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ADVISER

A Gift in Hand...

Know the Right Way to Report Donations of Services and Gifts in Kind

With a recession lingering, your supporters may be unable to come up with the cash contributions of previous years. But supporters can still help your not-for-profit without writing a check or putting cash in the coffers.

Donations of services and gifts in kind can be useful to your organization during tough economic times. But should you book them in your financial statements? And, if so, what amounts should you assign?

Services that are Donated

Formerly Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (FAS) No. 116, *Accounting for Contributions Received and Contributions Made*, specified when a not-for-profit should recognize the fair value of services in its financial statements. Now that guidance is provided primarily under FASB Accounting Standards Codification™ (ASC) 958, *Not-for-Profit Entities*. (For more on the codification, see next page.)

There are two types of donated services a not-for-profit should recognize:



1. Services creating or enhancing a nonfinancial asset. If the service creates or enhances a nonfinancial asset, you should recognize the donation. Such services are capitalized at fair value on the date of the donation. These types of services either create a nonfinancial asset (in other words, a tangible asset) or add value to an existing asset.

Donated services that create or enhance a nonfinancial asset don't necessarily need to be specialized to be

recognized. For example, the value of a carpenter's time (a specialized service) to build an addition to a building would be capitalized as part of the building, as would the value of a volunteer's time to paint the interior walls (a nonspecialized skill). But routine equipment maintenance shouldn't be recognized, because it doesn't enhance the nonfinancial asset.

2. Services needing specialized skills. You also should recognize the donation if the service requires specialized skills, is provided by people with those skills, and would have been purchased if it hadn't been donated. Account for this service by recording contribution income for its fair value. Also record it as a related expense, in the same amount, for the professional service provided.

"Specialized skills" refer to professional services provided by attorneys, accountants, architects, carpenters, electricians and the like. Developing these skills usually requires specialized schooling or training.

Normally, this would exclude general volunteer time at your facilities and

(continued)

your events. These volunteers typically don't need specialized skills to perform their assigned tasks. Nonetheless, your not-for-profit may want to disclose the total number of volunteer hours it received during the year in its financial statement footnotes. Such a contribution emphasizes the commitment made by the community to your not-for-profit.

Gifts in Kind

Gifts in kind generally involve the receipt of a piece of tangible property or property rights. They may take many forms, including the free or discounted use of facilities; free advertising; collections, such as artwork to display or sell; and other tangible property, such as office furniture or supplies. While this isn't an all-inclusive list, it's a good representation of the types of gifts in kind a not-for-profit may receive.

To account for these, you first need to determine whether the item can be used to carry out your mission or sold to help fund operations — in other words, does it have a value to your not-for-profit? If so, it should be recorded as a donation and a related receivable once it's unconditionally pledged to your organization.

Next, use fair value to measure gifts in kind. Base the value on what it would cost if your not-for-profit were to purchase that item outright from an unrelated third party.

It's fairly easy to assign a fair value to property, such as furniture, equipment or inventory — you can look up the going price for a similar item in the marketplace. But when the gift is a collection, a donated facility, donated advertising — or something that doesn't otherwise have a readily determinable market value — its fair value is more difficult to assign.

Without an independent appraisal to substantiate the gift's value, you may need to rely on a good-faith estimate from the donor. So, you should obtain all corroborating evidence that the donor can provide. If the value is more than \$5,000, the donor is required to obtain an independent appraisal for tax purposes, which will give you documentation for your records. Then, through research, evaluate whether that amount was reasonably set and adjust as needed.

Money isn't everything

In a downturned economy, you may receive fewer and smaller cash

What is "Codification"?

According to FASB, the Accounting Standards Codification™ (ASC) is now the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP).

It was released July 1, 2009, and went into effect for financial statements issued for interim and annual periods ending after September 15, 2009.

The ASC replaces the patchwork of FASB Statements of Financial Accounting Standards (FASs), Staff Positions (FSPs), Interpretations (FINs), and other guidance that previously defined GAAP.

donations. But there may continue to be a steady stream of donated services and gifts in kind that your not-for-profit can put to use. Reported properly, these contributions can help your organization's financial picture, even if it's in an unconventional way. **h**

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