clearly, unless the donor grants variance power, the recipient organization's representation to the donor that it will transfer the assets to the specified beneficiary is evidence of a probable future benefit to that beneficiary. The donor expects that the recipient organization will deliver and that the specified beneficiary will receive the assets it transferred. In addition, the recipient organization has a social and moral obligation, and most likely a legal obligation, to deliver the assets to the beneficiary. That obligation provides the beneficiary with the ability to obtain the future benefit of the assets. (An obligation may not exist if the recipient organization and the specified beneficiary are financially interrelated organizations. Refer to paragraphs 98–104.) Finally, unless the recipient organization is explicitly granted variance power, the event that gives rise to the beneficiary's rights (the acceptance of the assets from the donor and the representation that they will be transferred to the specified beneficiary) has already occurred.

89. In contrast, the Board concluded that if the recipient organization is explicitly granted variance power, the specified beneficiary does not have a right that meets the criteria for recognition in financial statements. Because variance power is defined as a unilateral power, another beneficiary can be substituted without the permission of the donor, the specified beneficiary, or any other interested party. Thus, the specified beneficiary is unable to control others' access to the future economic benefits of the assets held by the recipient organization. Further, because the recipient organization can change the beneficiary at will, no past event

giving rise to a beneficiary's right has occurred and none will occur until the recipient organization promises to give the transferred assets to the specified beneficiary. Thus, the specified beneficiary's potential for future distributions from the assets held by the recipient organization does not meet the definition of an asset.

90. Most respondents to the Exposure Draft that commented about beneficiary reporting agreed with the Board's conclusions. However, several of those that disagreed expressed concerns about the administrative burdens of identifying assets that are held by recipient organizations for the beneficiary. In addition, many respondents that act as recipient organizations expressed concerns about the burden of notifying beneficiaries of the amounts of assets they hold. The Board believes that in most instances recipient organizations tend to raise resources on an ongoing basis for a select group of beneficiaries. Thus, specified beneficiaries generally are aware of the efforts of recipient organizations, and the ongoing relationships between the organizations usually enable the beneficiaries to request and receive the information that they need for the preparation of their annual (or quarterly) financial statements. Although systems may need to be enhanced to gather or provide information on a more timely basis, the Board believes that the basic systems generally are in place.

Relationships between Resource Providers, Recipient Organizations, and Beneficiaries

91. Relationships between two or more of the parties—resource provider (or donor), recipient organization, and beneficiary—may indicate that a recipient organization's role differs from that of an agent (paragraph 10). The Board decided that to ensure comparable accounting between similar organizations, it was necessary to consider the three specific situations that are discussed in paragraphs 92–104.

Relationship between a Resource Provider and a Recipient Organization

92. If a resource provider transfers assets to a recipient organization that it controls and directs that recipient organization to transfer the assets to a specified beneficiary, the resource provider, by virtue of its control over the recipient organization, has the ability to revoke the transfer or to substitute another beneficiary or another purpose for the transferred assets. Because the resource provider retains control of the transferred assets, it has not made a contribution. The Board concluded that until the transferred assets are beyond the control of the resource provider, the transaction should be reported as an asset by the resource provider and a liability by the recipient organization (for example, as a refundable advance).

93. Some respondents to the Exposure Draft asked the Board to provide a definition of control. The Board declined to do so in this Statement. Several definitions of control exist. For the purposes of FASB Statement No. 57, *Related Party Disclosures*, control is defined as "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract, or otherwise" (paragraph 24(b)). AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations,* has a similar definition; it defines control as "the direct or indirect ability to

determine the direction of management and policies through ownership, contract, or otherwise" (glossary). The guidance in those documents should be considered when determining whether one entity controls another. In February 1999, the Board issued an Exposure Draft, *Consolidated Financial Statements: Purpose and Policy,* which defines control as "the ability of an entity to direct the policies and management that guide the ongoing activities of another entity so as to increase its benefits and limit its losses from that other entity's activities" (paragraph 6(a)). If the provisions of that Exposure Draft are adopted, its definition of control will supersede those in Statement 57 and SOP 94-3.

Relationship between a Resource Provider and a Beneficiary

94. The Board decided that if a resource provider and a specified beneficiary are one and the same or if they are affiliates (as defined in Statement 57, paragraph 24(a)), the transfer of assets to the recipient organization differs from one in which a resource provider specifies an unaffiliated beneficiary. If a resource provider and a beneficiary are neither the same nor affiliated, the resource provider retains no future economic benefit in the assets transferred and a contribution has been made. However, if a resource provider specifies itself or its affiliate as the beneficiary, it retains a future economic benefit in the transferred assets. Because the transfer of assets is not a nonreciprocal transfer, [11] a contribution neither has been made by the resource provider nor has been received by the beneficiary. The Board concluded that the transfer should be reported as an exchange of an asset for another asset by the resource provider and as an asset and a liability by the recipient organization or as an equity transaction by both entities.

95. The Exposure Draft used the term *equity transfer* rather than *equity transaction.* Some respondents found the use of that term confusing because the AICPA Audit and Accounting Guide, *Health Care Organizations,* uses the term equity transfer to describe another type of transaction—one in which the transferor receives nothing of immediate economic value; for example, the transferor does not receive a financial interest or ownership. The transaction described in the healthcare organizations Guide may not meet the second of the three criteria in paragraph 18 of this Statement—the requirement that the resource provider and the recipient organization be financially interrelated organizations. Although the organizations meet the first requirement of paragraph 13 of this Statement (because the healthcare organizations Guide requires that the transferor and the transferee be affiliates), they may not meet the second requirement of that paragraph. To avoid confusion, the term in this Statement was changed from equity transfer to equity transaction.

96. If a resource provider transfers assets to a recipient organization and specifies itself or its affiliate as the beneficiary, the Board believes that a presumption that the transfer is reciprocal, and therefore not a contribution, is necessary even if the resource provider explicitly grants the recipient organization variance power. At the time of the transfer, the resource provider expects to receive future distributions because it specifies itself or its affiliate as a beneficiary, and, by its acceptance of the transfer, the recipient organization agrees that distributions to the resource provider or its affiliate are capable of fulfillment and consistent with the recipient organization's

mission. The value of those future distributions, however, may not be commensurate with the value of the transferred assets because the resource provider is at risk of cessation of the distributions as a result of its grant of variance power. If the values exchanged are not commensurate, in concept, the transfer is in part a contribution (paragraphs 3 and 51 of Statement 116). The Board decided that presuming that the entire transfer is reciprocal is preferable to requiring that a resource provider compute the contribution portion because that computation would require measuring the risk that the variance power would be exercised. Further, it is not clear whether a not-for-profit organization (resource provider) can grant a recipient organization the legally valid power to redirect the use of the transferred assets to another beneficiary if the not-for-profit organization originally received those assets with donors' restrictions on their use. The recipient organization might redirect the use of the assets in a way that could violate the resource provider's fiduciary responsibilities to its own donors. The Board decided that it is necessary to presume that the resource provider has retained the future economic benefits of the transferred assets.

97. Some respondents also asked about other transfers to affiliates that did not meet the criteria of either paragraph 17 or 18 of this Statement. The answers to those questions are beyond the scope of this Statement. This Statement sets standards only for transfers to a recipient organization that is not the beneficiary of the transferred assets.

Relationship between a Recipient Organization and a Beneficiary

98. The Board decided that if a beneficiary and a recipient organization are financially interrelated organizations, the recipient organization may not have a liability to deliver the transferred assets, the return on investment of those assets, or both to the beneficiary. Some respondents disagreed and said that a recipient organization should report a liability regardless of its relationship to the beneficiary. The Board concluded that because the beneficiary can influence the operating and financial decisions of the related recipient organization (or alternatively, the recipient organization can influence the operating and financial decisions of the beneficiary), their relationship differs from that of most debtors and creditors. In the absence of a donor's instruction to do otherwise, a related recipient organization often has the discretion to decide whether to transfer the assets to the beneficiary, to invest them and transfer only the investment return, or to spend them for a purpose that directly or indirectly benefits the beneficiary (including payment of the recipient organization's operating expenses). Further, the beneficiary generally does not attempt to compel delivery of the transferred assets if the recipient organization chooses to hold them. The beneficiary and its related recipient organization often have a collective mission—to best provide the philanthropic services of the beneficiary. They cooperate because they are more effective in achieving their missions when they work harmoniously. Thus, the nature of the relationship between the recipient organization and the beneficiary may permit the recipient organization to avoid the delivery of the transferred assets without significant penalty. If that is so, there is no present obligation to transfer assets or provide services in the future and no liability exists.

99. The Board attempted to define a set of criteria for agents, trustees, and intermediaries that would distinguish transactions that create liabilities from those that increase net assets (contribution revenue). It decided that the criteria being developed were overly complex and not operational. Instead, the Board decided that if a recipient organization and a beneficiary are financially interrelated organizations and the recipient organization is not a trustee, the recipient organization should recognize a contribution received, and the beneficiary should recognize its interest in the net assets of the recipient organization and subsequent changes in the value of that interest.

100. In some cases, the relationship between a beneficiary and a recipient organization is characterized by control in addition to an ongoing economic interest in net assets. If existing standards required consolidation whenever there is a control relationship, [12] then a contribution to either the beneficiary or the recipient organization would be a contribution to the consolidated entity and would be reflected in the consolidated financial statements. If the entities were consolidated, the question of whether the contribution should be recognized by the recipient organization or the beneficiary would be relevant only to separately issued financial statements of the controlled entity. The lack of standards requiring consolidation when a control relationship exists was a factor in the Board's decision to specifically address the relationship between the recipient organization and the beneficiary. Several respondents to the Exposure Draft said that the Board should defer establishing standards for financially interrelated organizations until after the completion of the Board's consolidations project. Because the guidance developed in this project is consistent with the proposed guidance in the consolidations project, the Board saw no compelling reason to delay the issuance of this Statement.

101. The Board considered whether special accounting should apply only to relationships between recipient organizations and beneficiaries that are characterized by control but determined that it would be inappropriate to base the approach on a definition of control that is currently under examination in the Board's project on consolidations. Some respondents to the Exposure Draft suggested that the Board could use *significant influence* rather than control as the basis for its approach. However, significant influence is described in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* in terms of ownership of voting shares. Thus, it could not be applied easily and on a consistent basis to relationships between not-for-profit organizations. Instead, the Board chose to describe relationships that demonstrate one organization's ability to influence the operating and financial decisions of the other.

102. The Board also focused on relationships in which a beneficiary's rights to the assets held by the recipient organization are residual rights; that is, the value of those rights increases or decreases as a result of the investment, fundraising, operating, and other activities of the recipient organization. Although the beneficiary may not have control of the recipient organization, its interest is essentially equivalent to a parent's residual interest in a subsidiary or an investor's residual interest if the investor has significant influence over the investee's operating and financial policies. In contrast, if a relationship between a beneficiary and a recipient organization is not characterized by an ongoing economic interest of a residual nature,

the rights of a beneficiary are fixed or determinable and similar to those of a creditor.

103. The Board concluded that it is appropriate to use a method of accounting that, like the equity method of accounting, recognizes increases or decreases in the economic resources underlying the beneficiary's interest in the periods in which those changes are reflected in the accounts of the recipient organization. That method is appropriate because the cooperative relationship with the recipient organization allows the beneficiary to influence the operating or financial decisions of the recipient organization, and "The equity method tends to be most appropriate if an investment enables the investor to influence the operating or financial decisions of the investee" (Opinion 18*,* paragraph 12).

104. The Board noted that SOP 94-3 defines and provides examples of economic interest. Chapter 11 of the healthcare organizations Guide has the same definition and examples. Although most of the relationships described in that definition are potentially ongoing economic interests in the net assets, some do not meet the criterion in paragraph 13(b) of this Statement. Only economic interests that are both ongoing and residual interests in the net assets are ongoing economic interests in the net assets.

Disclosures

105. A few respondents to the Exposure Draft suggested that the Board require organizations to disclose the ratio of fundraising expenses to amounts raised. They expressed concern that a recipient organization might appear less efficient if the ratio was computed using contributions rather than total amounts raised as the denominator. The Board observed that not-for-profit organizations do not agree on how fundraising ratios should be computed or whether they should be required in financial statements. Rather than requiring a ratio and prescribing one method of computing it, which might appear to be an endorsement of that ratio as the best measure of fundraising efficiency, the Board decided that if an organization chooses to include on the face of its statement of activities or in the notes to its financial statements a ratio of fundraising expenses to total amounts raised, it must describe how it computes that ratio.

106. Other respondents to the Exposure Draft suggested that specified beneficiaries should disclose information about legal or donor-imposed restrictions on the availability of assets held for them by recipient organizations. In most cases, the disclosures required by paragraphs 11 and 14 of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* are sufficient. However, if an organization transfers assets to another and specifies itself or its affiliate as the beneficiary, the users of its financial statements might not be aware of additional limitations imposed by the terms of the agreement with the recipient organization. The Board believes that the disclosures specified in paragraph 19 of this Statement provide information that is useful in assessing management's stewardship and the organization's liquidity and exposure to risk.

107. A few respondents asked whether the disclosure requirements of paragraph 20 of Opinion 18 apply to beneficiaries that report their interests in the net assets of the recipient organization

using a method similar to the equity method. The specific terms of those requirements are not particularly relevant because they are expressed in terms of the ownership of common stock of another entity. The Board decided that the disclosure requirements of SOP 94-3 are sufficient to provide the information that users of financial statements are likely to need.

Reporting Results of Fundraising Efforts in the Financial Statements

108. Recipient organizations that solicit and collect cash, products, or services and distribute those assets for charitable purposes have expressed concern that reporting less than 100 percent of the results of their fundraising efforts as contribution revenue would understate the magnitude of their central operations. The Board acknowledges the desire of those organizations to report the results of total campaign efforts to the users of financial statements. However, the Board believes that if a recipient organization is acting as an agent, trustee, or intermediary, the assets received are not its revenue. Although the receipt of the transferred assets is an inflow of assets from activities that constitute the entity's ongoing major or central operations (and, thus, might seem to meet the definition of revenue in paragraph 78 of Concepts Statement 6), that inflow is accompanied by an offsetting liability to the specified beneficiary. Consequently, the receipt of the transferred assets is not revenue, just as a deposit to an escrow account (which is also an inflow of assets from activities that constitute the entity's major or central operations) is not revenue to the real estate agency that receives it.

109. To the extent that an organization's activities include raising and distributing cash, the total amounts raised and distributed may be evident from a statement of cash flows prepared using the direct method for reporting operating cash flows. In addition, generally accepted accounting principles do not preclude entities from providing supplementary information or additional disclosures. An organization may provide a schedule reflecting fundraising efforts or campaign accomplishments or may disclose total amounts raised on the statement of activities, provided that amounts raised in an agent, trustee, or intermediary capacity are not shown as revenues. The following illustration provides three possible methods of displaying fundraising efforts in the revenue section of the statement of activities. Methods 2 and 3 display the total amounts raised.

An organization raises $6,000 of contributions, $100 of other support, and $4,000 accounted for as agent, trustee, or intermediary transactions because donors have specified beneficiaries without granting variance power. Of the $4,000 accounted for as agent, trustee, or intermediary transactions, the organization pays out $3,600 to specified beneficiaries and retains $400 as its administrative fee.

Method 1

Contributions	$6,000
Other support	100
Total support	6,100
Administrative fees retained on amounts designated by donors for specific organizations	400
Total support and revenue	$6,500

Method 2

Contributions		$6,000
Other support		100
Total support		6,100
Other revenue:		
Amounts designated by donors for specific organizations	$4,000	
Less: Amounts held for or remitted to those organizations	3,600	
Administrative fees retained on amounts designated by donors for specific organizations		400
Total support and revenue		$6,500

Method 3

Total amounts raised*	$10,000
Less: Amounts designated by donors for specific organizations	4,000
Total contributions	6,000
Other revenue:	
Other support	100
Administrative fees retained on amounts designated by donors for specific organizations	400
Total support and revenue	$ 6,500

The Board concluded that each of the methods reports the recipient organization's revenues ($6,500) in a way that is both easily understood by users of the financial statements and representationally faithful.

Effective Date and Transition

110. The Board decided that this Statement should be effective for financial statements issued for fiscal periods beginning after December 15, 1999, except for the provisions of paragraph 12, which already are effective because they are incorporated from Interpretation 42. A few respondents to the Exposure Draft said that organizations might have difficulty implementing this Statement by its proposed effective date, which was for fiscal years beginning after June 15, 1999. The Board believes that the revised effective date provides adequate time for entities to implement this Statement's provisions and for users of financial statements to understand how those provisions affect their analyses. Although the provisions of this Statement must be applied retroactively to appropriately reflect the interests of specified beneficiaries in endowment gifts held on their behalf by recipient organizations, the Board decided that the effect of applying the provisions could be reported either as a cumulative effect of a change in accounting principle or by restatement of prior years' information. The Board encourages earlier application of this Statement.

Footnotes

FAS136, Footnote 1—FASB Statement No. 57, *Related Party Disclosures* defines *affiliate* as "a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an enterprise" (paragraph 24(a)). Thus, an *unaffiliated* beneficiary is a beneficiary other than the donor or its affiliate.

FAS136, Footnote 2—In some cases, the donor, recipient organization, or beneficiary is a governmental entity. This Statement and other pronouncements of the Financial Accounting Standards Board do not apply to governmental entities unless the Governmental Accounting Standards Board issues a pronouncement that makes them applicable.

FAS136, Footnote 3—If the transfer of assets is not a contribution or not yet a contribution, this Statement uses the term resource provider rather than the term donor to refer to the entity that transfers the assets to the recipient organization.

FAS136, Footnote 4—Example 4 of Statement 116 (paragraph 180) illustrates the use of the term intermediary. In that example, the organization facilitates a contribution between a potential donor, a lawyer willing to provide free legal services, and a potential donee, an individual in need of free legal services. The organization is not itself a donee and donor, nor is it a recipient of the services provided by the donor (lawyer) to the donee (individual).

FAS136, Footnote 5—FASB Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*,* defines *financial asset* as "cash, evidence of an ownership interest in an entity, or a contract that conveys to a second entity a contractual right (a) to receive cash or another financial instrument from a first entity or (b) to exchange other financial instruments on potentially favorable terms with the first entity" (paragraph 243).

FAS136, Footnote 6—Recognizing an interest in the net assets of the recipient organization and adjusting that interest for a share of the change in net assets of the recipient organization is similar to the equity method, which is described in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. If the beneficiary and the recipient organization are included in consolidated financial statements, the beneficiary's interest in the net assets of the recipient organization would be eliminated in accordance with paragraph 6 of Accounting Research Bulletin No. 51, *Consolidated Financial Statements.*

FAS136, Footnote 7—For an unconditional promise to give to be recognized in financial statements, paragraph 6 of Statement 116 states, ". . . there must be sufficient evidence in the form of verifiable documentation that a promise was made and received." Paragraph 15 of Statement 116 states, "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." Paragraph 20 of Statement 116 states, "The present value of estimated future cash flows using a discount rate commensurate with the risks involved is an appropriate measure of fair value of unconditional promises to give cash" (footnote reference omitted).

FAS136, Footnote 8—The provisions of this Statement do not apply to University if University is a governmental entity. The Governmental Accounting Standards Board sets standards for those entities.

FAS136, Footnote 9—An interest in the net assets of an affiliate would be eliminated if that affiliate were included in the consolidated financial statements of the interest holder.

FAS136, Footnote 10—Chapter 6 of the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations,* describes those requirements.

FAS136, Footnote 11—Statement 116 defines *contribution* as "an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner" (paragraph 209). Statement 116 defines *nonreciprocal transfer* as "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" (paragraph 209).

FAS136, Footnote 12—Paragraph 12 of SOP 94-3 and Chapter 11 of the healthcare organizations Guide permit but do not require consolidation if a not-for-profit organization controls another organization in which it has an economic interest and its control takes a form other than majority ownership or voting interest. Consolidation of related entities is required only in the circumstances described in paragraphs 10 and 11 of SOP 94-3 and in Chapter 11 of the healthcare organizations Guide.

FAS136 Footnote *--Other terms, such as campaign results or campaign efforts, may be used.