Information About Gifts-in-Kind

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Your Opportunity Advisors

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Nonprofit organizations receive a variety of cash and noncash donations from the public. The recognition and measurement requirements related to noncash contributions are generally similar to those for cash contributions. That is, noncash items are measured at fair value and recognized as contributions when received. There are, however, accounting issues specific to certain types of noncash contributions, including gifts-in-kind. Detailed below are the most frequently asked questions we receive.

Characteristics of Gifts-in-kind?

Donations such as thrift store inventory, contributed advertising and marketing media, donated items sold for fund-raising purposes, and gifts of long-lived assets are examples of gifts-in-kind. Gifts-in-kind can include contributions of tangible and intangible personal property. Tangible gifts-in-kind include contributions of items such as clothing, furniture, equipment, inventory, pharmaceuticals, and supplies. Intangible gifts-in-kind include contributions of professional services that meet all of the criteria of FASB ASC 958-605-258-16, as well as patents, royalties, and copyrights.

Gift-in-kinds are *NOT* all alike

Even if the organization has decided to accept gifts-in-kind, it may not always be the recipient of a contribution that can be recorded as contributions received. Sometimes, donated materials or supplies are passed from one organization to another at the request of a donor. If a donor does not give the organization the discretion to choose who will get the donated items, the organization serves only as an agent, and the donated materials are not reported as contribution revenue when received. Similarly, when the organization distributes the donated materials or supplies to the ultimate beneficiary, the transfer is not reported as a contribution made (expense). If the organization receives gifts-in-kind as an agent, the organization may choose (but is not required) to recognize those assets and corresponding liability until disposed of based on the donors' direction.

Do I Have to Track Gifts-in-kind?

The simple answer is yes. Although it can be challenging to track and value gifts-in-kind, difficulty in doing so is not a good reason for not recognizing them in the organization's financial statements. FASB ASC 958-605-30-11 states that gifts-in-kind that can be used or sold shall be measured at fair value. Thus, it is not appropriate to state in the notes to the financial statements that the value of noncash contributions are not reflected in the financial statements because it is impracticable or difficult to estimate the value or there is no objective means of valuing them. A reasonable effort to determine the value of gifts-in-kind provide better information in financial statements about an organization's level of contributions and programs rather than disclosing no value at all.

Should I Always Accept Gifts-in-kind?

It depends. Gifts-in-kind that are worth accepting generally possess the characteristic of other beneficial assets; future economic benefit, service potential, or program fulfillment. The future economic benefit or service potential of an item usually can be obtained by exchanging the item for cash and using that cash in the organization; and program fulfillment can be obtained by using the goods or services directly in the organization's programs.

Organizations should consider developing a practice of asking questions such as the following before accepting a gift:

- Can the gift-in-kind be used to support our mission and/or programs?
- Can the item be used as is, or does it need significant repair or modifications to be useful?
- Does the organization have the staff experience, space, and equipment to store, transport, and distribute the items efficiently?
- What costs will we incur in accepting and distributing the items, and can we afford those costs?
- What potential exists for future items from this donor, and can it possibly provide a consistent source of support?

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Valuing Gifts-in-Kind

In accordance with FASB ASC 958-605-30-11, gifts-in-kind that can be used or sold should be measured at fair value. In some cases, determining the fair value of a donated item may be relatively simple. In many cases, however, determining a reasonable fair value may require some effort on the part of the organization when there is no available market. Gifts-in-kind that cannot be used internally or sold have no value and therefore should not be recognized as assets or contributions. Generally, the fair value of a gift-in-kind should not increase when a nonprofit organization passes it on to another nonprofit organization unless the donating organization adds value to it (for example, by cleaning or packaging it).

Resources to assist organizations in valuing gifts-in-kind are not always easy to find. Authoritative literature provides only broad, general guidance, and many organizations struggle to find useful guidelines to help value donated assets. Four resources providing guidance on valuing various types of gifts-in-kind are as follows:

- Online prices
- Appraisers
- Salvation Army's Donation Valuation Guide.
- IRS Publication 561, *Determining the Value of Donated Property*.

Should you have questions about how your organization utilizes and tracks Gifts-in-Kind, please contact Doug Nickerson at dnickerson@keitercpa.com or your Keiter NFP engagement team.

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