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Public Service Announcements: A Unique Gift-in-Kind Promotional Opportunity for Not-for-Profits

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In 2014, according to Nielsen Media Research, broadcast stations donated more than \$2 billion of free airtime to air public service announcements. The accounting for this form of gift-in-kind revenue has become a significant issue for many not-for-profit organizations (NFPs) and their CPAs. This article discusses the value of PSAs to raise awareness about NFPs, their missions, and their programs, and provides insight on the accounting for these transactions.

What fuzzy bear keeps our national parks safe from forest fires?

Complete the following sentence: "Friends Don't Let Friends _____."

What do loose lips do?

Insert the missing word: "Keep _____ Beautiful."

Many Americans know the answers to all or most of these questions (Smokey Bear, Drive Drunk, sink ships, and America, respectively), thanks to the ubiquity of public service announcements (PSAs). PSAs are free advertising campaigns that provide an opportunity for not-for-profit organizations (NFPs) to disseminate messages that are in the public interest, to raise awareness, and to trigger behavioral changes and changes in attitudes toward social issues. What most people don't know, however, is that the airtime

donated to NFPs for these PSAs count as gifts-in-kind (GiK), which can be supremely beneficial to the organizations that use them.



Gifts-in-Kind

Gifts-in-kind are non-cash donations of tangible and intangible personal property contributed to an NFP [AICPA *Audit and Accounting Guide—Not-for-Profit Entities* (hereinafter, *Guide*), March 1, 2015, paras. 5.123, 5.152–5.163]. Contributions of advertising time and space by various forms of media, without charge, are considered intangible GiKs, and CPAs who provide services to NFPs, as well as financial managers of such organizations, should be knowledgeable about the rules and requirements pertaining to them, as well as the benefits. The Financial Reporting Executive Committee of the AICPA (FinREC) believes, in the case of donated media time or space, that if the NFP is actively involved in determining and managing the message (e.g., development of the PSA, launch of the campaign) and can control others' access to the benefit (e.g., timing and broadcast mediums, ultimate broadcast of the PSA), it has received a contribution (*Guide*, chap. 5, para. 5.155). Under GAAP, the use of advertising time is considered to be a form of contributed assets rather than contributed services (*Guide*, paras. 5.152–5.163).

When a broadcaster airs a PSA, it becomes the donor of a sellable asset (i.e., airtime) to an NFP, which the NFP uses to air a PSA as a program-related activity, designed to promote the organization's program, mission, purpose, or cause. GAAP requires that when such a transaction occurs, the receipt of a contribution be recognized on the NFP's books at its fair value, based on the guidance in Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements and Disclosures," and that the related expense be reported by function at the time the expense is recognized, based on the nature of the contributed item (ASC 958-605-30-2, 820-10-35-5, 820-10-35-9, and 820-10-352B; *Guide*, paras. 5.130, 5.152–5.153, 5.155).

All NFPs have an overall mission and programs employed to support this mission. In practice, there is some confusion in understanding the difference between the mission and programs. As an example, the

AICPA's mission is "powering the success of global business, CPAs, CGMAs [chartered global management accountants], and specialty credentials by providing the most relevant knowledge, resources, and advocacy, and protecting the evolving public interest" ("AICPA Mission and History," <http://bit.ly/1TSHgRa>). An example of a program the AICPA uses to further its mission is the Feed the Pig Campaign, which "is committed to helping young adults ages 25–34 adopt positive saving habits for longterm financial stability" (<http://bit.ly/2299OH4>). When PSAs are used to support a program, without the solicitation for donations/contributions, the resources received and used are considered to be for program-related purposes (*Guide*, paras. 5.152–5.153).

Using a Valuation Specialist for Broadcast PSAs

There are more than 1,400 full-power, noneducational U.S. television stations, 12,000 noneducational radio stations, more than 100 national broadcast and cable networks, numerous satellite TV and radio companies, hundreds of local cable companies, and various special media outlets (e.g., airports, gas stations, doctor's offices). Since a typical PSA campaign can be made up of hundreds to thousands of individual television and radio airings across the country, on every broadcast platform, in different formats, and at different times of day, gathering and processing this data would be an incredibly daunting task if the NFP decided to gather the data on its own. As a result, larger NFP and government organizations often rely on the services of specialized organizations to distribute, track, and value their PSA campaigns in accordance with GAAP.

To determine the fair value of an individual PSA broadcasting/airing, a valuation specialist will typically need to have the following information:

The date and time the airing took place;

- The station's audience size at the time that the airing took place; and
- The price buyers paid to reach similar audiences at the same time of day ("day-part") and in the media market (also "designated market area," or "DMA") that the airing took place.

Since television and radio stations rarely provide NFPs with this information, the organizations must obtain it in other ways. Nielsen Media Research allows advertisers to insert electronic watermarks into their television ads to make them traceable and use digital signatures to track radio advertisements. It maintains listening centers across the country that scan the broadcast spectrum 24/7, looking for these encoded advertisements. When one is detected, Nielsen delivers detection reports that identify the date, time, and the station's audience size when the airing took place. The price buyers paid to reach similar audiences at the same time of day comes from the marketing research company SQAD. SQAD pools together actual purchase price information from the nation's largest media buying services on a monthly basis, summarizes it, and feeds it back to media buyers. SQAD also makes this data available to a select group of qualified companies and valuation specialists. By matching this information with Nielsen's airing information and audience rankings, valuation specialists can determine the fair value of each local broadcast airing in a PSA campaign.

“...Revenue and expense are recognized at exactly the same dollar amount, causing them to offset each other, and leaving the organization's net income unchanged.”

GAAP requires contributions to be measured at their fair value. The framework for measuring fair value is market-base rather than entity-specific, defined in ASC Topic 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the context of a PSA,

this means the value of the donated ad space in the most advantageous market. GAAP uses a hierarchy that categorizes inputs used to make this measurement into Level 1, Level 2, and Level 3.

Level 1 comprises observable inputs that occur when unadjusted quoted prices in an active market can provide reliable information on what buyers paid and sellers received for the purchase of similar assets (e.g., the stock exchange, currency exchange markets). GiKs rarely fall into this category, as there may not be an active market to rely on. Level 2 inputs, also called “other observable inputs,” are those other than the quoted prices included in Level 1. This includes quoted prices for similar assets in active and inactive markets or other inputs that are primarily derived or corroborated by observable market data, such as published price lists. In Level 3 of the hierarchy, there are no observable inputs to measure fair value. In this case, the NFP must determine what a market participant would use to price the asset in a hypothetical transaction using assumptions specific to the asset and the most advantageous market, assuming the market participants generally act in their economic best interest (ASC Topic 820; *Guide* paras. 3.138–3.168 and 5.130–5.146). The Nielsen and SQAD data listed above will most likely fall into Level 2 of the hierarchy, because it is based on the cost of paid advertising airtime, which is a similar asset to donated airtime.

Accounting for Program-Related Expenses versus Fund-Raising Costs

When a broadcast station donates its airtime, the NFP receives a GiK donation that provides it with the resources to air a PSA and then uses these resources to do so. As a result, accounting for the donated airtime is a two-step process, one recognizing the “creation” revenue and the other recognizing the expense related to its use. Under GAAP, revenue and expense are recognized at exactly the same dollar amount, causing them to offset each other, and leaving the organization's net income unchanged.

If net income does not change, why go through the effort of recognizing the revenue and expense at all? Because GAAP's goal is to create a process where NFP financial statements reflect all of the financial resources entrusted to organizations, regardless of form. This provides users (e.g., potential donors, members, creditors) with a comprehensive picture of operations, which enables comparisons between similar organizations.

For broadcast PSAs designed to promote an organization's program without seeking funding or asking for contributions, the associated expense is generally considered to be program related rather than fundraising. If the PSA does attempt to raise funds, the broadcast station will likely charge a fee. In fact, most stations have strict policies about not accepting PSAs that solicit donations, and it is not uncommon to see an organization running two advertisements at the same time, one a PSA promoting its program and the other a paid ad soliciting donations.

Joint Costs

FASB has taken on a project to make NFPs' financial statements more transparent with respect to proof that the resources received are being allocated to accomplish the mission of the organization (see "Financial Statements of Not-For-Profit Entities," <http://bit.ly/1G6sz1P>). Accounting for joint costs and their respective allocation is a complex topic, but a brief overview of certain key resources is worth exploring. First, there is an excellent flowchart included in ASC Subtopic 958-720-55-22, *Not-for-Profit Entities—Other Expenses* (<http://bit.ly/1YGHrhk>, under "Implementation Guidance and Illustrations"). ASC Subtopic 958-720-55 (paras. 36–159) provides further guidance about which joint costs should be measured and allocated. In addition, ASC Subtopic 958-720-45 (para. 34) provides guidance on accounting for costs of activities that include fundraising. Finally, the *Guide* addresses joint cost and the respective allocation methods (paras. 5.152–5.163 and 13.77–13.108), and incorporates the ASC flowchart (para. 13.113).

Joint activity is, by definition, activity that mixes fundraising with other functions of the NFP. Per ASC Subtopic 958-720-45-29 and *Guide* paragraph 13.77, if the criteria of purpose, audience, and content are met, then 1) the costs that are identifiable with a particular function should be charged to that function, and 2) joint costs should be allocated between fund raising and the appropriate program or management and general function. Purpose, audience, and content are determined as follows:

- **Purpose:** Does the PSA accomplish or perform program or management and general functions?
- **Audience:** Does the audience include prior donors, or is it otherwise selected based on its ability or likelihood to contribute to the NFP?
- **Content:** Does the joint activity support program or management and general functions, as defined below?
 - *Program.* The joint activity calls for specific action by the recipient that will help accomplish the not-for-profit's mission (see paras. 35–37 of ASC Subtopic 958-720-45 or *Guide* paras. 13.81–.85). If the need for and benefits of the action are not clearly evident, information describing the action and explaining the need for and benefits of the action is provided.
 - *Management and general.* The joint activity fulfills one or more of the NFP's management and general responsibilities through a component of the joint activity.

It is important to segregate program-related PSA costs from fund-raising and management and general cost. Sometimes a single message in a broadcast PSA might be created to accomplish multiple purposes, for example, to raise awareness of a public need and to raise funds to further the organization's mission. In such a situation, it is necessary to identify program-related expenses incurred jointly with fund-raising expenses so that they can be apportioned and accounted for separately. For example, a GiK to an AIDS organization that publicizes where people can go to get healthcare would be a program-related activity, an advertisement that solicits donations would be a fund-raising activity,

and the donation of professional legal services by a lawyer to draft a contract would be a management and general-related activity. In each case, the organization receives something of value that must be recorded as revenue and an appropriate expense (*Guide*, paras. 5.160–163).

Analyzing the Impact of PSAs on an Organization’s Financial Statements

The ratio of program-related expenses to total revenue is a key measure used to determine the financial efficiency of an NFP. NFP rating and reporting agencies, such as GuideStar, Charity Navigator, Charity Watch, and the Better Business Bureau, include this metric as a component in the formulas they use to monitor and rate NFPs. This information is publicly available and therefore tracked carefully, and any wrongdoing can be made public quickly. NFPs with program-related expenses resulting from non-fund-raising PSA donations generally score higher than those that only accept cash contributions, which serves as a secondary benefit of making their financial results more favorable to readers of their financial statements.

When a PSA is reported on the NFP’s financial statements, all resources received whether in the form of cash donations or GiKs, are included in total revenue, and all resources used are included in total expense. In addition, because GiK donations are almost always associated with program-related activities, the percentage of revenue spent on program related activities increases, often dramatically. This leads the rating agencies to consider the organization a more efficient steward of donor money. Furthermore, the organization looks more attractive to prospective donors.

Imagine the following situation: NFP #1 ran a paid broadcast advertising campaign, spending \$50,000 to buy broadcast airtime. NFP #2 also spent \$50,000, but used the money to distribute a PSA campaign to television and radio stations. Before running these campaigns, each organization had received during the year \$10 million of cash donations during the year. Both organizations also spent \$5

million of these donations, or 50%, on program-related activities.

The \$50,000 that NFP #1 spent to buy airtime increased its program-related spending by from \$5 million to \$5,050,000. Revenue stayed at \$10 million, and the percentage spent on program-related activities increased to 51%. NFP #2, however, spent its \$50,000 to distribute a PSA. Based on the rule of thumb that a well-managed PSA campaign can reasonably expect to receive \$100 of free broadcast airtime for every \$1 spent distributing and valuing the PSA, NFP #2 received \$5 million of free airtime. As a result, NFP #2’s revenue increased to \$15 million, and its spending on program-related activities increased to \$10,050,000. This pushed the percentage of revenue spent on program-related activities to 67%, clearly a very significant change in the organization’s financial efficiency. The *Exhibit* shows these results in perfect clarity.

Exhibit
How a PSA Campaign Makes a Not-for-Profit More Financially Efficient

	Both Organizations: Before Ad Campaign	Organization 1: Paid Ad Campaign	Organization 2: PSA Campaign
Revenue	\$10,000,000	\$10,000,000	\$15,000,000
Program-Related Spending	\$5,000,000	\$5,050,000	\$10,050,000
Percentage of Program-Related Spending to Total Revenue	50%	51%	67%

Both organizations spent the same \$50,000. Both organizations properly reported their activities in accordance with GAAP. The results of NFP #2’s activities, however, dramatically improved through the use of PSAs. Its PSAs ran many more times, on many

more stations, reaching many more people than NFP #1's paid ad. Its campaign had 100 times more airtime at its disposal, so clearly its promotion effort had a better chance of succeeding. Its financial statements showed it to be a far more financially efficient organization than before it ran the campaign, making it more attractive to rating agencies, creditors, and donors. Best of all, the activity was accurately presented; in fact, if NFP #2 had not reported the GiK revenue it received from the broadcast stations, its financial statements would not have been in compliance with GAAP.

GAAP vs. the IRS on Broadcast Gifts-In-Kind

The IRS looks at things a bit differently. It specifically requires NFPs to exclude all broadcast GiKs from Form 990 tax returns. This is because the IRS views advertising as a service, not an asset-like inventory. It is possible that the IRS is concerned about opening the door to NFPs including volunteer services as an expense. Therefore, even though donations of other intangible assets like patents and copyrights are included in Form 990 tax returns, intangible assets like broadcast airtime are currently excluded.

These two divergent approaches are making life difficult for rating and reporting agencies. Their mission is to provide the public with impartial information about the financial activities of charitable organizations and to help potential donors determine which charities make the most efficient use their resources. In doing this, they rely heavily on the percentage of revenue an organization spends on program-related activities. But where one agency uses GAAP financial information as the basis for its ratings, another might use Form 990 information, and a third might use a hybrid of the two. Time will only tell how FASB's current NFP project will further affect the situation.

Cost-Effective Communications

At a time when NFPs are under continuous pressure to be financially efficient, PSAs provide a cost-effective way for them to communicate their messages. PSAs make it possible for an NFP to benefit from the ability to access valuable free local and national airtime, making

PSAs very effective communications tools for qualified NFP organizations. CPAs can provide NFP clients with valuable advice and guidance in navigating the PSA rules, leading, with a little luck, to a campaign as timeless and effective as Smokey Bear.

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