

## In-Kind Contributions: Accounting for Non-Profits

Determining Optimal Classification and Valuation of Gifts and Services, Appropriate Timing of Recording

WEDNESDAY, MARCH 19, 2014, 1:00-2:50pm Eastern

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# In-Kind Contributions: Accounting for Non-Profits

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March 19, 2014

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# Noncash Contributions: Tax Considerations

Renee Ordeneaux

rbz<sup>®</sup>LLP

# Topics

- Reporting on Form 990
- Donor reporting and acknowledgment
- Limitations on deductions of in-kind contributions
- Vehicle donation programs
- Conservation easements
- Unrelated business income potential

# Tax Recognition on Form 990

- Property other than cash
- No recognition of services or use of facilities, even when recognized for GAAP
- Must be reflected at fair market value
- If total noncash contributions exceed \$25,000 in FMV, must prepare Schedule M
- Part IV, “Checklist of Required Schedules”, lines 7, 8, 29 and 30



# Definition: Noncash Contributions

Contributions of property, tangible or intangible, other than money. Noncash contributions include, but are not limited to, stocks, bonds, and other securities; real estate; works of art; stamps, coins, and other collectibles; clothing and household goods; vehicles, boats, and airplanes; inventories of food, medical equipment or supplies, books, or seeds; intellectual property, including patents, trademarks, copyrights, and trade secrets; donated items that are sold immediately after donation, such as publicly traded stock or used cars; and items donated for sale at a charity auction. Noncash contributions do not include volunteer services performed for the reporting organization or donated use of materials, facilities, or equipment

# Definition: Fair Market Value

The price at which property, or the right to use property, would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy, sell, or transfer property or the right to use property, and both having reasonable knowledge of the facts.

# GAAP-Tax Differences

- Some in-kind services are recorded for GAAP
- Value of facilities contributed would generally be recorded under GAAP
- Neither is included on Form 990
- Part XII has a reconciliation to GAAP figures

**Part XI Reconciliation of Net Assets**

Check if Schedule O contains a response or note to any line in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	
2	Total expenses (must equal Part IX, column (A), line 25)	2	
3	Revenue less expenses. Subtract line 2 from line 1	3	
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	
5	Net unrealized gains (losses) on investments	5	
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	
10	Net assets or fund balances at end of year. Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	

# Part VIII, Statement of Revenue

- Noncash contributions reported in lines 1a through 1f, as applicable, and also on line 1g

Form 990 (2013)

Page **9**

**Part VIII** **Statement of Revenue**

Check if Schedule O contains a response or note to any line in this Part VIII . . . . .

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	<b>1a</b>	Federated campaigns . . . . . <b>1a</b>				
	<b>b</b>	Membership dues . . . . . <b>1b</b>				
	<b>c</b>	Fundraising events . . . . . <b>1c</b>				
	<b>d</b>	Related organizations . . . . . <b>1d</b>				
	<b>e</b>	Government grants (contributions) <b>1e</b>				
	<b>f</b>	All other contributions, gifts, grants, and similar amounts not included above <b>1f</b>				
	<b>g</b>	Noncash contributions included in lines 1a-1f: \$				
	<b>h</b>	<b>Total.</b> Add lines 1a-1f . . . . . ▶				

# Part VIII, Statement of Revenue, stock sale

**Line 1g.** Enter on line 1g the value of **noncash contributions** included on lines 1a through 1f. If this amount exceeds \$25,000, the organization must answer "Yes" to Part IV, line 29, and complete and attach Schedule M (Form 990).

Noncash contributions are anything other than cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to a cash account of the organization. Value noncash donated items, like cars and **securities**, as of the time of their receipt, even if they were sold immediately after they were received.

**Example.** A charity receives a gift of stock from an unrelated donor. The stock is delivered to the charity's broker, who sells it on the same day and remits the sales proceeds, net of commissions, to the charity. The value of the stock at the time of the contribution must be reported on line 1f and also on line 1g. The sale of the stock, and the related sales expenses (including the amount reported on lines 1f and 1g), must be reported on lines 7a through 7d.

**TIP** Museums and other organizations that elect not to capitalize their collections (according to **SFAS 116** (ASC 958-360-25) should not report an amount on line 1g for **works of art** and other collection items donated to them.)

For more information on **noncash contributions**, see the Instructions for Schedule M (Form 990).

Form 990 (2013)

## Part VIII Statement of Revenue

Check if Schedule O contains a response or note to

Contributions, Gifts, Grants and Other Similar Amounts	
1a	Federated campaigns . . . . . <b>1a</b>
b	Membership dues . . . . . <b>1b</b>
c	Fundraising events . . . . . <b>1c</b>
d	Related organizations . . . . . <b>1d</b>
e	Government grants (contributions) . . . . . <b>1e</b>
f	All other contributions, gifts, grants, and similar amounts not included above <b>1f</b>
g	Noncash contributions included in lines 1a-1f: \$
h	<b>Total.</b> Add lines 1a-1f . . . . . ▶

Program Service Revenue		Business Code
2a		
b		
c		
d		
e		
f	All other program service revenue . . . . .	
g	<b>Total.</b> Add lines 2a-2f . . . . . ▶	

3	Investment income (including dividends, interest, and other similar amounts) . . . . . ▶		
4	Income from investment of tax-exempt bond proceeds ▶		
5	Royalties . . . . . ▶		
6a	Gross rents . . . . .	(i) Real	(ii) Personal
b	Less: rental expenses		
c	Rental income or (loss)		
d	Net rental income or (loss) . . . . . ▶		
7a	Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other
b	Less: cost or other basis and sales expenses . . . . .		
c	Gain or (loss) . . . . .		
d	Net gain or (loss) . . . . . ▶		

FMV of stock @ date of contribution

Sales price  
FMV of stock + selling expenses

# Sales of Noncash Contributions, auction

**Example 1.** If an organization receives a donation of a home theater system with a FMV of \$5,000 at the time of donation; sells the system for \$7,500 at an auction, after having displayed the system and its FMV (which remains \$5,000) at and before auction so that its value was known to the bidders; and incurs \$500 in costs related to selling the system at auction, it should report the following amounts in Part VIII:

Line 1c (contributions from fundraising events):	\$2,500
Line 1f (all other contributions):	\$5,000
Line 1g (noncash contributions):	\$5,000
Line 8a (gross income from fundraising events):	\$5,000
Line 8a parenthetical (contributions reported on line 1c):	\$2,500
Line 8b (direct expenses: \$5,000 FMV on donation date + \$500 in auction costs)	\$5,500
Line 8c (net income from fundraising event, line 8a minus line 8b):	(\$500)

**Example 2.** If the home theater system in Example 1 sold at auction for \$2,500 instead of \$7,500, and all other facts in Example 1 remain the same, then the organization should report the following amounts in Part VIII:

Line 1c (contributions from fundraising events):	\$0
Line 1f (all other contributions):	\$5,000
Line 1g (noncash contributions):	\$5,000
Line 8a (gross income from fundraising events):	\$2,500
Line 8a parenthetical (contributions reported on line 1c):	\$0
Line 8b (direct expenses: \$5,000 FMV on donation date + \$500 in auction costs)	\$5,500
Line 8c (net income from fundraising event, line 8a minus line 8b):	(\$3,000)

# Sales of noncash contributions, thrift stores

- Line 10a – sales of items that are donated to the organization, that the organization makes to sell to others, or that it buys for resale

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**Part VIII Statement of Revenue**

Check if Schedule O contains a response or note to any line in this Part VIII

	(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
<b>10a</b> Gross sales of inventory, less returns and allowances . . . . <b>a</b>				
<b>b</b> Less: cost of goods sold . . . . <b>b</b>				
<b>c</b> Net income or (loss) from sales of inventory . . . ▶				

An organization that includes employment in a thrift store or in refurbishing goods as part of its purpose may categorize sales of inventory as related or exempt function income in column B. An organization that operates thrift stores strictly for fundraising purposes would report in column D, under the exclusion provided by IRC Section 513(a)(3) – “selling of merchandise, substantially all of which has been received by the organization as gifts or contributions.”

# Reporting Contributed Goods Distributed to Others

- An organization that receives contributed goods may end up distributing them to needy individuals or other charitable organizations
- The recipient organization will first need to consider whether it is the actual beneficiary of the contributed goods, or whether it is an agent for the ultimate recipient.
- If recognizable as income, will end up being reported on page 10 as a grant when it goes out as grant expense



# Schedule B: Schedule of Contributors

- Must indicate whether noncash for each contribution exceeding \$5,000 or 2%, as appropriate
- Part III requires additional information on noncash property given, primarily the description
- The IRS receives donor names, addresses and the FMV, but does not obtain the tax ID and does not cross-reference

# Schedule M: Noncash Contributions

- Not required for 990-EZ
- Required when total noncash contributions are \$25,000 or more
- Lots of detail needed
  - 24 categories of contributions
  - Number of items contributed
  - Method of determining value
- Other compliance disclosures, including donor reporting

**SCHEDULE M  
(Form 990)**

**Noncash Contributions**

OMB No. 1545-0047

**2013**

**Open To Public  
Inspection**

- ▶ Complete if the organizations answered "Yes" on Form 990, Part IV, lines 29 or 30.
- ▶ Attach to Form 990.
- ▶ Information about Schedule M (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

Department of the Treasury  
Internal Revenue Service

Name of the organization

Employer identification number

**Part I** Types of Property

	(a) Check if applicable	(b) Number of contributions or items contributed	(c) Noncash contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining noncash contribution amounts
1 Art—Works of art . . . . .	<input type="checkbox"/>			
2 Art—Historical treasures . . . . .	<input type="checkbox"/>			
3 Art—Fractional interests . . . . .	<input type="checkbox"/>			
4 Books and publications . . . . .	<input type="checkbox"/>			
5 Clothing and household goods . . . . .	<input type="checkbox"/>			
6 Cars and other vehicles . . . . .	<input type="checkbox"/>			
7 Boats and planes . . . . .	<input type="checkbox"/>			
8 Intellectual property . . . . .	<input type="checkbox"/>			
9 Securities—Publicly traded . . . . .	<input type="checkbox"/>			
10 Securities—Closely held stock . . . . .	<input type="checkbox"/>			
11 Securities—Partnership, LLC, or trust interests . . . . .	<input type="checkbox"/>			
12 Securities—Miscellaneous . . . . .	<input type="checkbox"/>			
13 Qualified conservation contribution—Historic structures . . . . .	<input type="checkbox"/>			
14 Qualified conservation contribution—Other . . . . .	<input type="checkbox"/>			
15 Real estate—Residential . . . . .	<input type="checkbox"/>			
16 Real estate—Commercial . . . . .	<input type="checkbox"/>			
17 Real estate—Other . . . . .	<input type="checkbox"/>			
18 Collectibles . . . . .	<input type="checkbox"/>			
19 Food inventory . . . . .	<input type="checkbox"/>			
20 Drugs and medical supplies . . . . .	<input type="checkbox"/>			
21 Taxidermy . . . . .	<input type="checkbox"/>			
22 Historical artifacts . . . . .	<input type="checkbox"/>			
23 Scientific specimens . . . . .	<input type="checkbox"/>			
24 Archeological artifacts . . . . .	<input type="checkbox"/>			
25 Other ▶ ( . . . . . )	<input type="checkbox"/>			
26 Other ▶ ( . . . . . )	<input type="checkbox"/>			
27 Other ▶ ( . . . . . )	<input type="checkbox"/>			
28 Other ▶ ( . . . . . )	<input type="checkbox"/>			

Quantity  
disclosure  
not  
required for  
these goods

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# Valuation Methods

- **Cost or selling price** – appropriate when purchase or sale was close to contribution date, when the original transactions was arm's length, and when no change in market value
- **Sale of comparable properties** – useful when there is a market for comparable goods, such as the thrift store sales value of clothing
- **Replacement cost** – not necessarily applicable since it would need to be adjusted to fair value
- **Opinions of experts** – appraisals are required when value is greater than \$5,000, and may be the best way of obtaining value for art, real estate and other unique properties

# Schedule M Donor-Related

- Number of Forms 8283
- Receipt of property with a three-year holding period
- Gift-acceptance policy
- Third-party solicitation, processing or selling

# Form 8283 – general requirements

- Required by donors when noncash contributions claimed on a tax return exceed \$500
- Schedule B must be completed when the deduction for an item, or group of items, exceeds \$5,000 (except publicly-traded securities)
- Appraisals required for contributions in excess of \$5,000

# Form 8283 – charity responsibilities

- Required when Section B is needed (>\$5,000)
- Donor must provide donee with name, TIN and description of the donated property
- Person acknowledging on behalf of charity must be an official authorized to sign the tax returns of the organization, or specifically designated to sign these forms
- The acknowledgment does not constitute agreement with the claimed value
- If the property is sold within three years, additional reporting (Form 8282) is required



# Impact of Holding Period on Donor

- “Capital gain” property must be held at least a year for the donor to get the FMV deduction on eligible property, such as appreciated stock
- Tangible personal property contributions greater than \$5,000 may be subject to recapture if the organization does not use it for exempt purposes and sells within three years of contribution

# Contemporaneous Written Acknowledgement

- A donor cannot claim a tax deduction for any single contribution of \$250 or more unless the donor obtains a contemporaneous written acknowledgement
- Must include (see Publication 1771):
  - Name of organization
  - Amount of cash contribution
  - Description (but not the value) of noncash contribution
  - Statement regarding value of goods or services provided by the organization to the donor
  - Description and good faith estimate of the value of goods or services, if any, that the organization provided in return for the contribution

# Examples of Written Acknowledgments

- "Thank you for your cash contribution of \$300 that (organization's name) received on December 12, 2013. No goods or services were provided in exchange for your contribution."
- "Thank you for your cash contribution of \$350 that (organization's name) received on May 6, 2013. In exchange for your contribution, we gave you a cookbook with an estimated fair market value of \$60."
- "Thank you for your contribution of a used oak baby crib and matching dresser that (organization's name) received on March 15, 2013. No goods or services were provided in exchange for your contribution."

Acknowledgment needs to be provided to donor the earlier of when the donor actually files his/her return or the due date, with extensions. No penalty to charity for not providing, except bad karma and the possibility that a donor will not be back.

# Nondeductible or Limited Contributions

1. A contribution to a specific individual,
2. A contribution to a nonqualified organization,
3. The part of a contribution from which you receive or expect to receive a benefit,
4. The value of your time or services,
5. Your personal expenses,
6. A qualified charitable distribution from an individual retirement arrangement (IRA),
7. Appraisal fees,
8. Certain contributions to donoradvised funds
9. Certain contributions of partial interests in property.

## Right to use: nondeductible

- Donation of rent-free use of space in office building owned by donor
- Donation of use of vacation home

## Undivided interest: possibly deductible

- An undivided interest in a painting that allows an art museum position for three months of each year (but must be fully contributed within 10 years)

# Contributions Subject to Special Rules

- Clothing or household items – must be in good used condition
- A car, boat, or airplane – limited to lower of gross proceeds from the organization's sale of the property or FMV on date of contribution
- Taxidermy property – limited to lower of basis or FMV; basis does not include any hunting costs
- Property subject to a debt – must reduce FMV by any interest paid after contribution (if debt retained) or the debt if “contributed”
- A partial interest in property – see previous slide
- A fractional interest in tangible personal property – see previous slide
- A qualified conservation contribution – complex rules
- A future interest in tangible personal property – not deductible until it actually transfers
- Inventory from your business – lower of FMV or basis
- A patent or other intellectual property – lower of FMV or basis

# Tax Planning Opportunities for Donors

- Appreciated stock – donor received FMV deduction if held for longer than one year
- Bargain sale – a reduction in sale price below FMV to a charity results in a contribution for the amount of the difference between the sales price and FMV

# Vehicle Donation Programs: Three Scenarios

1. Charity operates the program – generally fine, though subject to some rules
2. Charity hires agent to operate the program – must establish valid agency relationship
3. For-profit entity receives and sells vehicles using charity's name – will eliminate ability to take contribution deduction



# Responsibilities of Charity Operating Program

- Comply with state law regarding program
- Provide required donor acknowledgment
- File Form 1098-C and provide a copy to the donor
- File Form 8282, if required

# Conservation Easements – 170(h)

- Qualified real property interest – use of real estate with attributes of an easement
- Qualified organization
  - Governmental units or public charities
  - Possesses the resources to manage and enforce the easement
- Exclusively for conservation purposes
- Granted in perpetuity – any debt must be subordinate to charity's interest
- Charity must provide information on Schedule D

# Unrelated Business Income Tax

- Closely-held stock – trade or business activity could generate ordinary income (partnership or S corporation)
- Rental real estate – if transferred with debt, then rental real estate income may become subject to UBIT

# Contact Information

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# IRS Resources

- [Form 990](#) and [instructions](#)
- [Schedule M](#) and [instructions](#)
- [Form 8283](#) and [instructions](#)
- [Form 8282](#) and [instructions](#)
- [Publication 561](#), *Determining the Value of Donated Property*
- [Publication 526](#), *Charitable Contributions*
- [Publication 1771](#), *Charitable Contributions-Substantiation and Disclosure Requirements*
- [Publication 4302](#), *A Charity's Guide to Vehicle Donations*
- [Publication 598](#), *Tax on Unrelated Business Income of Exempt Organizations*
- [Form 1098-C](#) and [instructions](#)

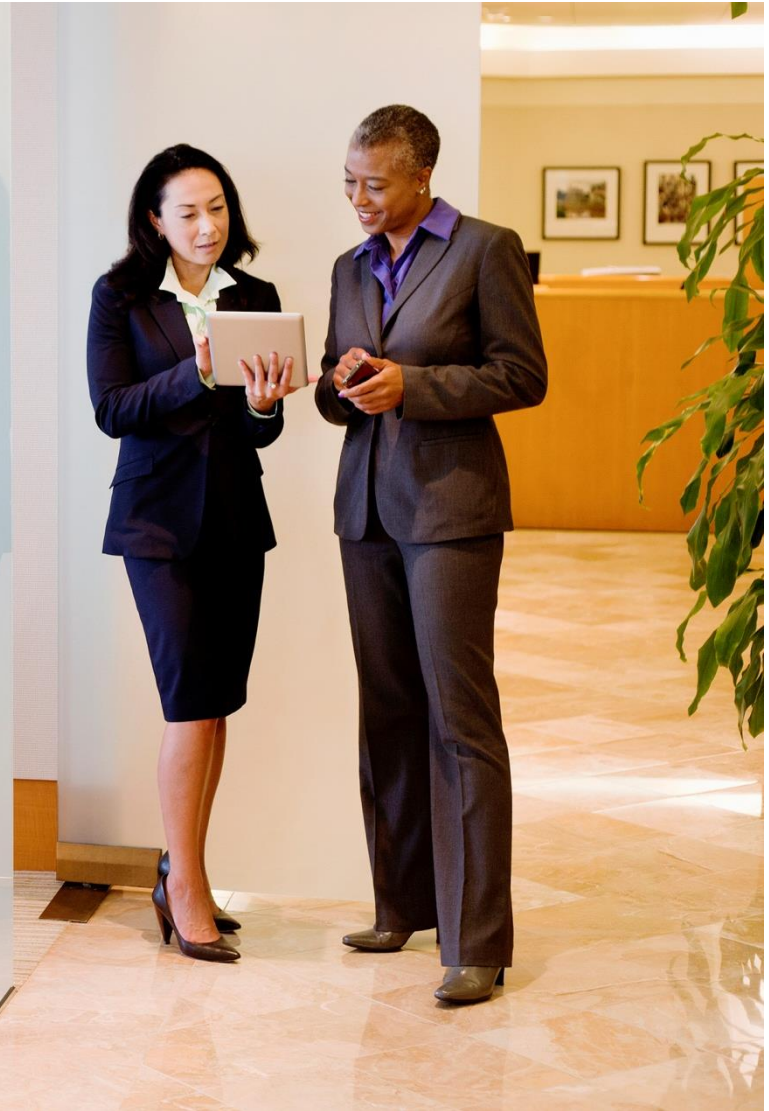
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# In-Kind Contributions: Accounting for Non-Profits

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March 19, 2013



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# Agenda

- I. Importance of GIKI
- II. Requirements to Recognize Contributed Services
- III. Services Received from Personnel of an Affiliate
- IV. Requirements to Recognize Contributed Goods
- V. International Issues
- VI. Typical Issues with GIKI
- VII. Issues to Consider
- VIII. Practical Tips to Consider in Telling the NFP Financial Story



# Importance of GIKI

The FASB in its Concept Statement No. 4, lists several objectives for nonprofit financial reporting which can be simply summarized concisely related to Gifts In-kind (GIKI), which is as follows:

Portray economic reality without misleading the user.

It is important to reflect properly GIKI in the financial statements in order to demonstrate those resources available to the NFP but also how resources were used.

If the portrayal of how GIKI resources were used is not properly communicate in the NFP financial statements, users/reader will receive misinformation about the NFPs financial health and the costs to provide mission related services.

# Requirements to Recognize Contributed Services

Contributions of services shall be recognized if the services received:

1. Create or enhance nonfinancial assets or
2. Require specialized skills are provided by individuals possessing those skills.

The contributed services must also typically be purchased by the NFP if not provided by donation.

Under Generally Accepted Accounting Principles (GAAP) in the United States, contributed services are recognized and recorded as revenue (credit) and expense (debit), and the effect on the statement of activities is a zero.

# Requirements to Recognize Contributed Services

(Cont'd)

For volunteered services, there are **two** criteria, which must be met in order to recognize revenue and expense, which are as follows:

- The first criterion is that the volunteered services must require **specialized knowledge or skills**, and

For example, if the NFP needed legal services and received pro bono services from a lawyer, this criterion would be met. However, if a lawyer volunteers to answer phones or paint an office, the criterion is not met.

The volunteer must have these specialized skills.



# Requirements to Recognize Contributed Services

(Cont'd)

The second criterion, which must also be met, is that if the service were not donated, **the organization would have purchased the service.** So in the example above, if the donated legal services were so needed that the organization would have purchased them anyway then this criterion is met.

# Services Received from Personnel of an Affiliate

(ASU 2013-06)

Personnel services received from an affiliate (parent/sub or common control) for which the affiliate doesn't charge the recipient NFP Recipient NFP recognizes.

Measured at cost incurred by the affiliate:

- Contributed services criteria no longer applicable.
- FV practicability exception if the cost will significantly overstate or understate the value of the services received.
- Entities under Topic 954 (healthcare) would report as equity transfer.

Effective for f/y beginning after 6-15-2014.

Modified retrospective application; early adoption permitted.

# Requirements to Recognize Contributed Goods

There are other types of GIKI beyond volunteers' time which are contributed goods. Contributed goods are items such as donated advertising and free rent. For contributed goods, the “specialized knowledge/skills” test is not applicable.

It is important to note that the second test is still applicable. To book any GIKI the organization must be able to say it would have purchased the service if it were not donated. Implied in this statement is the idea the organization could afford to purchase the service.

# Requirements to Recognize Contributed Goods

## (Cont'd)

Consider for a moment two identical not-for-profits with identical fundraising strategies and budgets. (We'll call them "X" and "Y"). Now imagine that one of these charities (Charity "X") receives donated advertising, which it would not have otherwise purchased (and therefore does not record as revenue). Charity X clearly benefits from the donated advertising and can reach more donors than Charity Y. As a result, it would seem that revenue is conceptually understated. Therefore, the benefit to the organization would never be recorded on the statement of activities. Additionally, this will impact ratios that some use to evaluate Charity X. If Charity X had recognized revenue the offsetting debit would go to general and administrative and fundraising expense.

As a result, the overhead ratios between these two charities would be different. Namely because, Charity X benefits from the use of more resources than its peer.



## International issues

GKI can become more complicated in an international setting. While US GAAP guidance is very specific, IFRS does not specifically address GKI. As a result, there is room for a wider range of practice. Many offices simply do not book GKI at all.



## International Issues (Cont'd)

In fact in some countries, Canada for example, recording GIKI is prohibited by statutory requirements. Absent these restrictions, I believe that it is reasonable for an NFP reporting under IFRS to reference to US GAAP under IAS 8.

I believe that absent specific guidance under IFRS, a charity could book GIKI without considering whether or not it would have purchased the service anyway.

Based on the current diversity of practice, which clouds comparability and global reporting makes it difficult for international organizations to set a global GIKI policy.



# Typical Accounting Issues with GIKI

Typical questions around GIKI relate to three issues around the fair value of the gift:

- Fair Value determination
- Origin or destination,
- Donor restrictions, and
- Asset attributes (i.e. product expiration date).



# Fair Valuing GIKI

GIKI fair value is based on the guidance promulgated by the FASB's Accounting Standards Codification Topic ASC 820, *Fair Value Measurement* (formerly FAS 157)

Fair value is defined 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.”

So what does this mean for GIKI, which typically isn't sold but instead is distributed to beneficiaries?

## Fair Valuing GIKI (Cont'd)

Generally, neither the origin of the GIKI nor its intended programmatic destination would affect its fair value.

Fair value would be affected by changes in the market prices where the GIKI would be normally be sold (i.e. the principal market).

The principal market is the market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset.

## Origin or destination:

The fact that the NFP will actually be sending the donated goods it to beneficiaries in a developed or developing country has **no effect** on the principal market since the goods would be normally sold in, the market which would be used for valuing the goods.

Beneficiaries, by definition, are not market participants. Market participants are entities who would transact for goods and are able to buy the products from the reporting entity.

GKI by its nature is excess goods donated to NFPs for distribution to beneficiaries. Therefore, it may be difficult to identify a market where the goods are sold.



# Donor Restrictions

Donor restrictions can be entity attributes or asset attributes. Two examples of entity attributes include IRS Section 170(e) 3 restrictions or temporary donor restrictions for time or purpose.

Entity restrictions do not affect the underlying asset since market participants wouldn't consider it. Therefore, entity restrictions should not affect the fair value.



# Donor Restrictions

## Example:

A donor restriction, which becomes an asset attribute, is a restriction on the use of land for which the underlying deed has been altered to include development restrictions. Donor restrictions, which affect the underlying asset generally have an effect on the fair value because these are restrictions which market participants would consider when buying the asset.

Assets may have attributes which are considered “standard” in the marketplace. When the GIKI received differs from these market “standards”, an adjustment to its value may be necessary.

# Issues to Consider

Several issues that the NFP should consider are as follows:

- Product expiration dates - if the product received is short-dated compared to products available to most market participants, a discount should be applied.
- Quantities of products received - if the product is received in a wholesale quantity, but retail values are readily available, a wholesale discount should be applied, and
- Quality of products received - if the product received is lower quality than products typically sold in the marketplace, a discount should be applied.

For more information, you may want to review the [AERDO standards](#) (now [The ACCORD Network](#)).



# Practical Tips to Consider in Telling the NFP Financial Story

- Large capital gifts can cause misleading surpluses and deficits.
- For capital gifts of depreciable assets (or cash to purchase them), prevent this problem by recognizing the gift gradually over the life of the asset. Nonprofits adopting such a policy must disclose it.
- For capital gifts of non-depreciable assets (or cash to purchase them), prevent the problem by segregating capital from operating items in the Statement of Activities.
- In-kind gifts can cause misleading surpluses and deficits, and mask the scale and financial condition of a nonprofit.
- Prevent these problems by segregating in-kind revenue and expense items from monetary items on the Statement of Activities.
- Use the direct method for presenting the Statement of Cash Flows.

# BDO Resources

# BDO's Institute for Nonprofit Excellence - Resources

## ▶ Nonprofit Financial Reporting and Tax Webinars

- BDO conducts regular webinars for our clients and friends on current nonprofit issues involving timely and relevant nonprofit accounting, auditing and tax updates and issues. We make the archives of our calls available to our clients and contacts. To receive invitations to future conference calls, please send an e-mail to [lklumpp@bdo.com](mailto:lklumpp@bdo.com).

## ▶ BDO Nonprofit Standard

- BDO's Institute for Nonprofit Excellence issues a quarterly newsletter discussing current issues involving nonprofit accounting, auditing and tax updates, which include new accounting and auditing standards, executive compensation and benefit issues, areas of concentration of the Internal Revenue Service, industry best practices and information for those that are required to have an OMB Circular A-133/Super Circular audit (Single Audit) to name a few.

## ▶ Industry Publications

- BDO also publishes numerous publications related to the nonprofit industry. For a complete listing of services, publications, archives of various webinars and events, and other information regarding BDO, please contact Lee Klumpp at [lklumpp@bdo.com](mailto:lklumpp@bdo.com).



## Speaker: Lee Klumpp, CPA, CGMA

Lee is BDO's National Nonprofit & Education Industry Group Audit and Accounting Technical Leader. Lee recently completed a fellowship at the Financial Accounting Standards Board (FASB). During Lee's fellowship, he led the FASB's project to reexamine existing standards for financial statement presentation by not-for-profit entities, focusing on improving the net asset classification requirements and information provided in financial statements and notes about liquidity, financial performance, and cash flows. He also focused on various FASB agenda projects and implementation and emerging practice problems in the nonprofit industry.

Lee has over 20 years of experience serving a diverse group of nonprofit organizations while working for BDO and previously with two of the Big Four firms. In his role at BDO, he spends a significant amount of time researching, writing, and disseminating information related to recent accounting and auditing pronouncements promulgated by the FASB, the Governmental Accounting Standards Board (GASB), the Office of Management and Budget, the Government Accountability Office, the Auditing Standards Board, and other groups that provide guidance for the nonprofit industry.

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# Valuation Issues

Gifts in Kind

Robert C. Brackett, CGMA, CPA, CVA, ICVS, MM

# Valuation Issues

- Differences between Donor and Donee's value
  - One is GAAP
  - One is FMV
- GAAP
  - Fair Value
  - Generally "Exit Price"
  - Uses Market with minimal adjustments
- FMV
  - Willing seller, willing buyer, each full knowledge of market
  - Not the highest and best use
  - Uses significant adjustments

# GAAP

- Exit price
- Little “Best Practices” in this area
  - We looked to AERDO
    - Publish [http://www.dochas.ie/Shared/Files/4/Gift in kind Standards.pdf](http://www.dochas.ie/Shared/Files/4/Gift%20in%20kind%20Standards.pdf)
    - Focuses on Donee value
    - Primarily on Pharma, but written to be open
  - AICPA <http://www.berrydunn.com/uploads/55/doc/financial-reporting-whitepaper-measurement-of-fair-value.pdf>
  - FASB 820 replaced 157  
<http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175822486936&blobheader=application/pdf>



# GAAP

- 2 major valuation related points/focus
  - Disclosure & documentation
  - Valuing

# GAAP

- Disclosures AERDO & GAAP (820-10-55-1):
  - Description of item or property, including sources and uses (500 bales of used adult clothing, versus used adult clothing)
  - Valuation premise (GAAP & IRS differ dramatically)
  - Dates, of appraisal and of transfer
  - Consideration received (e.g. mktg, PR)
  - Identify both donor and donee (include relationship, including NONE)
  - Description of valuation method used (detailed)
  - Financial data used in valuation (beginning, sources for adjustments, etc)
  - Must be conclusion of value (AICPA) and Appraisal Report (USPAP)

# GAAP

- Disclosures (continued)
  - The principal market
  - Market participants
  - Judgments applied

# GAAP

- Valuing (GAAP)
  - AERDO
    - Assumes this is used in furtherance of mission
    - Assumes fewest possible entities involved
      - If entity is a stepping stone
        - Administrative
        - Warehouse
        - Manage
        - Handling
    - Assumes trained users at the final receipt
      - Medical equipment operation
      - Qualified to administer pharma's
      - Etc.

# GAAP

- Exit price (GAAP, FASB ASC 820)
  - Volume of material often drives value to wholesale
  - Seldom retail
  - No reduction typically for transport or other downstream costs
  - Highest & Best use of all market participants; principal or most advantageous
  - Remaining shelf life may or may not have adjustment (look at time anticipated for receipt to end use)
  - Restrictions on use – impact on donee not donor, does not necessarily restrict/diminish the value.

# GAAP

- Other matters
  - Middlemen/distribution entities have very different requirements, outside valuation per se.
  - Hierarchy of FASB (820-10-35-16BB & glossary);
    - Level 1 – active market, e.g. publicly listed stock donated
      - identical assets or liabilities that the reporting entity has the ability to access at the measurement date
    - Level 2 – observable inputs (generic equivalents 820-10-55-21)
      - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Possibly Craig's List, or E-Bay
    - Level 3 – Unobservable e.g. closely held company 820-10-55-22)
      - Unobservable inputs for the asset or liability

# IRS

- Fair Market Value
  - Hypothetical buyer and seller
  - Adjustments for restrictions placed on distribution/use
  - Generally want to see 3 approaches to value
    - Transaction/market
    - Asset/replacement
    - Income
  - Disclosures should be similar
  - For charitable contributions-see regulation 6501 for qualified appraisal

# IRS

- Types of assets
  - Real Estate – if actual ground and everything on and beneath it, most good appraisers can handle the highest & best use
    - If just mineral rights – geologist and a business valuator (usually)
    - If just easements – depending on what, appraiser and valuator to do court case analysis
  - If royalties or intangible assets – business valuator
  - If publicly traded stock - ??? May want a valuator, may want independent party to get closing price or average high and low on day of
  - Pink sheet – thinly traded, use valuator
  - Privately held company, FMV



# Summary

- Differences
  - Highest and best use, if a bid situation, only one left in the market is the closest losing bid, not the winning bid
  - IRS FMV is more of an average value
  - GAAP value is often huge compared to the FMV of a bid
    - GAAP often uses a multiple of the EBITDA
    - GAAP is highest and best use, not normal use
    - FMV looks more to normalized Earnings after tax (interest may be added back after removing tax benefit)
  - Consider FMV and M&A value (unlevered & fully levered [risk difference may be 6% v 20%])