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Navigating the Implementation of the New Gifts-in-kind Accounting Standard

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Gifts-in-kind Presentation and Disclosure Standards

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, Not-For-Profit Entities (Topic 958): Presentation and Disclosures By Not-for-Profit Entities For Contributed **Nonfinancial** Assets. This ASU is effective for fiscal years beginning after June 15, 2021. (Calendar year ending 2022).

Early adoption is permitted.

The amendments are applied on a retrospective basis.

Gifts-in-kind Presentation and Disclosure Standards

Transition disclosures are required in the first period of adoption, which include:

- The nature of, and reason for, the change in accounting principle and
- The method of applying the change, including:
  - A description of the prior period information that has been retrospectively adjusted, if any; and
  - The effect of the change on relevant financial line items

Gifts-in-kind Presentation and Disclosure Standards

The objective of ASU 2020-07 is to increase transparency about gifts-in-kind, including how they are valued and utilized through enhanced presentation and disclosure. This is meant to address concerns about nonprofits inflating the fair value measurements of gifts-in-kind, which would thereby increase a nonprofit's revenue and program expenses and make it appear larger and more efficient in its use of resources than other nonprofits.

Gifts-in-kind Presentation and Disclosure Standards

Examples of contributed **nonfinancial** assets include:

- Food
- Used clothing and household items
- Materials and supplies
- Pharmaceuticals
- Medical equipment
- Intangibles
- Land and buildings
- Use of long-lived assets
- Contributed services

Gifts-in-kind Presentation and Disclosure Standards

Contributed securities and other **financial** assets are outside the scope of ASU 2020-07. The FASB decided not to include these types of contributions within the scope of this ASU because contributed financial assets other than cash are typically monetized immediately and used similarly to cash, rather than directly in a nonprofit's programs or other activities.

Gifts-in-kind Presentation and Disclosure Standards

New Presentation Requirement

Under ASU 2020-07, nonprofits are required to show in-kind revenues as a separate line item on the statement of activities, apart from contributions of cash and other financial assets.

Gifts-in-kind Presentation and Disclosure Standards

New Presentation Requirement, continued

	Without Donor Restrictions	With Donor Restrictions	Total
Contributions of cash and investments	$300,000	$175,000	$475,000
Contributions of nonfinancial assets	715,450	35,000	750,450
Contributed services	260,750	-	260,750
Investment return, net	40,000	60,000	100,000
Other revenues	22,000	-	22,000
Total revenues and gains	$1,338,200	270,000	1,608,200

Gifts-in-kind Presentation and Disclosure Standards

New Disclosure Requirements

The new standard requires nonprofit entities to disclose the total value recognized for each category of gifts-in-kind in the notes to the financial statements.

The total value should agree to the total value of gifts-in-kind recognized in the statement of activities.

Gifts-in-kind Presentation and Disclosure Standards

New Disclosure Requirements, continued

The following must be disclosed for each category:

- Qualitative information about whether the gift-in-kind was monetized (i.e., sold) or used during the reporting period. If it was used, also disclose a description of the programs or other activities in which the assets were used. A best practice is to use the same program or activity names in the disclosures that are used in the expense section of the statement of activities.
- Your organization's policy, if applicable, regarding monetizing rather than using gifts-in-kind.
- A description of any donor-imposed restrictions associated with the gift-in-kind.
- A description of the valuation techniques and inputs used to arrive at the fair value measurement.
- The principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the organization is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

Gifts-in-kind Presentation and Disclosure Standards

New Disclosure Requirements, continued

Format of disclosure

The ASU does not prescribe how the required information should be disclosed. The information may be disclosed using a table, narrative or combination.

Gifts-in-kind Presentation and Disclosure Standards

New Disclosure Requirements, continued

Contributed nonfinancial assets

The Organization's policy is to use contributed nonfinancial assets for programmatic or other purposes unless the assets have no utility consistent with the Organization's mission. In those instances, the assets would be monetized. Revenue from contributions of nonfinancial assets were as follows:

Gifts-in-kind Presentation and Disclosure Standards

New Disclosure Requirements, continued

	2022	2021	Usage in programs/ activities	Donor-imposed restrictions	Fair value techniques and inputs
Building	$600,000	$ -	Management and general	None	Recent comparable sales prices in the real estate market of the building
Medical supplies	115,450	135,650	Natural Disaster Program	None	Estimates based on US wholesale prices of identical or similar products
Medical services	260,750	300,250	International Health Program	None	Estimates based on current local rates for similar medical services
Total	$976,200	$435,900			

Gifts-in-kind Presentation and Disclosure Standards

New Disclosure Requirements, continued

What has not changed…

- The new standards do not change the existing standards for valuing gifts-in-kind or the prior disclosures for contributed services.

- Contributions of gifts-in-kind must be reported at fair value when received in accordance with FASB ASC 958-605, Not-for-Profit Entities – Revenue Recognition.

Gifts-in-kind Presentation and Disclosure Standards

Prior to this ASU, **contributed services** were the only type of contributed gifts-in-kind with specific disclosure requirements. Those requirements remain in place. Entities that receive contributed services are required to describe the programs or activities in which the services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. This disclosure of contributed services is required regardless of whether the services are recognized as revenue in the financial statements. This differs from the incremental disclosures in the ASU, which are based only on contributions recognized in the statement of activities.

Gifts-in-kind Presentation and Disclosure Standards

Contributed Services

Are recognized if the services received meet any of the following criteria:

- The services create or enhance a nonfinancial asset or
- The services require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers and other professionals and craftsmen.

Gifts-in-kind Presentation and Disclosure Standards

Contributed Services, continued

- Recognized contributed services should be reported as contribution revenue and as an asset or as an expense.
- Why an asset? If the services enhances a building or some other asset that would typically be capitalized and then expensed or depreciated, the other side of the entry is an asset rather than a direct expense.
- Whether such contributions should be recognized is unaffected by whether the NFP can afford to purchase the services at their fair value.

Gifts-in-kind Presentation and Disclosure Standards

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received. If no recordable donated goods or services, or only an immaterial amount of such were received, add: No significant contributions of such goods or services were received during the years ended December 31, 202X and 202X.

Principal (or Most Advantageous) Market

The FASB's fair value measurement framework requires an entity to use the principal (or most advantageous) market to measure fair value. The principal market is the market with the greatest volume and level of activity for the asset or liability. The most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after considering transaction costs and transportation costs.

If the principal (or most advantageous) market used in the fair value measurement of a contributed nonfinancial asset is a market in which the NFP is prohibited by donor-imposed restrictions from selling or using the contributed nonfinancial asset, it must be disclosed.

Gifts-in-kind Presentation and Disclosure Standards

Donor-imposed Restrictions

The FASB proposed to require disclosure of the principal (or most advantageous) market for all contributed nonfinancial assets. Given consideration of constituents' concerns about whether this disclosure should apply to all categories of nonfinancial assets, the FASB ultimately decided to limit this requirement to circumstances where the NFP has used, for valuation purposes, a market in which the donor has prohibited the NFP from selling or using the contribution. This disclosure was deemed most useful in this circumstance to provide greater transparency that donor-imposed restrictions do not affect valuation. Fair value is a market-based measurement, not an entity-specific measurement. Because donor-imposed restrictions are generally specific to the recipient and not transferred to market participants, the fair value of the contributed asset is not affected by such a restriction. The restriction would be reflected instead through the classification of the contribution revenue and associated net assets and relevant disclosure.

Gifts-in-kind Presentation and Disclosure Standards

Contributed Items to be Sold at Fundraising Events

- Nonprofits often receive tickets, gift certificates and other merchandise to be used at fundraising events.

- These should be recorded as contributions at their fair value upon receipt and subsequently adjusted based upon the cash value received at the fundraising event.

- Example – Nonprofit receives a ticket from a local community theater with a fair value of $75. The ticket is subsequently auctioned at a fundraiser for $100.

Gifts-in-kind Presentation and Disclosure Standards

Contributed Items to be Sold at Fundraising Events, continued

- Example – Nonprofit receives a ticket from a local community theater with a fair value of $75. The ticket is subsequently auctioned at a fundraiser for $100.
- The nonprofit should record initially record an asset for $75 along with a corresponding contribution.
- In this example, the nonprofit was able to sell the ticket at above fair value, therefore, upon receipt of the $100, the asset ($75) would be removed, and an additional contribution recorded for $25.

Gifts-in-kind Presentation and Disclosure Standards

Contributed Advertising

Examples of such activities:

- An advertising agency, television station, or newspaper provides design services or professional talent services.
- A radio or television station gives a nonprofit commercial airtime at no charge.
- A magazine, newspaper or other print media gives a nonprofit advertising space at no charge.

Gifts-in-kind Presentation and Disclosure Standards

Contributed Advertising, continued

Facts and circumstances that are indicators a contribution has been received:

- The nonprofit approves the advertisement before it is placed in the newspaper or other media.
- The nonprofit provides or actively grants its permission to include its logo in the advertisement.
- Representatives from the nonprofit appear in an audio or video advertisement.

Gifts-in-kind Presentation and Disclosure Standards

Contributed Advertising, continued

A nonprofit receives a contribution of advertising from a television station for 20 hours of advertisement.

How should the nonprofit record this contribution? At fair value with the 20 hours recorded as an asset. The asset is removed and expensed as the advertising hours are used.

If the nonprofit only uses 10 hours in the year the contribution is received, an asset could remain on the balance sheet as these hours represent a future economic benefit.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations

- Food

Estimate the fair value based on estimates of wholesale values that would be received for selling similar products in the United States.

Example resource – Feeding America Product Valuation Report, which provides a per pound valuation.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations, continued

- Used clothing and household items

Estimate the fair value based on estimates of wholesale values that would be received for selling similar products in the United States.

Example resource – Entities such as the Rescue Mission – Thrifty Shopper. Their financial statements disclose goods donated to the thrift stores are recorded as revenue when sold.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations, continued

- Materials and supplies

Estimate the fair value based on estimates of wholesale values that would be received for selling similar products in the United States.

Example resource – depends on the type of materials or supplies.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations, continued

- Pharmaceuticals

Estimate the fair value based on estimates of wholesale values that would be received for selling similar products in the United States.

Example resource - Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturer Price (AMP) that approximate wholesale prices in the United States.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations, continued

- Medical equipment

Estimate the fair value based on estimates of wholesale values that would be received for selling similar products in the United States.

Example resource -http://www.medwow.com/market_value.php - googled and found this website that allowed you to input category, device, manufacture, model and year.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations, continued

- Land and buildings

Recent comparable sales prices in the real estate market of the building.

Example resource – ongov.net – website that you can search properties and find sales prices.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations, continued

- Use of long-lived assets

Comparable properties for rent in the real estate market the entity is in. Estimate a per square foot rental rate and apply to square foot of building being used.

Example resource – various websites that you can search properties and find per square rental rates.

Gifts-in-kind Presentation and Disclosure Standards

Examples of valuations, continued

- Contributed services

Estimates based on current local rates for similar professional services.

Example resource – Obtain standard rates from the professional that are donating their services.

Questions

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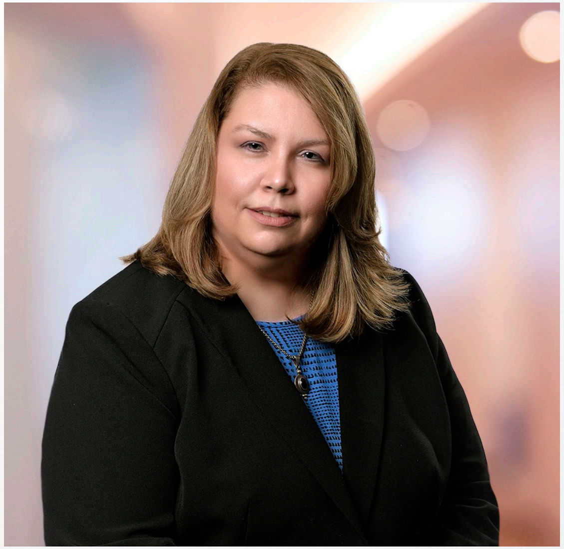

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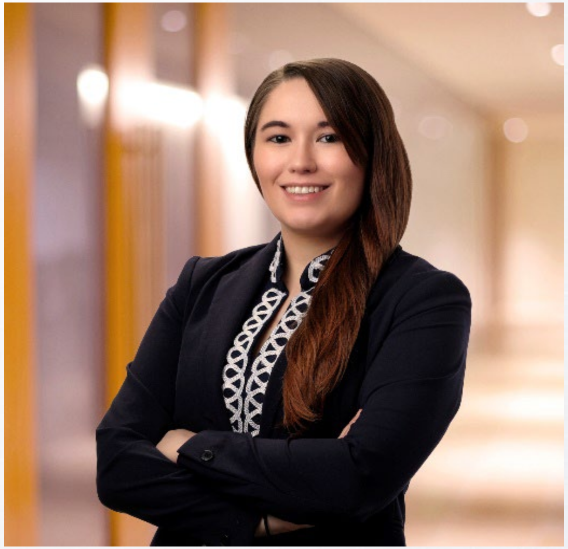

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