

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION

NATIONAL CREDIT UNION SHARE INSURANCE FUND

LETTER NO. 171

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The Financial Accounting Standards Board (FASB) issued a Statement of Financial Accounting Standard (FAS) which will affect how many credit unions measure/disclose sponsor-donated assets and services on the financial statements in calendar year 1995 and beyond. The standard is FAS 116, "Accounting for Contributions Received and Contributions Made" and was issued by FASB [Order Department telephone, (203) 847-0700] in June 1993.

NCUA is taking a regulatory accounting position with regard to the standard viewing the donation{1} of assets and services by a sponsor to a credit union as a reciprocal transfer (i.e., in return, sponsor gets the fringe benefit to employees of on-site financial services) and, therefore, not encompassed by the standard{2}. Sponsor-donated assets and services as well as other reciprocal transfers of contributions whether or not sponsor-donated should continue to be accounted for as set forth in the existing Accounting Manual for Federal Credit Unions (Sections 2070.1.10 and 4050.6). We will not take exception to a credit union's choice to follow FAS 116; however, the decision to follow the standard must then be consistently applied. Credit unions that seek an unqualified opinion on their financial statements may be chief among those choosing to follow FAS 116.

Essentially FAS 116 requires that all contributions received/made be included in income/expense when received/made. Contributions include many of the "donations" credit unions receive, e.g., office space, telephone services, data processing support; and some volunteer services, e.g., some accounting/auditing services, some legal advice, etc. Under FAS 116:

- * Some contributions which are simultaneously received and used should be recognized as both a revenue and expense in the period received and used (e.g., sponsor-contributed utilities).
- * The contribution of office space would be treated as above as long as the sponsoring entity could discontinue providing the space at any time. If the sponsoring entity provides the facility for a specified period of time (say 5 years), the promise would have to be set up as a receivable at its fair value.
- * Contributed services must be recognized if the services received: (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

If a credit union has additional questions with regard to either the standard, or NCUA's position on the standard, it should contact its independent accountant, or its NCUA regional office, respectively.

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{1} A contribution is an unconditional transfer of cash or other assets (securities, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, services and unconditional promises to give those items in the future) to the credit union or a settlement or cancellation of its liabilities in a voluntary

nonreciprocal transfer by another entity acting other than as an owner.

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

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