ACCOUNTING FOR CONTRIBUTIONS: A PROPOSAL TO NARROW DIFFERENCES BETWEEN FASB AND GASB REQUIREMENTS

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ABSTRACT. The Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) have issued significantly different accounting and financial reporting standards for contributions. These standards are particularly significant for reporting by private and public institutions of higher education. This paper summarizes many of these differences including timing of revenue recognition, classification of contributed resources, recording pledges, and recognition of “collections.” A framework is suggested for evaluating accounting and financial reporting standards for contributions. Finally, recommendations are made to both FASB and GASB for changes to make their standards more consistent.

INTRODUCTION

Recently, the Governmental Accounting Standards Board (GASB, 1998b) issued Statement 33, Accounting for Nonexchange Transactions. This standard outlines recognition criteria for assets and revenues for certain transactions of state and local governments, including public colleges and universities. One significant type of transaction in Statement 33 is called “Voluntary Nonexchange Transactions” and includes contributions by donors and granting agencies. Reporting the results of these transactions for public colleges and universities will reflect the guidance in GASB (1999a) Statement 34, Basic Financial Statements--and Management’s Discussion and Analysis for State and

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Local Governments as prescribed by GASB (1999b) Statement 35, Basic Financial Statements—and Management’s Discussion and Analysis--for Public Colleges and Universities.

The Financial Accounting Standards Board (FASB) issued standards for similar transactions for private sector, not-for-profit organizations in Statement 116, Accounting for Contributions Received and Contributions Made (1993a) and Statement 117, Financial Statements of Not-for-Profit Organizations (1993b). The standards of the FASB apply to all nongovernmental entities but especially to not-for-profit organizations, such as private colleges and universities. The GASB standards apply to all state and local governments, including “special entities,” such as public colleges and universities.

The FASB and GASB standards for contributions contain significant differences, as will be shown later. The November, 1989 “Jurisdiction Determination of the Board of Trustees of the Financial Accounting Foundation” stated: “The GASB should specifically evaluate similarities of special entities and of their activities and transactions in both the public and private sector, and the need, in certain instances, for comparability with the private sector” (GASB, 1998a, p. 85). Are the differences between FASB and GASB standards for contributions justified due to the differences between private and public sector special entities, or should the GASB have attempted to provide more comparability with private sector standards, as implied by the Financial Accounting Foundation?

This paper will examine this issue in the context of institutions of higher education, “special entities” that exist in significant numbers in both the private and public sectors. Specifically, this paper: (a) discusses similarities and differences in FASB and GASB standards for contributions, (b) examines similarities and differences in private and public higher education, (c) suggests criteria that might be used to evaluate standards for contributions, and (d) makes suggestions to the standards setting boards to make standards more comparable.

BACKGROUND

Prior to recent years, public and private colleges and universities followed a single set of accounting and reporting standards. Those earlier standards were found in the AICPA (1994) Audits of Colleges and Universities. Generally, those standards required that unrestricted
contributions be recorded as revenue in the Current Funds-Unrestricted; restricted contributions would be recorded as an increase in the fund balance in Current Restricted, Plant, Endowment, Annuity or Life Income, or Loan Funds, as applicable. Pledges (promises to give) were not required to be recorded, although disclosure of pledges receivable was encouraged.

In 1993, accounting for contributions by private colleges and universities was changed by the issuance of FASB (1993a) Statement 116. This was expanded to some degree by the issuance of the AICPA (1996) Audit and Accounting Guide: Not-for-Profit Organizations (hereinafter referred to as Not-for-Profit Guide), which applies to private colleges and universities. These standards require contributions to be classified as increases in unrestricted, temporarily restricted, or permanently restricted net assets, as appropriate. Promises to give are to be recorded, if unconditional, at the present value of anticipated receipts, if the resources are to be transferred more than one year in the future.

On December 31, 1998, GASB issued Statement 33, Accounting and Reporting for Nonexchange Transactions. Statement 33 creates and defines four types of nonexchange transactions and provides accounting and reporting treatment based on each type. Contributions are considered “Voluntary Nonexchange Transactions,” which are described as those that “result from legislative or contractual agreements other than exchanges, entered into willingly by two or more parties. Examples of voluntary nonexchange transactions include certain grants, certain entitlements, and donations by nongovernmental entities, including individuals (private donations) . . .” (GASB, 1998b, p. 4). Contributions are to be recorded as increases in unrestricted or restricted net assets as appropriate. Pledges are to be recorded unless they are conditional or the donor specifies a time restriction for a future fiscal period; in those cases, pledges are not recorded. More detailed discussion of the history of standards setting and authority for those standards can be found in Fischer (1997) and Engstrom and Esmond-Kiger (1997).

SIMILARITIES AND DIFFERENCES IN FASB AND GASB STANDARDS

This section investigates the accounting and reporting required by the FASB and the GASB for each of the following types of transactions: (1) unrestricted cash gifts, (2) purpose restricted cash gifts, (3) pledges, or
promises to give, (4) permanent endowments, (5) split-interest agreements, including term endowments, (6) unrestricted funds functioning as endowments, (7) contributions of plant and assets restricted to acquisition of plant, and (8) “collections.”

**Unrestricted Cash Gifts**

Unrestricted gifts given in cash are recorded as assets and revenues that increase unrestricted net assets for both private and public colleges. These gifts are considered available for any purpose desired by the institution by both FASB and GASB.

**Cash Gifts with Purpose Restrictions**

FASB *Statement 116* requires private institutions to recognize assets and revenues for cash gifts that are restricted as to purpose. Following the model developed in *Statement 117*, these gifts would be recorded as increases in permanently restricted or temporarily restricted net assets, depending on whether or not the donor places a permanent restriction on the resources, such as an endowment. GASB *Statement 33* requires public institutions to also recognize assets and revenues for these gifts. While GASB *Statement 33* does not provide a distinction between temporarily restricted and permanently restricted net assets, GASB (1999a) *Statement 34* does provide a similar distinction by requiring that restricted net assets be reported as expendable or nonexpendable. One substantive difference is that GASB (1998b, paragraph 61) eligibility requirements indicate that if a cash gift cannot be used, by donor requirement, in the present fiscal year for the specific purpose, the cash be reported as deferred revenue until the cash can be used.

FASB (1993a, paragraph 17) *Statement 116* requires private colleges to make a presumption that restricted resources are used first, when both restricted and unrestricted resources are available for expenditure. GASB does not require such a presumption but does require that note disclosure indicate the institution’s policy regarding which resources are used first.

**Cash Gifts With Time Restrictions or Requirements**

A difference exists between FASB and GASB standards when a donor contributes cash and indicates explicitly that the resources are to be used in a future fiscal period. FASB *Statement 116* (paragraph 14)
considers such time stipulations to be temporary restrictions. As a result, a cash gift with a donor restriction that the resources be used in a future period would be recorded as a revenue increasing temporarily restricted net assets; if no purpose restrictions exist, the amount would be released from restriction when the “stipulated time has elapsed.” (paragraph 17)

GASB (1998b, paragraph 12) calls a time stipulation a “time requirement,” creating an “eligibility requirement.” GASB does not permit revenue recognition until all eligibility requirements, including time requirements, are met. In the case of cash contributions with an explicit requirement that the resources be used in a future period, revenue cannot be recognized until that future period (paragraph 21).

Unrestricted (as to Purpose) Pledges, or Promises to Give

The FASB requires all pledges, if unconditional and legally enforceable, to be recorded as assets and revenues. If the donor indicates that the resources will be transferred to an institution in a future accounting period, private institutions are expected to classify the revenue as an increase in temporarily restricted net assets. This would be the case, for example, in a pledge drive conducted towards the end of a year for use in next year’s operations (which might or might not have specific directions as to when resources are to be expended). This is an implied restriction. If funds are to be transferred more than one year in the future, FASB requires that the asset and revenue be discounted. Private institutions are to release (reclassify) the net assets from temporarily restricted to unrestricted net assets in the time period specified or allowed by the donor.

GASB Statement 33 provides an entirely different solution to the question of pledges. Unless a donor specifically indicates that resources are to be used in a future period, such pledges are to be recorded as an asset and revenue increasing unrestricted net assets. When a donor does specifically indicate that the resources are to be used in a future period, the eligibility requirements of Statement 33 are not met, and neither an asset nor revenue is recognized, as eligibility requirements have not been met. For example, if donors signed pledge cards, toward the end of a fiscal year, that funds will be contributed next year to be expended next year, neither an asset nor a revenue would be recognized. Private colleges would recognize an asset and a revenue increasing temporarily restricted net assets. GASB is silent as to whether or not multi-year pledges should be discounted.
Permanent Endowments

FASB considers that gifts restricted for the purpose of establishing or increasing permanent endowments are increases in permanently restricted net assets. These contributions are considered to be financing activities in the Statement of Cash Flows. FASB (1998) Statement 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, provides detailed guidance on how to deal with situations where the endowment balances fall below the agreed-upon levels.

GASB requires public colleges to report additions to endowments as “other” revenues that increase restricted, nonexpendable net assets. The non-authoritative cash flow illustration in GASB Statement 35 reports endowment additions as non-capital financing activities.

Split-interest Agreements

A split-interest agreement is an arrangement whereby a donee (college or university) shares an interest in the benefits of a donation with another beneficiary. Examples include charitable lead trusts (where an institution receives benefits early, with a remainder going to other beneficiary), charitable remainder trusts (whereby another beneficiary receives benefits early and an institution receives benefits later), annuity and life income agreements and term endowments. Sometimes the institution holds the funds; sometimes the funds are held in trust somewhere else for the benefit of the institution and other beneficiaries.

Private institutions follow FASB (1993a) Statement 116 Guidance and the more detailed guidance found in Chapter 6 of the AICPA (1996) Not-for-Profit Guide for split-interest agreements. Essentially, private institutions record contributions at the present value of anticipated future cash flows as revenues that will increase temporarily restricted net assets. Of course, if purpose restrictions exist, those purposes must also have been met before funds are reclassified to unrestricted. In addition, private institutions recognize revenue for split-interest agreements at the present value of future cash flows when someone else (for example, a financial institution) holds the resources.

GASB Statement 33 does not specifically mention split-interest agreements, but accounting would follow the rules for voluntary non-exchange transactions. When a donor does not specify a time constraint and no purpose restriction exists, a public institution would record either the present value or the total amount of future cash flows as
an increase in unrestricted net assets. If the donor specifies a time constraint, then nothing would be recorded. Funds held in trust by others would not be recorded by a public institution, in any case.

**Funds Functioning as Endowments (Unrestricted)**

Sometimes institutions, both public and private, take unrestricted resources and invest them with the intent, often expressed formally by the Board, to keep the resources invested, as if they were endowments. The only difference between the reporting models of FASB and GASB is that FASB permits institutions to designate net assets on the face of the financial statements in an amount equal to these resources. When a public institution reports as a special-purpose entity engaged in business-type activities (as most are expected to do), GASB prohibits the designation of unrestricted net assets on the face of the financial statements. GASB does permit (as does FASB) disclosure of designated, unrestricted net assets in the notes to the financial statements.

**Contributions of Plant or of Resources Restricted to the Acquisition of Plant**

FASB *Statement 116* (paragraph 16) provides for two possible alternatives for the recording of contributed plant or of plant acquired with funds restricted for that purpose. The plant, net of depreciation, may be reflected either as unrestricted net assets or temporarily restricted net assets. Consistency over time is required as well as disclosure of the alternative chosen.

Contributions of assets restricted for the acquisition of plant are recorded as revenue that increases temporarily restricted net assets by private institutions. When plant is later acquired with those resources, the institution would choose one of the two alternatives; either reclassify the resources and record the plant as unrestricted or record the plant as temporarily restricted. If plant is recorded as unrestricted, FASB standards permit an institution to report the plant as designated net assets.

To illustrate the two different approaches, assume a private institution received $1,000,000 in gifts for equipment acquisition. The entry would be:

\[
\begin{align*}
\text{Cash} & \quad 1,000,000 \\
\text{Contribution Revenue -- Temporarily Restricted} & \quad 1,000,000
\end{align*}
\]
In both cases, the entry to record the equipment would be:

\[
\begin{align*}
\text{Equipment} & \quad 1,000,000 \\
\text{Cash} & \quad 1,000,000
\end{align*}
\]

If the equipment were recorded as an increase in unrestricted net assets, the following entry would be made when the equipment was recorded:

\[
\begin{align*}
\text{Reclassification from Temporarily Restricted Net Assets --} & \quad 1,000,000 \\
\text{Satisfaction of Plant Acquisition Restrictions} & \quad 1,000,000 \\
\text{Reclassification to Unrestricted Net Assets--} & \quad 1,000,000 \\
\text{Satisfaction of Plant Acquisition Restrictions} & \quad 1,000,000
\end{align*}
\]

Thus, equipment is offset by unrestricted net assets. Depreciation charges would gradually reduce the asset and net asset accounts. For example, if the asset had a five-year life and no salvage value, the asset and unrestricted net assets would have balances of $800,000 at the end of the first year.

If the institution’s policy were to imply time restrictions on fixed assets, no reclassification entry would be made when the equipment is recorded. Rather, when the depreciation entry is made, the reclassification would be entered in an amount equal to the depreciation:

\[
\begin{align*}
\text{Reclassification from Temporarily Restricted Net Assets --} & \quad 200,000 \\
\text{Satisfaction of Plant Acquisition Restrictions} & \quad 200,000 \\
\text{Reclassification to Unrestricted Net Assets --} & \quad 200,000 \\
\text{Satisfaction of Plant Acquisition Restrictions} & \quad 200,000
\end{align*}
\]

As a result, the $800,000 asset balance would be offset by $800,000 in temporarily restricted net assets.

GASB Statement 34 requires a separate category, “Invested in Plant, Net of Related Debt,” for all plant, including contributed plant. This category is neither unrestricted nor restricted, but simply reported separately in the net asset section of the Statement of Net Assets. When funds restricted to the acquisition of plant are contributed, a revenue increasing restricted expendable net assets would be recorded. When plant is acquired with those resources, it would be reclassified from net assets restricted expendable to net assets invested in capital assets, net of related debt.

“Collections”
FASB (1993a, paragraph 11) *Statement 116* indicates that an entity need not recognize works of art, historical treasures, and similar items if they are donated “collections” that meet the following criteria:

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

If these “collections” meet the above criteria, FASB encourages but does not require not-for-profit organizations, including private colleges and universities, to capitalize collections. If “collections” are not capitalized, then donations of these items are not to be recognized as contribution revenue. Piecemeal application is not permitted.

GASB (1999a, paragraph 27) *Statement 34* adopts the same definition for collections and like FASB, recommends but does not require capitalization of collections. However, *Statement 34* (paragraph 28) states: “Recipient governments should recognize as revenues donations of works of art, historical treasures, and similar assets, in accordance with *Statement 33*. When donated collection items are added to noncapitalized collections, governments should recognize program expense equal to the amount of revenues recognized. Thus, when “collections” are not capitalized, FASB does not permit the recording of contribution revenue; GASB requires it and offsets the revenue with an expense. A summary of FASB and GASB requirements for accounting and reporting of contributions is reflected in Table 1.

**SIMILARITIES AND DIFFERENCES IN PRIVATE AND PUBLIC HIGHER EDUCATION**

According to the *Chronicle of Higher Education* (2002, p. 12), during 2000-2001, the United States had 1,698 public colleges and universities, 1,695 private sector not-for-profit colleges and universities, and 789 private sector for-profit colleges and universities. The public colleges and universities included 622 four-year colleges and universities and 1,076 two-year colleges. Private sector colleges and universities included 1,551 four-year not-for-profit colleges and universities, 144 two-year not-for-profit colleges, 277 four-year for-profit colleges and universities.
and 512 two-year for-profit colleges. The percentage breakdowns are approximately 40.6% public, 40.5% private not-for-profit, and 18.9% private for-profit colleges and universities.

However, more students attend public institutions. Enrollment at public institutions amounted to 11,309,399 students in the Fall of 1999, compared with 3,481,825 students in private institutions. In terms of percentages, more than 76% attend public higher education institutions (*Chronicle of Higher Education*, 2002, p. 12).

**Similarities – Private and Public Higher Education**

Private and public higher education institutions are engaged in three primary functions: teaching, research, and public service. The

<table>
<thead>
<tr>
<th>Issue</th>
<th>FASB</th>
<th>GASB</th>
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<td>Reporting of unrestricted cash contributions with no time stipulations</td>
<td>Asset and revenue, increasing unrestricted net assets</td>
<td>Asset and revenue, increasing unrestricted net assets</td>
</tr>
<tr>
<td>Reporting of cash contributions with stipulations to expend in future periods (no purpose restriction)</td>
<td>Recognize revenue increasing temporarily restricted net assets; release from restrictions in stipulated future period</td>
<td>Offset cash with deferred revenue (liability). Recognize revenue in stipulated future period</td>
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<tr>
<td>Net asset classes used to report contributions</td>
<td>Unrestricted, temporarily restricted, permanently restricted</td>
<td>Unrestricted, restricted—nonexpendable, restricted—nonexpendable, invested in capital assets, net of related debt</td>
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<tr>
<td>Reporting of endowment gifts</td>
<td>Recognize asset and revenue increasing permanently restricted net assets</td>
<td>Recognize asset and revenue increasing restricted—nonexpendable net assets</td>
</tr>
<tr>
<td>Release of purpose restrictions</td>
<td>Released when the purpose is fulfilled -- required assumption that restricted resources are used first</td>
<td>Released when restricted resources are used to meet purpose restrictions—may use either restricted or unrestricted resources first—note disclosure is required regarding policy</td>
</tr>
<tr>
<td>Conditional gifts</td>
<td>Neither asset or revenue</td>
<td>Neither asset or revenue</td>
</tr>
<tr>
<td>Promises to give (pledges) unrestricted -- no time stipulation on expenditures -- funds to be transferred in following year</td>
<td>Recognize asset and revenue that increases temporarily restricted net assets -- unless donor clearly indicates expenditure to be in year of pledge. Release from restrictions in following year</td>
<td>Recognize asset and revenue that increases unrestricted net assets</td>
</tr>
<tr>
<td>Promises to give (pledges) -- unrestricted - - time stipulation that expenditures are to take place in following year</td>
<td>Recognize asset and revenue that increases temporarily restricted net assets. Release from restrictions in following year</td>
<td>Do not recognize asset or revenue as eligibility requirements have not been met. Recognize revenue in following year that increases unrestricted net assets</td>
</tr>
<tr>
<td>Determining fair value of promises to give (discounting)</td>
<td>Requires discounting of future promises to give, if the gift is to be received more than one year in the future</td>
<td>Silent regarding discounting. No requirement or prohibition</td>
</tr>
<tr>
<td>Contributed plant or long lived assets</td>
<td>Revenue increasing either temporarily restricted or unrestricted net assets, depending on policy of institution</td>
<td>Revenue increasing net assets--invested in capital assets, net of related debt</td>
</tr>
<tr>
<td>Cash contributed for acquisition of plant or long lived assets</td>
<td>Revenue increasing temporarily restricted net assets. Released either when plant is acquired or as plant is removed from restrictions (usually in accord with depreciation schedule) depending on policy of institution</td>
<td>Revenue increasing net assets -- restricted -- expendable. Reclassified to invested in capital assets, net of related debt when plant is acquired</td>
</tr>
<tr>
<td>Funds functioning as endowment (resources unrestricted but set aside by governing board of institution for permanent investment)</td>
<td>May be reported as designated net assets (unrestricted) in statement of financial position or in notes</td>
<td>May not be displayed as designated net assets in statement of net assets. May display designations of unrestricted net assets in notes</td>
</tr>
<tr>
<td>Split-interest agreement - - funds held by institution</td>
<td>Record as revenue increasing temporarily restricted net assets (permanently restricted net assets if added to endowment) at present</td>
<td>If no time stipulations, record as revenue increasing either unrestricted or restricted net assets, depending on presence or absence of</td>
</tr>
</tbody>
</table>
TABLE 1 (Continued)

<table>
<thead>
<tr>
<th><strong>Split-interest agreement -- funds held by third party (for example, a bank)</strong></th>
<th><strong>Collections</strong></th>
<th><strong>value of anticipated receipts. Liability recorded to other beneficiary</strong></th>
<th><strong>purpose restriction. If time stipulations exist offset cash with deferred revenue as eligibility requirements not met. Discounting to present value may or may not be used</strong></th>
<th><strong>Permits, but does not require, capitalization of collections. If collections are not capitalized, are required to recognize contribution revenue and offset with expense</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Record as asset and as revenue increasing either temporarily restricted or permanently restricted net assets, at the present value of future receipts</strong></td>
<td><strong>Permits, but does not require, capitalization of collections. If collections are not capitalized, do not recognize contribution revenue</strong></td>
<td><strong>Do not record as eligibility requirements have not been met</strong></td>
<td><strong>Do not record as eligibility requirements have not been met</strong></td>
<td><strong>Do not record as eligibility requirements have not been met</strong></td>
</tr>
</tbody>
</table>

governance structure is largely the same: a governing board to set policy, administrators to carry out policy, faculty to carry out the primary functions of teaching, research and public service, and clerical, maintenance, and other staff to provide support. A degree of self-governance exists; faculty usually establish academic policies and standards. Both private and public institutions conduct a variety of activities including athletic events, theatre and music productions, public lectures, and art exhibits. Private and public institutions are accredited by the same regional and disciplinary associations. Faculty and staff of all institutions participate in the same academic and professional organizations, such as the American Accounting Association, the American Society for Public Administration, and the National Association of College and University Business Officers.

Resources normally come from the same sources: tuition and fees, federal and state sources, auxiliary enterprise charges, alumni and other donations, and endowment income. However, the mix varies, as will be seen below.
Both private and public institutions receive significant contributions. According to the *Chronicle of Higher Education* (2002, 33), in 1995-96 private institutions received $6.8 billion in private gifts, grants and contracts; public institutions received (in 1996-97) $5.6 billion. In 2000-2001, of the top 20 institutions in fund raising support, 10 were private and 10 were public (*Chronicle*, 2002, 42). Of the top 20 endowments, five were held by public institutions, including the University of Texas System, which is third overall. (35)

According to Engstrom (1988), financial statements of private and public institutions are sent to essentially the same types of users: governing boards, the financial community, state officials, major donors, the federal government, accrediting agencies, and faculty. At the time of the study, a subset of financial analysts had developed an expertise in college and university reporting, both public and private. Based on the similarities of the institutions, the users, and the uses of financial statements, Engstrom’s (p. 98) first recommendation was to “establish one set of financial reporting standards, both public and private.”

**Differences – Private and Public Higher Education**

The major difference between private and public institutions for the purpose of this study is in the degree of public support and the security that provides for the institution. According to the *Chronicle of Higher Education* (2002), in 1996-97, public institutions received 35.6% of revenues from state government compared with 1.9% for private institutions 1995-96. Private institutions received 43.0% of revenues from tuition and fees compared with 19.0% for public institutions. Private institutions received 9.1% of revenues from private gifts, grants and contracts compared to 4.3% for public institutions. Endowment income amounted to 5.2% for private institutions and 0.6% for public institutions. Revenues from other sources (federal government, auxiliary enterprises, etc.) were similar. Private institutions clearly depend more on private support than do public institutions.

When evaluating financial condition in relation to the issuance of bonds, some differences exist. Private institutions tend to issue “general obligation” bonds, supported by the total fund-raising power of the college or university, including contributions and endowment income. Public institutions tend to issue revenue bonds for projects supported by auxiliary enterprise and dedicated student fee revenues, although those bonds are often backed by a covenant by the state to use state
appropriations for bond and interest repayment if the dedicated revenues are not sufficient.

Another difference is in the area of governance. Governing boards of private institutions, in many cases, were appointed initially by a sponsoring organization, such as a religious organization, and are now appointed by either a sponsoring organization or by previous boards. Governing boards of public institutions are often appointed through the political process (Engstrom, 1988).

Finally, a difference exists in how privately donated funds are held and disbursed. Private institutions generally receive and expend the funds in the name of the institution. As a result, contributions, endowment balances, and endowment income are reflected directly in the financial statements of private institutions. (Even though approximately five percent of private institutions hold gift dollars in foundations, these resources are reported in the financial statements as if the institution holds the resources, due to the requirements of FASB Statement 136, paragraph 15). On the other hand, most public institutions have foundations that receive private contributions and manage endowments and other contributed resources. Financial information regarding these foundations and their contributed resources has not been reported consistently by public institutions in the past. Some public institutions have reported foundations in their financial reports as component units, others have reported transactions with foundations as related party transactions, and others have not reported the foundations at all. These foundations have varying arrangements with their institutions such as appointments to the foundation board, who can release the funds, variance power, and what happens to funds if the foundation disappears. In nearly all cases, however, funds are raised in the name of, and on behalf of, the college or university. When issuing separate financial statements, some of the foundations report as private sector entities (under FASB rules), and others report as governmental entities (under GASB rules).

In May 2002, GASB issued Statement 39: Determining Whether Certain Organizations are Component Units: An Amendment of GASB (2002) Statement 14. Statement 39 requires that a legally separate organization should be reported as a discretely presented component unit if all the following criteria are met:
1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

2. The primary government or its component units are entitled to, or have the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government (paragraph 5).

It is likely that most public university foundations will meet these criteria.

TOWARDS A THEORY OF ACCOUNTING FOR AND REPORTING OF CONTRIBUTIONS

A theory of contribution accounting and reporting should consider the need for comparability; the financial reporting needs of contributors and other users, and the conceptual frameworks under which FASB and GASB operate.

The Need for Comparability

Some arguments presented in favor of comparability include: (1) a belief by some that higher education is one industry and should have comparable standards, (2) private and public institutions are both significant; neither one dominates, (3) significant contributions are being made to both private and public institutions; contributors may wish to choose between private and public institutions, and (4) public policy decisions are made and could be made better with comparable information.

prefer: (1) one set of accounting standards for all institutions of higher education, public and private and (2) public institutions’ separate financial reports in same format as state and local governments’. All user groups, including major donors, overwhelmingly chose to have one set of accounting standards for all institutions of higher education, public and private (Engstrom, 1988).

**Private and Public Institutions Are Both Significant.** As indicated earlier, while there are more private institutions of higher education than public institutions, more students attend public institutions. (Chronicle of Higher Education, 2002). Neither predominates in such a manner that one standards setting body should not have input into standards.

**Significant Contributions Are Made to Both Private and Public Institutions.** As also indicated above, individuals contribute significant resources to both private and public institutions (Chronicle of Higher Education, 2002). If donors use financial information to make choices regarding contributions, it would be helpful if information were comparable.

**Public Policy Decisions.** The fourth argument suggests that certain public policy choices may depend on comparable information. For example, state governments often face the issue of whether to expand public higher education or to subsidize private institutions. Which is more cost-effective? As described in Engstrom (1988), higher education financial information is gathered by the federal government and shared with states and private parties as well as with federal agencies.

**Financial Reporting Needs of Contributors and Other Users**

One of the major user groups studied by Engstrom (1988) was major donors. Major donors were listed in his survey of college and university business officers as the fourth most important user of financial information. While programmatic factors were most important to these major donors, they also considered the financial strength of the institution and the financial needs of the institution to be important. These users differed significantly from other users in that they were especially interested in disclosures of total gifts, whether expended or unexpended. The financial strengths and financial needs of institutions could be represented by the available unrestricted, expendable resources. As many of these major donors make contributions to both private and
public institutions, it would be useful to have this information as comparable as possible.

As cited in the GASB User Needs Study (Engstrom, 1988), other users of college and university financial statements are also interested in the resources available to meet their needs and in financial strength. Financial analysts are interested in determining the amount available to make principal and interest payments. Faculty and staff are interested in the resources available to provide compensation. Accreditation bodies want to ensure that institutions are financially viable. Governing board members need to make resource allocation decisions and decisions regarding tuition needs. State officials make decisions regarding allocation of resources to institutions, in some cases both public and private.

FASB and GASB Conceptual Frameworks

FASB concepts for not-for-profit organizations, including private colleges and universities, are found in Concepts Statement 4, Objectives of Financial Reporting by Nonbusiness Organizations (1980) and Concepts Statement 6, Elements of Financial Statements (1985). At the time FASB (1980) Concepts Statement 4 was published, the Governmental Accounting Standards Board did not exist, and it was assumed that the objectives would apply to governmental entities as well as nongovernmental, not-for-profit organizations. FASB (1980) Concepts Statement 4 limits users to resource providers, including members, taxpayers, contributors, and creditors. Governing boards and the specialized needs of regulatory bodies are not included. Concepts Statement 4 indicates “financial information should provide information that is useful to present and potential resource providers and other users in making rational decisions about the allocation of resources to those organizations” (FASB, 1980, p. 19). In addition, “. . . information about restrictions on the use of resources is important for assessing the types and levels of services an organization is able to provide.”

GASB (1987) Concepts Statement 1, Objectives of Financial Reporting followed a research study by Jones, Scott, Kimbro and Ingram (1985). Even though a separate study was conducted by Engstrom (1988) for colleges and universities, no separate set of concepts was derived from that study; rather, GASB Statement 35 is derived from Concepts Statement 1. In this concepts statement, GASB (1987, paragraph 30) defined users as the citizenry, legislative and oversight
bodies, and investors and creditors. Note that no specific mention is
made of contributors, and governing board members are included as
users. Concepts Statement 1 does not specifically include an objective to
provide information to resource providers when making decisions
regarding resource allocation decisions. However, this objective might
be implied from the three major objectives: (1) “Financial reporting
should assist in fulfilling government’s duty to be publicly accountable
and should enable users to assess that accountability,” (2) “Financial
reporting should assist users in evaluating the operating results of the
governmental entity for the year,” and (3) “Financial reporting should
assist users in assisting the level of services that can be provided by the
governmental entity and its ability to meet its obligations as they become
due” (GASB, 1987, paragraphs 77-79). GASB Concepts Statement 1
does not discuss or describe an objective to show restricted resources and
unrestricted resources separately.

**A Suggested Theory for Contributions Accounting and Reporting**

It is suggested that accounting for contributions and for net assets on
hand resulting from contributions be the same for all entities of higher
education, both private sector and governmental. Net assets resulting
from contributions that have purpose restrictions should be separated
from those that do not. Permanent restrictions on net assets should be
separated from temporary restrictions (although different terms, such as
nonexpendable might be used). Net assets resulting from contributions to
be received in future periods should be separated from those that are
available currently, but should be recognized, regardless of expenditure
limitations. That recognition should be as unrestricted or restricted net
assets to be received in the future, depending on the presence or absence
of purpose restrictions. No net asset distinction should be made based on
whether the entity is or is not custodian of the resources. Resources to be
received more than one year in the future should be discounted. Net
assets resulting from plant acquisition should be shown in a separate
category, which is neither restricted nor unrestricted. This would
eliminate the “choice” permitted by FASB regarding offsetting plant
with restricted or unrestricted net assets. If “collections” are not
capitalized, gifts of those items should not be recognized as revenue, as
numbers in those categories could overwhelm the numbers from
operations. Net contributed resources that are unrestricted but designated
by a governing board should be displayed as designated net assets.
A special concern exists regarding whether or not to make a presumption as to whether restricted or unrestricted resources are released first when an expenditure meeting a restriction occurs. FASB requires nongovernmental not-for-profits (including private colleges) to presume restricted resources are used first. As a result, funds left over are considered unrestricted. GASB (1998b) does not have a presumption requirement. According to Paragraph 14 of Statement 33, "Rather, recipients of resources with purpose restrictions should report resulting net assets (or equity or fund balance, as appropriate) as restricted until the resources are used for the specified purpose . . ." (emphasis added) As a result, a governmental college could make a decision regarding whether restricted or unrestricted resources are used first. GASB Statement 34 requires disclosure of the government’s policy regarding whether to apply restricted or unrestricted resources first (Paragraph 115 (h)). It is unclear whether this disclosure requirement requires consistency in application.

Assume consistency is required. An argument for requiring the use of restricted resources first (required by FASB) is that an entity chooses which resources to use; therefore, remaining funds should be considered unrestricted. An argument for requiring the use of unrestricted resources first is that, in most cases, the donor probably intended for the contribution to enhance spending in a particular area, not to release unrestricted funds for other purposes. The problem in allowing an institution to choose is that inconsistent reporting will exist regarding the split between unrestricted and restricted net assets. It is possible that an institution might make this choice based on desired reporting outcomes. For example, if an institution had a high balance in unrestricted net assets, it might wish to report that unrestricted net assets were used first. On the other hand, if an institution had a low or negative balance in unrestricted net assets, then it might choose to report that restricted resources were used first.

It is suggested that a final decision in this area may be premature. Both arguments listed above appear valid. It is further suggested that FASB and GASB work towards a common solution (perhaps with encouragement from the Financial Accounting Foundation). It is finally suggested that the common solution not provide a choice; the reporting of restricted net assets should not be based on institutional choice.

RECOMMENDATIONS TO FASB AND GASB
It is not necessary to completely overhaul revenue recognition and display standards in order to achieve the desired comparability along the lines of the recommended theory outlined above.

**Recommendations to FASB**

It is recommended that FASB make the following changes:

1. Require a display of a separate category of net assets related to plant in service, as is required for governments in the government-wide model. Plant net assets are generally neither restricted nor unrestricted and are certainly not expendable. This eliminates a “choice” between restricted and unrestricted net assets that must be confusing to readers.

2. Work with GASB to arrive at a common solution as to whether restricted or unrestricted resources are presumed to be used first, when resources are released from restrictions.

3. Display pledges to be received in future years that are unrestricted as to purpose as a separate category of unrestricted net assets. This would result in statements where purpose restrictions are shown separately.

**Recommendations to GASB**

It is recommended that GASB make the following changes:

1. Revise *Statement 33* so that all contributions to be received in future periods are recognized as assets (contributions or pledges receivable) and as revenue. Display those to be received in the future separately from those currently received, either as unrestricted or restricted net assets (based on purpose).

2. Discount all contributions to be received in the future (both receivables and revenues). Each year, as time passes, call the increments “contributions,” as FASB does.

3. Require the guidance contained in the AICPA *Not-for-Profit Guide* for split-interest agreements to the extent permitted by the model. This includes recognizing unconditional future benefits from resources held by others, such as banks or other trustees.

4. Permit display of designations of unrestricted net assets.
5. If “collections” are not capitalized, do not force a recognition of revenues and expenses.

6. Work with FASB to arrive at a common solution as to whether restricted or unrestricted resources are assumed to be used first.

A FINAL COMMENT

The proposed changes would require a degree of cooperation not presently exhibited between the two standards setting bodies. FASB would need to make a change in its not-for-profit reporting model to change time stipulations from a restricted category to a separate category of both unrestricted and restricted net assets. In addition, the reporting model would need to change to move plant in service into a separate category. GASB would not need to make major changes to its reporting model, other than to display contributions to be received in the future and to allow designations of unrestricted net assets. On the other hand GASB would need to make a major change to Statement 33, to separate contributions from “other nonexchange transactions,” and to provide requirements for contributions that would meet the recommendations outlined in this paper. If both standards setting bodies would follow these recommendations and decide on a common way to release restrictions, comparability in contributions accounting would be enhanced.

NOTES

1. Paragraph 15 of FASB (1999) 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.”

REFERENCES


