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Gifts In Kind: New FASB Rules Now Apply

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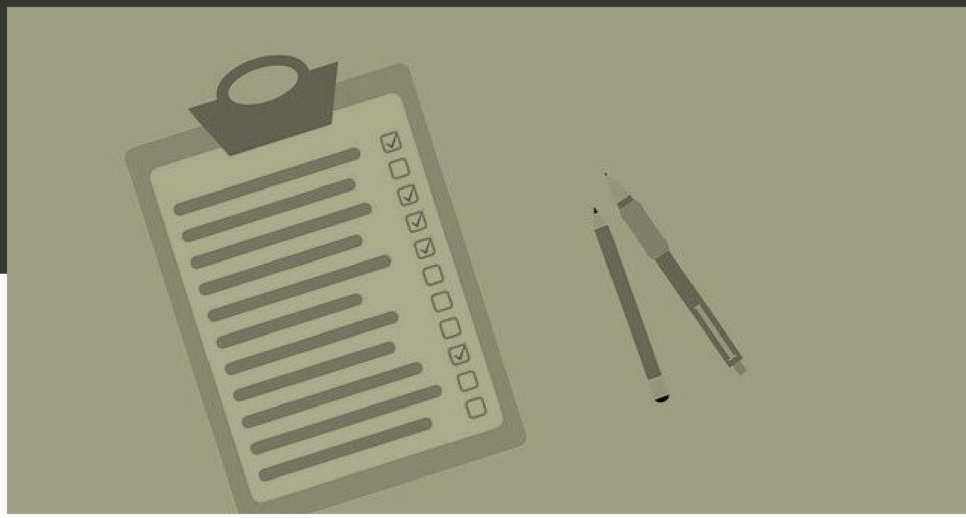

While "cash is king" for charitable contributions, other forms of financial support are popular as well with donors and appreciated by 501(c)(3) organizations.

But the record-keeping and reporting requirements for these gifts of goods and services are more cumbersome than for cash-only donations.

About 18 months ago, the Financial Accounting Standards Board (FASB) published new rules prescribing how *certain* 501(c)(3)s should account for, and report, non-cash charitable contributions. In *FASB Issues New Gifts-In-Kind (GIKs) Rules* (November 5, 2020), we told you about these changes set to begin at a later date.

That time is now for those groups subject to these expanded administrative obligations. *Gifts-In-Kind: New Reporting Rules for Nonprofits* (February 16, 2022) Steven M. Woolf, *councilofnonprofits.org.*

What are GIFs?

In *Gifts In Kind: What Nonprofits Should Know* (April 13, 2018), we first introduced the basics then in effect of the special record-keeping and reporting requirements.

"A cash contribution is, for many reasons, the preferred type of gift. It's simple and straightforward and provides the organization with the means to buy any goods or services it needs, to carry on any of its activities, or to provide benefits or services to the beneficiaries it serves. There is no question about fair market value; cash is cash. The reporting and accounting issues are minimal and uncomplicated."

But non-cash support is helpful as well in certain circumstances, although the administrative details are much more cumbersome. "Simply put, 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: (a) goods and property; (b) services; and (c) expertise.

Informally, these contributions are often referred to as "gifts-in-kind" or "GIKs" or sometimes as "in-kind gifts" or "in-kind donations." But in formal accounting and nonprofit finance settings, the preferred term is "contributed nonfinancial assets."

Rules Applicability

The Financial Standards Accounting Board establishes accounting and financial reporting standards for companies and nonprofit organizations in the United States, following generally accepted accounting principles (GAAP). The FASB "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."

In September 2020, the FASB released Update (ASU) 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.

These updated rules are in effect for fiscal years ending June 30, 2022, or the calendar year ending December 31, 2022. "So if your nonprofit hasn't already become familiar with this 'ASU' update," advises the National Council of Nonprofits, "now is a good time to do so."

Not every organization or each GIK is subject to these requirements. Which nonprofits "need to pay attention"? "FASB standards for reporting nonprofit financial statements apply to nonprofit audits," explains NCN's Steven M. Woolf.

"Whether a nonprofit is required to have an annual independent audit or certified financial statements varies from state to state, depending on a number of factors, often based on dollar thresholds." For more information on state requirements, NCN offers its online Nonprofit Audit Guide .

Sometimes, "funding sources, such as private foundations or government agency grants and contracts, may require an audit. The changes in this ASU also can be useful for other nonprofits in helping to clarify their financial position, even if an audit isn't required."

"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).

Key Changes

The Financial Standards Accounting Board responded to issues raised by "stakeholders" as well as controversy about how certain state regulators (including California's) were interpreting and enforcing gifts-in-kind reporting.

"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."

Steven Woolf explains that "the new standard seeks to improve financial reporting by providing new presentation and disclosure requirements. The new guidance should permit financial statement readers to identify the nature and amount of GIKs more clearly. (Note that the ASU did not change the recognition and measurement requirements for GIKs.)"

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.

That is to say, ASU 2020-07 now "requires a nonprofit to present GIKs as a separate line item in the statement of activities, separate from contributions of cash or other financial assets. GIKs should be broken down for each GIK category and include:

- Qualitative information about whether GIKs are either sold immediately or retained and used in programs
- Policy (if any) about monetizing, rather than using, GIKs
- Donor-imposed restrictions (if any) associated with the GIK for a purpose or time period
- Valuation techniques and inputs used to determine fair value at initial receipt
- Market(s) used to arrive at fair value, including principal or most advantageous markets"

There is a prescribed form of presentation: 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."

Explaining further, NCN's Mr. Woolf adds: "Nonprofits may use either a table or narrative format (or combination of both) to disclose this required category information."

Conclusion

For more detailed information, see *Gifts-in-kind: Reporting contributions of nonfinancial assets* (2022) AICPA.

See also: "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, *keitercpa.com*; and *Implementing the New Gifts-in-Kind Presentation and Disclosure Standards* (June 18, 2021) *capincrouse.com*

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