

# FASB provides clarification on not-for-profit services received from Affiliated personnel

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Since guidance on recognizing contributed services<sup>1</sup> has been effective, differing views have emerged on the recognition of contributed services that are provided to a not-for-profit entity by personnel of an affiliated entity<sup>2</sup>. In an effort to reduce this diversity in practice and enhance the comparability of financial information among not-for-profit entities, the Financial Accounting Standards Board (FASB) issued guidance to provide clarification on the application of guidance related to the recognition of contributed services that are provided by personnel of an affiliated entity<sup>3</sup>. Accounting Standards Update (ASU) No. 2013-06, *Services Received from Personnel of an Affiliate*, clarifies that all recipient not-for-profit entities and health care entities<sup>4</sup> are required to recognize all services received and not charged from personnel of an affiliate that directly benefit the recipient not-for-profit entity.

Here are two examples of services received by a not-for-profit from personnel of an affiliate where this guidance may be applicable:

- A for-profit corporation creates a private corporate foundation and provides administrative support, such as marketing, legal, and accounting services, to the private corporate foundation.
- A not-for-profit organization that provides educational and rehabilitation services to adults creates a private charter school that focuses on troubled teens and provides administrative support, such as accounting and payroll related services.

The standard also speaks to the measurement of those services by requiring not-for-profit entities to recognize those services at the cost recognized by the affiliate for the personnel providing those services (i.e. - the costs of compensation and any payroll-related fringe benefits). However, another method is available if using the cost measurement will significantly overstate or understate the value of the service received. The recipient not-for-profit entity may choose to recognize a contribution using the fair value of those services (i.e. – market rate to acquire similar services).

In addition, amendments noted in this update specify that services received from personnel of an affiliate should be identified as related party disclosures<sup>5</sup>. This standard will be effective for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter and generally will be applied on a prospective basis. Early adoption is permitted.

<sup>1</sup>FASB Topic 958-605-25-17, *Revenue Recognition* (<http://bit.ly/1apockD>).

<sup>2</sup>An affiliate is defined in the ASC 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.”

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<sup>4</sup>This update also applies to not-for-profit, business-oriented health care entities as described in FASB Topic 954.

<sup>5</sup>FASB Subtopic 850-10, *Related Party Disclosures*.