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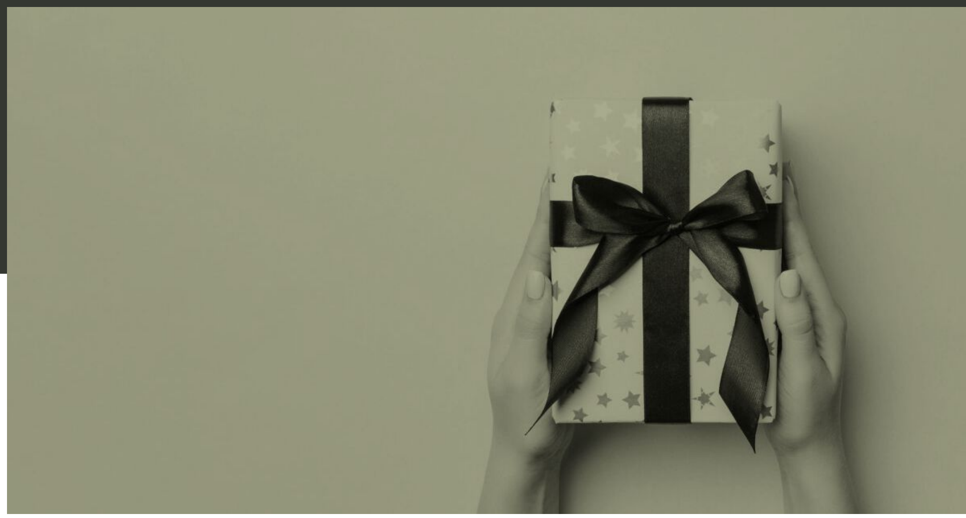
NONPROFITS: DONATIONS

FASB Issues New Gifts-in-Kind (GIKs) Rules

11.05.20 | Linda J. Rosenthal, JD



Recently, the Financial Accounting Standards Board (FASB) published new rules governing how 501(c)(3) organizations should account for, and report, non-cash charitable contributions. This type of donation is commonly referred to as "gifts in kind" or GIKs; in more formal accounting and nonprofit finance settings, the term "contributed nonfinancial assets" is often used.

The FASB is an "independent nonprofit organization created in 1973 and responsible for establishing accounting and financial reporting standards for companies and nonprofit organizations in the United States, following generally accepted accounting principles (GAAP)."

This board "works with users of financial statements as well as other stakeholders, including those in the nonprofit sector, to improve overall accounting and financial reporting. To accomplish this goal, FASB issues new Accounting Standards Updates (ASU) yearly."

Responding to issues raised by "stakeholders" as well as controversy about how certain state regulators (including California's) were interpreting and enforcing certain gifts-in-kind reporting, the FASB released Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (September 2020). "The issue on the table was that stakeholders had concerns regarding the lack of transparency surrounding contributed nonfinancial assets, and this ASU is aiming to expand on those disclosures in nonprofit financial statements, thus increasing transparency."

"While the update is relatively short, it contains changes that could be significant for many…" nonprofits, according to Matt Huffner, CPA, of Marcum LLP in *Nonprofit Accounting Standards Update No 2020-07* (October 8, 2020). "In any event," he adds, the hope is that the new standard will enhance the ability of nonprofit organizations to better communicate with their stakeholders through additional transparency in their financial statements."

Gifts in Kind: What Are They?

Charitable donations come in different forms; "while cash is king, other types of contributions are useful, too." Among them are "gifts in kind," sometimes also called "in-kind gifts" or "in-kind donations."

"Simply put," we wrote in *Gifts In Kind: What Nonprofits Should Know* (April 13, 2018), "it is a form of charitable giving in which a donor does not give money to buy goods and services the donee-organization needs but, instead, gives the goods and services themselves."

There are three general categories of in-kind gifts:

- Goods/Property: Examples include furniture, computers, and supplies as well as "intangible" property like contributions of patents, royalties, and copyrights as well as items can be offered at fundraising special events like auctions.
- Services: Examples include free or discounted use of office or meeting space and administrative services like printing and copying.
- Expertise: Examples include donated professional services (legal, accounting, consulting) and social media or web-design help. In some cases, it includes services from medical personnel or others who donate abilities to carry out programs or activities.

GIKs Reporting: Regulatory Challenges

In *Accounting Irregularities: Regulators Zooming In* (April 24, 2019), we cautioned that state charity regulations have stepped up oversight reviews of "certain accounting practices they assert are misleading and improper. In particular, they are focusing on two issues: (1) allocation of joint costs, and (2) valuations of gifts in kind (GIK); that is, non-cash donations."

Key states – especially California, New York, and Michigan – have targeted and "brought high profile enforcement actions in recent years" on the "allocation of joint costs" issue. These regulators allege that, "as a result of an incorrect allocation of joint costs," certain organizations under scrutiny have "in effect, made materially false statements in the financial documents they submit as part of their required state reporting."

California has also recently taken aim at "false statement allegations" related to "GIK valuations." Specifically, Attorney General Xavier Becerra asserted that certain charities receiving large donations of medicine – restricted for distribution to underdeveloped nations – improperly assigned a fair market value based on the other countries' (much lower) prices.

The FASB rules make changes on the "allocation of joint costs" issue to achieve greater transparency, but that board does not adopt or approve the California Attorney General's valuation theory.

Changes in GIKs Rules

Generally, ASU 2020-07 primarily keeps *unchanged* the "requirements for valuing goods and services received" which "remains rooted in the estimated fair value on the date they were unconditionally promised." Also remaining is the "old encouragement (but not requirement)" to disclose volunteer hours “if estimable.”

The key change is a new ASU requirement to disclose gifts-in-kind “separately on their own line item on the statement of activities” as well as in notes to their financial statements, especially if an organization receives *different* types of gifts-in-kind.

The use by an organization of these “nonfinancial assets” must now be “disclosed in a qualitative informational format that addresses the organization’s policies relating to whether or not it will sell the assets for cash upon receipt or hold the items for future use.” The FASB also now mandates disclosure of donor restrictions as well as “…the inputs and techniques used to determine fair value.”

Another clarification touches on the controversial position of the California Attorney General about the correct fair market value to be applied to gifts-in-kind for sale in foreign markets. The ASU impliedly rejects AG Becerra’s interpretation; ASU 2020-07 “clarifies exactly what is required now” and provides examples.

In addition to Matt Huffner’s helpful explanation of the new FASB position, see also *Enhancing presentation for increased transparency* (October 9, 2020) Pam Eggert, CPA, Eide Bailly LLP; *FASB alters not-for-profit accounting rules for gifts-in-kind* (September 17, 2020), Ken Tysiac, CPA, *Journal of Accountancy.* See as well the helpful “Sample of Nonprofit Disclosure for Gifts in Kind” in *FASB Example of a Not-for-Profit Organization’s Disclosure Under the New ASU* (September 23, 2020) Preston A. Jones, CPA, Keitner CPAs.

Conclusion

This new accounting-standard update for nonprofits reporting of gifts-in-kind is effective as of June 30, 2020, financial statements “on a retrospective basis.”

— Linda J. Rosenthal, J.D., FPLG Information & Research Director