

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2013-06  
April 2013

### Not-for-Profit Entities (Topic 958)

Services Received from Personnel of an Affiliate  
a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board  
of the Financial Accounting Foundation

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# Accounting Standards Update

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## Not-for-Profit Entities (Topic 958)

### Services Received from Personnel of an Affiliate

An Amendment of the *FASB Accounting Standards Codification*<sup>®</sup>

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

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Accounting Standards Update 2013-06  
Not-for-Profit Entities (Topic 958)  
Services Received from Personnel of an Affiliate

April 2013

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# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

The revenue recognition guidance for not-for-profit entities requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. In addition, that guidance indicates that those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. A contribution is defined in the Master Glossary of the *FASB Accounting Standards Codification*<sup>®</sup> 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.” Differing views exist in practice about whether a recipient not-for-profit entity should consider as a contribution services received from personnel of an affiliate and, therefore, whether that not-for-profit entity should apply the above contributed services guidance.

The objective of the amendments in this Update is to specify the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate. An affiliate is defined in the Master Glossary as “a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.”

## Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to not-for-profit entities, including not-for-profit, business-oriented health care entities, that receive services from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. *Charging* the recipient not-for-profit entity means requiring payment from the recipient not-for-profit entity at least for the approximate amount of the direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing a service to the recipient not-for-profit entity or the approximate fair value of that service. The amendments in this Update do not address transactions between affiliates for which the affiliate charges the recipient not-for-profit entity at least for the approximate amount of direct personnel costs or the approximate fair value of the services provided.

## What Are the Main Provisions?

The amendments in this Update require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that service or (2) the fair value of that service.

A recipient not-for-profit entity within the scope of Topic 954, Health Care Entities, that is required to provide a performance indicator (analogous to income from continuing operations of a for-profit entity) should report as an equity transfer the increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. For other recipient not-for-profit entities, this Update does not prescribe presentation guidance for the increase in net assets associated with services received from personnel of an affiliate other than prohibiting reporting as a contra-expense or a contra-asset. All recipient not-for-profit entities should report the corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate similar to how other such expenses or assets are reported. The amendments also specify that Subtopic 850-10, Related Party Disclosures—Overall, applies to services received from personnel of an affiliate.

This Update does not prescribe the manner of capturing information necessary to apply the amendments in this Update. Any reasonable and verifiable manner of capturing or estimating the information necessary to apply the amendments could be considered, and, in many cases, much of the information could be captured by the recipient not-for-profit entity, which would alleviate the burden on the affiliate that provides the personnel who perform the services.

## How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update improve current U.S. GAAP by requiring all not-for-profit entities to apply similar recognition and measurement bases for services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit



entity. The amendments will reduce diversity in practice and provide transparency about the extent of the program services, supporting activities, and asset creation or enhancement costs incurred by the recipient not-for-profit entity. The amendments also enhance comparability of financial information among not-for-profit entities.

## When Will the Amendments Be Effective?

The amendments in this Update are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date of adoption should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted.

## How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not provide industry-specific guidance for not-for-profit entities, including services received from personnel of an affiliate.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–16. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Add the Master Glossary term *Affiliate* to Subtopics 954-10, 954-225, and 958-720 as follows:

### **Affiliate**

A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.

## Amendments to Subtopic 954-10

3. Amend paragraph 954-10-05-3, with a link to transition paragraph 958-720-65-1, as follows:

## **Health Care Entities—Overall**

### **Overview and Background**

#### **> Not-for-Profit, Business-Oriented Health Care Entities**

**954-10-05-3** This Topic provides specific incremental reporting guidance for not-for-profit, business-oriented health care entities. The guidance in Topic 958 applies to all **not-for-profit entities** (NFPs), regardless of whether the entity is essentially self-sustaining from fees charged for goods and services. The following Subtopics, among others in that Topic, provide guidance that is applicable to not-for-profit, business-oriented health care entities:

- a. Contributions (see the Contributions Received Subsections of Subtopic 958-605), which include all of the following:
  - 1. Permanent endowments
  - 2. Gifts in kind
  - 3. Contributed utilities, facilities, or use of long-lived assets.
- b. Transfers to an NFP or charitable trust that raises or holds contributions for others (see the Transfers of Assets Subsections of Subtopic 958-605)
- c. Contributions received by agents, trustees, and intermediaries (see the Transfers of Assets Subsections of Subtopic 958-605)
- d. Split-interest agreements (see Subtopic 958-30)
- e. Financial statements of NFPs (see Topic 958), which include all of the following:
  - 1. Presentation in financial statements (see Subtopic 958-205)
  - 2. Statement of financial position (see Subtopic 958-210)
  - 3. Statement(s) of operations and changes in net assets (see Subtopic 958-225)
  - 4. Statement of cash flows (see Subtopic 958-230).
- f. Promises to give (see Subtopic 958-310)
- ff. Business combinations (see Subtopic 958-805), which include all of the following:
  - 1. Mergers of not-for-profit entities
  - 2. Acquisitions by not-for-profit entities
- g. Consolidation (see Subtopic 958-810).
- h. Services received from personnel of an **affiliate** (see Subtopic 958-720).

## Amendments to Subtopic 954-225

- 4. Amend paragraph 954-225-45-2 and add paragraph 954-225-45-2A, with a link to transition paragraph 958-720-65-1, as follows:

### Health Care Entities—Income Statement

#### Other Presentation Matters

##### > Equity Transfers

**954-225-45-2 Equity transfers** are reported separately as changes in net assets, are excluded from the **performance indicator**, and do not result in any step-up in basis of the underlying assets transferred. However, a service received from personnel of an **affiliate** that directly benefits the recipient not-for-profit, business-oriented health care entity and for which the affiliate does not

charge the recipient entity may be recorded at the fair value of that service in the circumstances indicated in paragraph 958-720-30-3. Paragraph 954-225-55-1 describes the difference between an equity transfer and an equity transaction.

**954-225-45-2A** The increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit, business-oriented health care entity and for which the affiliate does not charge the recipient entity shall be reported as an equity transfer, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate. The corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate shall be reported similar to how other such expenses or assets are reported.

## Amendments to Subtopic 958-605

5. Amend paragraph 958-605-25-17, with a link to transition paragraph 958-720-65-1, as follows:

### **Not-for-Profit Entities—Revenue Recognition**

#### **Recognition**

**958-605-25-17** Contributed services (and the related assets and expenses) shall be recognized if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee and the recognition criteria for contributed services are met. For services received from personnel of an **affiliate** that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP, the guidance in Subtopic 958-720 shall be followed. Charging the recipient NFP means requiring payment from the recipient NFP at least for the approximate amount of the direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing a service to the recipient NFP or the approximate fair value of that service.

## Amendments to Subtopic 958-720

6. Amend paragraph 958-720-05-1 and add paragraph 958-720-05-7 and the new Subsection title, with a link to transition paragraph 958-720-65-1, as follows:

## Not-for-Profit Entities—Other Expenses

### Overview and Background

#### General

**958-720-05-1** This subtopic provides guidance on reporting expenses for **{add glossary link}**not-for-profit entities**{add glossary link}** (NFPs). The guidance in this Subtopic is presented in the following ~~two~~three Subsections:

- a. General
- b. Accounting for Costs of Activities that Include Fundraising.
- c. Services Received from Personnel of an Affiliate.

#### **Services Received from Personnel of an Affiliate**

**958-720-05-7** The Services Received from Personnel of an Affiliate Subsections provide guidance for reporting services received by a **not-for-profit entity** (NFP) from personnel of an **affiliate** that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP. Charging the recipient NFP means requiring payment from the recipient NFP at least for the approximate amount of the direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing a service to the recipient NFP or the approximate fair value of that service.

7. Add paragraphs 958-720-15-6 through 15-8 and the new Subsection title, with a link to transition paragraph 958-720-65-1, as follows:

### Scope and Scope Exceptions

#### **Services Received from Personnel of an Affiliate**

##### **> Overall Guidance**

**958-720-15-6** The Services Received from Personnel of an Affiliate Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsections of this Subtopic, see paragraph 958-720-15-1, with specific exceptions noted below.

## > Entities

958-720-15-7 The guidance in the Services Received from Personnel of an Affiliate Subsections applies to all **not-for-profit entities** (NFPs) that receive services from personnel of an **affiliate** that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP.

## > Transactions

958-720-15-8 The guidance in the Services Received from Personnel of an Affiliate Subsections applies to services received from personnel of an affiliate that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP. Charging the recipient NFP means requiring payment from the recipient NFP at least for the approximate amount of the direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing a service to the recipient NFP or the approximate fair value of that service. The guidance does not address transactions between affiliates for which the affiliate charges the recipient NFP at least for the approximate amount of direct personnel costs or the approximate fair value of the services provided.

8. Add paragraph 958-720-25-9 and the new Subsection title, with a link to transition paragraph 958-720-65-1, as follows:

## **Recognition**

### **Services Received from Personnel of an Affiliate**

958-720-25-9 A **not-for-profit entity** (NFP) shall recognize all services received from personnel of an **affiliate** that directly benefit the recipient NFP (that is, are similar to personnel directly engaged by the recipient NFP). For example, that would include services performed by personnel of an affiliate for and under the direction of the recipient NFP and shared services. Shared services generally refers to services provided by a centralized function of one or more individuals within the affiliate group that the recipient NFP would otherwise typically need to purchase or have donated, if not provided by those personnel.

9. Add paragraphs 958-720-30-2 through 30-3 and the new Subsection title, with a link to transition paragraph 958-720-65-1, as follows:

## Initial Measurement

### Services Received from Personnel of an Affiliate

958-720-30-2 Services received from personnel of an **affiliate** that directly benefit the recipient **not-for-profit entity** (NFP) and for which the affiliate does not charge the recipient NFP shall be measured by the recipient NFP at the cost recognized by the affiliate in providing those services, except as provided in the following paragraph. Although the components of cost would depend on the nature and type of services provided and could vary from entity to entity, cost should include the direct personnel costs (for example, compensation and any payroll-related fringe benefits) incurred by the affiliate in providing the services to the recipient NFP.

958-720-30-3 If recording a service received from personnel of an affiliate at the cost recognized by the affiliate for the personnel providing that service will significantly overstate or understate the value of the service received, the recipient NFP may elect to recognize that service at either of the following:

- a. The cost recognized by the affiliate for the personnel providing that service
- b. The fair value of that service.

10. Add paragraph 958-720-45-56 and the new Subsection title, with a link to transition paragraph 958-720-65-1, as follows:

## Other Presentation Matters

### Services Received from Personnel of an Affiliate

958-720-45-56 The increase in net assets associated with services received from personnel of an **affiliate** that directly benefit the recipient **not-for-profit entity** (NFP) and for which the affiliate does not charge the recipient NFP shall not be presented as a contra-expense or a contra-asset. The corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate that directly benefit the recipient NFP and for which the affiliate does not charge the recipient NFP shall be presented similar to how other such expenses or assets are presented.

11. Add paragraph 958-720-50-3 and the new Subsection title, with a link to transition paragraph 958-720-65-1, as follows:



## Disclosure

### **Services Received from Personnel of an Affiliate**

**958-720-50-3** The disclosures in Subtopic 850-10 shall be provided for services received by a **not-for-profit entity** (NFP) from personnel of an **affiliate**.

12. Add paragraph 958-720-65-1 and its related heading as follows:

#### **> Transition Related to Accounting Standards Update No. 2013-06, Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate**

**958-720-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*:

- a. The pending content that links to this paragraph shall be effective for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter.
- b. An entity shall apply the pending content that links to this paragraph in either of the following ways:
  1. Prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter
  2. Using a modified retrospective approach in which all prior periods presented upon the date of adoption shall be adjusted but no adjustment shall be made to the beginning balance of net assets of the earliest period presented.
- c. Early adoption of the pending content that links to this paragraph is permitted.
- d. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-3 in the period that the entity adopts the pending content that links to this paragraph.

13. Amend paragraph 954-10-00-1, by adding the following items to the table, as follows:

**954-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
Affiliate	Added	2013-06	04/19/2013
954-10-05-3	Amended	2013-06	04/19/2013

14. Amend paragraph 954-225-00-1, by adding the following items to the table, as follows:

**954-225-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
Affiliate	Added	2013-06	04/19/2013
954-225-45-2	Amended	2013-06	04/19/2013
954-225-45-2A	Added	2013-06	04/19/2013

15. Amend paragraph 958-605-00-1, by adding the following item to the table, as follows:

**958-605-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-605-25-17	Amended	2013-06	04/19/2013

16. Amend paragraph 958-720-00-1, by adding the following items to the table, as follows:

**958-720-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph Number</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
Affiliate	Added	2013-06	04/19/2013
958-720-05-1	Amended	2013-06	04/19/2013
958-720-05-7	Added	2013-06	04/19/2013
958-720-15-6 through 15-8	Added	2013-06	04/19/2013
958-720-25-9	Added	2013-06	04/19/2013
958-720-30-2	Added	2013-06	04/19/2013
958-720-30-3	Added	2013-06	04/19/2013
958-720-45-56	Added	2013-06	04/19/2013
958-720-50-3	Added	2013-06	04/19/2013
958-720-65-1	Added	2013-06	04/19/2013

*The amendments in this Update were adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Messrs. Smith and Schroeder dissented.*

Mr. Smith objects to the issuance of this Update. He appreciates the benefits of the amendments in this Update requiring a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. He notes, however, that restricting the scope of the amendments to a subsection of the not-for-profit entities would significantly improve the cost-benefit ratio across the industry; that is, he does not believe that the benefits of application of the amendments justify the cost to a certain subsection of the not-for-profit entities. Mr. Smith does not believe that the amendments are justified from a cost-benefit perspective for not-for-profit entities that receive services from a for-profit affiliate. A common example of this type of not-for-profit entity is a corporate-sponsored foundation. Mr. Smith understands that many corporate-sponsored foundations do not solicit contributions from individuals or organizations outside the corporate sponsor. Mr. Smith fails to understand the benefits derived from quantifying the cost of services received from personnel of the affiliate corporate sponsor and presenting the donated services as both an addition to and a deduction from net assets in the financial statements of the recipient not-for-profit entity. He believes that qualitative disclosures indicating that the recipient not-for-profit entity receives services from personnel of the affiliate corporate sponsor are sufficient. Mr. Smith acknowledges that there may be corporate-sponsored foundations that accept contributions from employees; however, even in those situations Mr. Smith believes that qualitative disclosures would be sufficient to any donors or other users of the recipient not-for-profit entity's financial statements.

Mr. Schroeder objects to the issuance of this Update. He agrees that improving completeness and comparability generally results in more decision-useful information, but he believes that in some circumstances those benefits will not be justified in relation to the costs imposed by this Update.

Mr. Schroeder observes that those constituents in support of issuing this Update believe that completeness would be achieved by requiring a recipient not-for-profit entity to recognize and measure all services it receives from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Mr. Schroeder agrees but believes that to be decision-useful as defined in FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information*, the measurement of such services must be both relevant and verifiable.

Mr. Schroeder believes that the compliance, including audit, costs of verifying the information necessary to apply the amendments in this Update would be considerable in some circumstances. The significance of those costs will vary depending on the size and complexity of both the recipient not-for-profit entity

and the affiliate whose personnel provide the services, as well as the nature of the services received. Compliance cost also will be affected by whether the same auditor is used by both the recipient not-for-profit entity and the affiliate. If the same auditor is used, incremental costs will be incurred to address the different materiality levels of the recipient not-for-profit entity and the affiliate whose personnel provide the services. If the auditors are different, additional complexity and costs will be incurred to verify the information necessary to apply the amendments in this Update.

Mr. Schroeder believes that comparability also will be illusive. Comparing the financial results of for-profit entities in the same industry can be challenging for a number of reasons, including differing operating approaches, business mixes, and geographic locations. Mr. Schroeder believes that those users analyzing not-for-profit entities face similar challenges. Further complicating the analyses is that similar not-for-profit entities could be supported by personnel of affiliates from significantly different industries with varying compensation levels. As a result, costs for the same functions at two similar not-for-profit entities may not be comparable, solely because the affiliates are from different industries.

Mr. Schroeder would prefer a more cost-effective approach of improved disclosures that focuses on providing qualitative information about the nature and extent of support received with an emphasis on distinguishing between program-related and administrative expenses. This would provide users of the recipient not-for-profit entity's financial statements with a basis for beginning a more detailed discussion, if warranted.

*Members of the Financial Accounting Standards Board:*

Leslie F. Seidman, *Chairman*

Daryl E. Buck

Russell G. Golden

Thomas J. Linsmeier

R. Harold Schroeder

Marc A. Siegel

Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

## Background Information

BC2. Not-for-profit entities within an affiliate group often operate under arrangements that provide for the engagement of personnel and their deployment or use for common purposes and projects among the affiliate entities. For example, an entity within an affiliate group may engage personnel who provide services to affiliate not-for-profit entities. These personnel may provide core program services for the recipient not-for-profit entity or may be involved in supporting management or fund-raising activities. Although the compensation and benefits of these personnel are paid for by the contributing entity, it does not charge the recipient not-for-profit entity for those personnel costs.

BC3. Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition, provides guidance on the accounting for contributed services, including those performed by employees of affiliated entities. The guidance on contributed services was codified from FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and the AICPA Audit and Accounting Guide, *Not-for-Profit Entities*. For affiliated entities, the guidance in paragraph 958-605-25-17 requires that contributed services (and the related assets and expenses) be recognized if employees of separately governed affiliated entities regularly perform services in other than an advisory capacity for and under the direction of the donee.<sup>1</sup> In addition, similar to the criteria in paragraph 958-605-25-16 for recognizing contributions of services from external donors, the guidance in paragraph 958-605-25-17 indicates that only those contributed services that (a) create or enhance nonfinancial assets or (b) require specialized skills, that are provided by individuals possessing those skills, and that typically would need to be purchased if not provided by donation should be recognized. Paragraph 958-605-30-2 provides that contributions received should

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<sup>1</sup>The term *affiliated entities*, as used in paragraph 958-605-25-17, is not defined.

be measured at fair value. The basis for conclusions of Statement 116 indicates that the recognition of contributed services was limited to services requiring specialized skills or creation or enhancement of nonfinancial assets mainly because of the difficulty involved in placing a monetary value on donated services and the absence of control over those performing the services. However, Statement 116 did not require application of that guidance to related party transfers among affiliates.

BC4. A contribution is defined in the Master Glossary 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.” Diversity in practice exists about whether a recipient not-for-profit entity should account for services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity as a *contribution* and apply the recognition and measurement guidance of Subtopic 958-605. Because of the measure of control inherent in an affiliate relationship, some stakeholders have said that services received from personnel of an affiliate may not strictly meet the definition of a contribution. They note that those services generally are provided pursuant to an arrangement, whether formal or informal, within the affiliate group and not in a purely voluntary and/or nonownership capacity, even though in some circumstances the affiliation may be through common control rather than one party controlling the other. Furthermore, unlike the basis for conclusions in Statement 116 about (a) the difficulty involved in placing a monetary value on donated services and (b) the absence of control over those performing the services, information is available about the cost of the services provided by personnel of an affiliate and some form of control exists over those performing the services (for example, similar to that of an employer-employee relationship).

BC5. The objective of the amendments in this Update is to specify the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. At the June 21, 2012 EITF meeting, the Task Force reached a consensus-for-exposure that recipient not-for-profit entities, including not for profit business-oriented health care entities, should recognize all such services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity at the cost recognized by the affiliate for the personnel providing those services. A proposed Accounting Standards Update was issued on July 23, 2012, with a comment period that ended on September 20, 2012. Thirteen comment letters were received on the proposed Update.

BC6. At the January 17, 2013 EITF meeting, the Task Force considered the feedback received on the proposed Update for this Issue. A majority of the respondents supported the amendments in the proposed Update. The Task Force requested the FASB staff to carry out further outreach, including with the FASB’s Not-for-Profit Advisory Committee (NAC) and the AICPA’s Not-for-Profit

Expert Panel, on the scope, comparability, and costs and benefits of issuing this Update. At the March 14, 2013 EITF meeting, the Task Force considered the feedback received from the NAC and the AICPA Not-for-Profit Expert Panel and reached a consensus.

## Scope and Other Considerations

BC7. The Task Force decided to limit the scope of this Update to not-for-profit entities that receive services from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. The scope of this Update applies to services received from personnel of any affiliate, including from personnel of a for-profit affiliate and personnel hired or employed by an individual who is an affiliate. In considering the scope, the Task Force observed that paragraph 958-605-25-17 provides guidance for contributed services received from employees of affiliated entities and precludes services that are not specialized or that do not create or enhance assets from being recognized. The Task Force determined that concerns about the scope and requirements of that guidance and the diversity in its application justify limiting this Update only to services received from personnel of an affiliate.

BC8. The Task Force reached a consensus that recognition and measurement bases that are different from the guidance in Subtopic 958-605 for services voluntarily contributed by external donors are appropriate for services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. The Task Force decided that paragraph 958-605-25-17 should be amended to require a not-for-profit entity to recognize all such services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if recording the service received from personnel of an affiliate at the cost recognized by the affiliate for the personnel providing that service would significantly overstate or understate the value of the service received, the recipient not-for-profit entity could elect to recognize that service at either (a) the cost recognized by the affiliate for the personnel providing that service or (b) the fair value of that service (for example, fair value of bookkeeping services), regardless of who provides the service (the chief financial officer versus an accounting manager). The guidance in Subtopic 250-10, Accounting Changes and Error Corrections—Overall, should be followed for any changes to the election.

BC9. The Task Force noted that instances in which recognizing services received from personnel of an affiliate at the cost recognized by the affiliate for the personnel providing those services would significantly overstate or understate the value of the services received are expected to be uncommon. The reason for this is that, generally, a fair value measure would be relevant only in those circumstances in which it is deemed necessary for an understanding of the

effects of the transaction on the financial statements of the recipient not-for-profit entity. The Task Force discussed whether the term *regularly perform* as used in paragraph 958-605-25-17 should be retained and used in the amendments to determine significance when identifying the services provided by personnel of an affiliate to be recognized. The Task Force determined that the term should not be retained, noting that, in general, accounting guidance need not be applied to immaterial items. The Task Force acknowledged that exercise of judgment may be required in applying the amendments in this Update.

BC10. The Task Force determined that only transactions involving personnel of affiliates should be included within the scope of this Update. The Master Glossary 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 entity.” Because one of the characteristics that distinguish a not-for-profit entity from a business entity is the absence of ownership interests like those of business entities, the guidance in Subtopic 958-810, Not-for-Profit Entities—Consolidation, was considered to determine what constitutes control in a not-for-profit environment. That Subtopic defines control as “the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise” and indicates that control may be evidenced in various ways, including a majority voting interest in the board, sole corporate membership, or through contract or affiliation agreement. The Task Force believes that the broad definition of control included in the definition of affiliate, which includes control by contract or otherwise, will address entities intended to be included within the scope of this Update. Furthermore, because information about the cost of personnel services provided by an entity that controls, is controlled by, or is under common control with the recipient not-for-profit entity is likely to be readily available, the Task Force concluded that including affiliates, as defined, within the scope of this Update will avoid the complexities and costs associated with obtaining fair value measurements and, thus, meet the objective of providing useful information without imposing undue costs to provide that information.

BC11. For not-for-profit entities within the scope of Topic 954 that are required to present a performance indicator (analogous to income from continuing operations of a for-profit entity), the Task Force agreed that services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity will meet the definition of an equity transfer. Therefore, the Task Force concluded that a recipient not-for-profit entity that is within the scope of Topic 954 and required to provide a performance indicator should report the increase in net assets associated with services received from personnel of an affiliate as an equity transfer. As defined in the Master Glossary, equity transfers “can occur only between related not-for-profit entities (NFPs) if one controls the other or both are under common control.” The Task Force noted that a strict interpretation of the definition may suggest that if a not-for-profit, business-oriented health care



entity receives services from personnel of a for-profit affiliate or from personnel hired or employed by an individual who is an affiliate, the transaction should not be reported as an equity transfer. The Task Force clarified that for purposes of applying the amendments in this Update, a recipient not-for-profit entity within the scope of Topic 954 that is required to provide a performance indicator should report as an equity transfer the increase in net assets associated with services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity, regardless of whether those services are received from personnel of a not-for-profit affiliate or any other affiliate.

BC12. For other recipient not-for-profit entities that are not required to present a performance indicator, the Task Force determined that, consistent with the presentation discussions in paragraphs 958-225-45-9 through 45-12, this Update should not prescribe whether the increase in net assets associated with services received from personnel of an affiliate should be included within or outside an intermediate measure of operations, if one is presented. For those other recipient not-for-profit entities, the Task Force also decided not to require separate line-item presentation because the required note disclosures under Subtopic 850-10 will provide adequate information about amounts recognized. Moreover, such matters currently are under consideration as part of a separate Board project that is considering improvements to not-for-profit financial statement reporting. However, the Task Force decided to prohibit presentation of the increase in net assets associated with services received from personnel of an affiliate as a contra-expense or a contra-asset because that net presentation will adversely affect transparency.

BC13. For all recipient not-for-profit entities, the Task Force determined that the corresponding decrease in net assets or the creation or enhancement of an asset resulting from the use of services received from personnel of an affiliate should be reported in a way that is similar to how other such expenses or assets are reported because it will make the financial reports of recipient not-for-profit entities more comparable with those that are billed for the personnel services.

## Disclosures

BC14. The Task Force observed that paragraphs 235-10-50-1 through 50-3 require that a description of all significant accounting policies, including principles and methods peculiar to the industry in which the entity operates, be included as an integral part of the financial statements. The Task Force noted that accounting policy disclosure also will address the policy and measurement bases of services received from personnel of an affiliate, if considered significant. Furthermore, the amendments in this Update specify that the related party disclosures under Subtopic 850-10 apply to services received from personnel of an affiliate. Those disclosures include a description of the transactions and such other information deemed necessary for an understanding of the effects of the transactions on the financial statements. As such, the Task Force concluded that no additional

recurring disclosures should be required as a result of the amendments in this Update.

## Transition and Early Adoption

BC15. The Task Force reached a consensus that the amendments in this Update should be applied prospectively. The Task Force noted that the information needed to apply the consensus retrospectively may not always be readily available or determinable and may result in implementation difficulties and costs that would outweigh the benefits of improved comparability of financial statements. If a recipient not-for-profit entity has the information to apply the amendments in this Update retrospectively, the Task Force decided to provide an option to apply the amendments in this Update using a modified retrospective approach in which all prior periods presented upon the date of adoption would be adjusted, but no adjustment would be made to the beginning balance of net assets of the earliest period presented. Under the option for a modified retrospective transition, a recipient not-for-profit entity would be able to apply consistent accounting for similar transactions occurring in prior periods presented, thereby making the entity's financial statements comparable.

BC16. The Task Force decided to permit early adoption of the amendments in this Update to eliminate existing diversity as soon as is practicable.

## Benefits and Costs

BC17. The objective of financial reporting is to provide information that is useful to present and potential donors, creditors, investors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential donors, creditors, investors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by those that have provided resources to the reporting not-for-profit entity. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC 18. In addition to affiliates, the Task Force considered whether services received from personnel of other parties, such as affiliated entities, financially interrelated entities, or all related parties, as defined in the Master Glossary, where one entity has the ability to influence, but not necessarily control, the operating and financial decisions of the other entity, also should be included within the scope of this Update. Because some of the criteria may not be applicable or may not be operable in the context of services received from personnel of a nonaffiliate and because of concerns that cost and other information necessary to apply the amendments in this Update may not be

readily available or shared in circumstances in which control does not exist, the Task Force concluded that limiting the scope of this Update only to affiliates meets the cost-benefit objective. The Task Force discussed whether recipient not-for-profit entities that do not solicit contributions or receive grants and are predominantly supported by an affiliate should be excluded from the scope of this Update; however, the Task Force decided not to exempt such not-for-profit entities because the information that will be provided as a result of applying the amendments in this Update may be relevant to creditors, regulators, policy makers, and other users, including employee-donors, of the recipient not-for-profit entity's financial statements. Furthermore, no distinction currently is made between recipient not-for-profit entities that solicit contributions or receive grants and those that do not in accounting for other similar related party transactions, such as recognizing at the transferor's carrying amount equity transfers of cash or other assets under Topic 954 or transfers of assets between entities under common control under Subtopic 805-10, Business Combinations—Overall.

BC19. The Task Force considered alternative views that required measurement of the services received from personnel of an affiliate at fair value. However, the Task Force did not pursue those views because of (a) cost-benefit concerns that determining fair value under Topic 820, Fair Value Measurement, could be burdensome and complex and (b) concerns about the appropriateness of applying a fair value measurement model when the affiliate has the cost information for the personnel providing the services. However, even though the Task Force did not pursue a fair value approach, in circumstances in which recording a service received from personnel of an affiliate at the cost recognized by the affiliate would significantly overstate or understate the value of the service received, the Task Force concluded that a recipient not-for-profit entity could elect to recognize that service at either (a) the cost recognized by the affiliate for the personnel providing that service or (b) the fair value of that service.

BC20. The Task Force discussed the costs and complexities of capturing the information necessary to apply the amendments in this Update and noted that this Update does not prescribe the manner of capturing information necessary to apply the amendments in this Update. Any reasonable and verifiable manner of capturing or estimating the information necessary to apply the amendments in this Update could be considered, and, in many cases, much of the information could be captured by the recipient not-for-profit entity, which would alleviate the burden on the affiliate that provides the personnel who perform the services to provide the information necessary for applying the amendments in this Update. Also, there are entities that are currently reporting all services received from personnel of an affiliate. As such, and because the amendments in this Update would be applied prospectively, unless a not-for-profit entity elects to apply the amendments under a modified retrospective approach from the beginning of the earliest prior period presented upon the date of adoption, the Task Force concluded that the benefits from applying the amendments in this Update justify the incremental costs of compliance.

BC21. The Task Force concluded that the primary benefit of applying the amendments in this Update is reflecting all relevant transactions with affiliates in the financial statements of the recipient not-for-profit entity. Task Force members noted that not recognizing all personnel services received from affiliates in the financial statements of the recipient not-for-profit entity would result in an understatement of resources available to the recipient not-for-profit entity and an understatement of the extent of resources used for program services, supporting activities, or asset creation or enhancement. Such information is relevant to users of a not-for-profit entity, including present and potential donors, creditors, investors, grantors, regulators, and other users for obtaining a complete picture of resources received and how they were used. That information is important in order to obtain an understanding of how the recipient not-for-profit entity accomplished its mission. In addition to increasing transparency about the program services, supporting activities, and other costs incurred by a recipient not-for-profit entity, the amendments in this Update will enhance comparability and result in consistent application of U.S. GAAP and related disclosures by utilizing information that usually should be readily available.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). Those changes, which will be incorporated into the proposed 2014 UGT, are available for public comment at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process starting in September 2013.