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BEHIND the NUMBERS
In-Kind Contributions: How to Account For Them Correctly
By Eric Fraint, President
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Almost all nonprofit organizations have at some time received “in-kind” contributions; also known as “gifts-in-kind.” These non-cash contributions can take various forms such as gifts of long-lived assets, services performed by volunteers, gifts of museum collection items, gifts of inventory, gifts of items used for fundraising purposes, free use of facilities and utilities or use of these at a discounted cost, or gifts of supplies and other materials. This article will explain the rules for accounting for these in-kind contributions on financial statements. The rules for reporting on Form 990 tax returns may be different.

The accounting rules for the different types of in-kind contributions are similar, but some differences do exist. Our discussion will consider each type of in-kind contribution separately.

Gifts of long-lived assets, commonly called fixed assets, of land, buildings and equipment, result in the recognition of revenue and a corresponding increase to fixed assets on the Statement of Position (commonly referred to as the Balance Sheet). A decision needs to be made about whether the revenue should be recorded as temporarily restricted or unrestricted. If the donor stipulates how long the fixed asset should be used, or specifically for what purpose it must be used, the revenue should be temporarily restricted. If the donor does not specify how or how long the asset should be used, the accounting rules give you a choice. The organization may adopt a policy to imply a time restriction and treat the gift as temporarily restricted. Then, as the asset depreciates each year, a portion of the temporarily restricted revenue typically equal to the amount of the depreciation expires as well. Donated land, if treated as temporarily restricted support, stays in temporarily restricted net assets indefinitely or until sold since land is not depreciated. If the organization chooses not to adopt a policy implying a time restriction, it should treat the donation of the long-lived asset as unrestricted support. In our experience, we rarely see an organization voluntarily elect to treat gifts of fixed assets as restricted.

Accounting for donated services on financial statements is somewhat more involved. Statement of Financial Accounting Standards (SFAS) No. 116 says in paragraph 9 that:

“Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen. Contributed services and promises to give services that do not meet the above criteria shall not be recognized.”

Services that do not meet the either of these two rules should not be recognized in the accounting records as a contribution. Services only need to meet one of these two rules to be recognized. Let's consider some examples. In the case of volunteer museum docents, the first rule is not met since they are not enhancing a nonfinancial asset. However, docents most likely meet the second requirement because their work requires special skills (or, in this case, special knowledge), the docents presumably possess this knowledge, and the museum would typically need to hire tour guides if volunteer docents were not available. Note that the ability of the museum to actually afford to pay for the services is not relevant to the accounting treatment decision. In a second example, consider a group of volunteer laborers, some skilled and some not, constructing a stage for a theater. Since they are enhancing the value of a nonfinancial asset, the value of all volunteer laborers, including the unskilled laborers, should be recognized. To recognize donated services the organization would record unrestricted support and a corresponding expense. (Contributed services may not be included in revenue on the Form 990 tax return, although they may be valued and acknowledged in Part IV of the Form and on Line 82 of the Form.)

Gifts of inventory should be recorded at their fair value by recognizing an increase in support and an increase in inventory. They will be expensed when sold. Gifts of supplies and other materials to be consumed in operations should also be recognized as support at fair value when received but are usually expensed immediately. See the end of the article for a discussion about how to determine fair value. (Unlike gifts of services, gifts of property should be recognized as contribution revenue on the Form 990.)

The accounting rules for contributed collection items provide organizations with a choice; to capitalize (i.e. recognize on its Balance Sheet) or not to capitalize the item:

"An entity need not recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections that meet all of the following conditions: a. Are held for public exhibition, education, or research in furtherance of public service rather than financial gain; b. Are protected, kept unencumbered, cared for, and preserved; c. Are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections." (SFAS 116 par 11)

An organization may capitalize its collection or not, but it may not apply this rule selectively. It is an all-or-none policy, though an organization may adopt capitalization prospectively and skip capitalizing its pre-existing collection. (All gifts of collections should be recognized as revenue on the Form 990, and an adjustment made in Part IV-A if they are not capitalized and included on the Statement of Position.)

Organizations often receive gifts of items to be used for fundraising purposes such as merchandise to be auctioned off at a fundraiser. The gift of merchandise should be recorded at its fair value as an asset and a corresponding contribution. When that item is sold, an additional contribution, or a reduction in the contribution, should be recorded depending on whether the merchandise was sold for more or for less than its recorded fair value.

When an organization receives free use of facilities, or if a landlord donates some or all of the utility costs, the organization should record a contribution with a corresponding expense at the fair value of the facility usage or donated utilities.

When recording the value of the in-kind contributions, the accounting rules typically refer to "fair value." Determining fair value for in-kind contributions is sometimes difficult since, unlike most items or services which are purchased, there is no acquisition cost to use. Instead one must look to other reasonable methods of valuation. For fixed assets one might refer to costs of comparable items, to dealer quotes, or to appraisals for large real estate gifts. For donated services fair value would be the cost of paying for the service had it not been donated. Collection items, if they are to be capitalized, might need an appraisal or perhaps auction prices of similar items might be available. Free use of facilities could be valued at the cost of what the organization would have spent had the free facilities not been available. If objective measures or comparables or appraisals are not available, a reasonable subject valuation method, applied consistently, may be used. (If the donor is claiming a deduction for gifts of property worth more than $500 and requiring the donor to file a Form 8283, the donor may be willing to give you a copy of the valuation being submitted for the deduction.)

Following the guidelines outlined above will remove the mystery of accounting for in-kind contributions for nonprofit organizations. Using these methods consistently will result in better financial records and a clearer picture of the financial activities of the organization.

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