



Gift-in-Kind Reporting:

Leverage New Audit + Tax Requirements to Share Your Story

Stockman Kast Ryan + Company

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Agenda



Welcome and SKR+CO Overview



Accounting Standards Update (No. 2020-07)



Audits of Financial Statements



990 Reporting and Examples

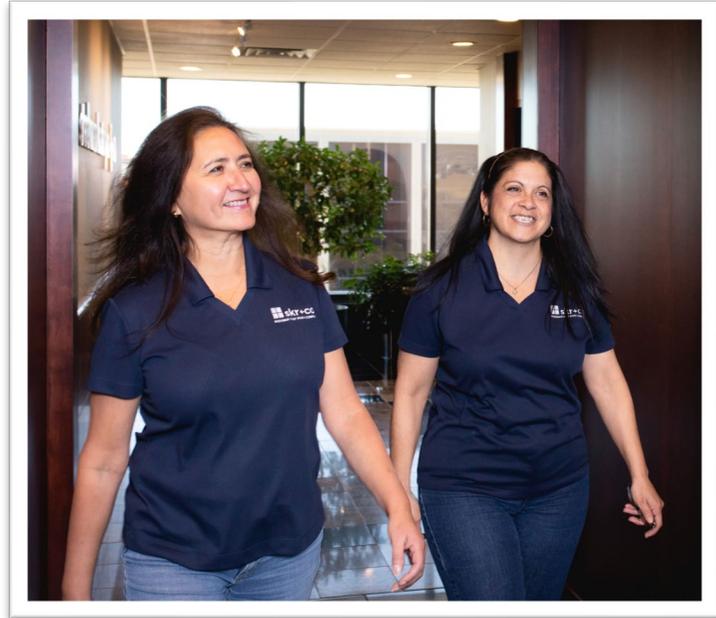


Gift Acceptance Policy



Q+A

Stockman Kast Ryan + Company



A TOP ACCOUNTING FIRM,
MOUNTAIN REGION

Accounting Today
2017 - 2023

- Business + Individual Tax
- Audit + Assurance
- Bookkeeping + QuickBooks
- Interim CFO Services
- Estate + Trust Planning
- Litigation Support
- Client Advisory Services
- Business Valuations
- Family Office Services

Today's Speakers



Doreen Merz, CPA

Tax Partner



Jena Fogle, CPA

Senior Audit Manager



A person's hands are shown working at a desk. One hand is holding a pen over a notebook with handwritten notes. The other hand is using a calculator. A keyboard is visible in the background. The entire scene is overlaid with a semi-transparent blue filter.

Accounting Standards Update + Audits of Financial Statements

Jena Fogle, CPA

Accounting Standards Update No. 2020-07

Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

Purpose -

- Increased transparency around contributed nonfinancial assets or “gifts-in-kind” received by not-for-profit organizations
- Transparency on how those assets are used
- Transparency on how the assets are valued
- Addressed concerns about not-for-profit organizations inflating the fair value measurements of gifts-in-kind.

• What Does This Change?

- Changes are related to the presentation and disclosures to provide more transparency.



**** No change to how organizations value, track, or record gifts-in-kind.**

Reporting Requirement Changes

- **Previous Presentation** – contributions (financial and nonfinancial) could be grouped together in one line on the Statement of Activities.
- **New Presentation** – nonfinancial contributions must be reported as a separate line item on the Statement of Activities
 - Presented at fair market value

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contract services	\$ 8,147,021	\$ —	\$ 8,147,021
Contributions — financial assets	4,541,849	2,853,698	7,395,547
Contributions — nonfinancial assets	559,594	—	559,594
Shelter fees	2,605,809	—	2,605,809
Investment loss, net	(1,608,832)	—	(1,608,832)
Special events (net of costs of direct benefits to donors of \$60,500)	714,560	—	714,560
Change in value of beneficial interest in perpetual trusts	—	(278,911)	(278,911)
Total	14,960,001	2,574,787	17,534,788

Disclosure Requirement Changes

- **Previous requirements** – no requirement to disclose information related to nonfinancial contributions.
- **New requirements** – information about nonfinancial contributions fair value measurement, uses and restrictions must be disclosed.

Contributions of nonfinancial assets consist of the following for the year ended December 31:

	Revenue Recognized	Utilization in Programs/ Activities	Donor Restriction	Valuation Techniques/ Inputs
Donated vaccinations	\$ 3,375,712	Distributed to Patients	None	Fair Market Value
In-kind services – volunteers (specialists)	140,734	Doctors and Nurses at Clinics	None	Standard Industry Pricing for Similar Services
Donated rent	135,623	Space used for Operations	None	Fair Market Value
Supplies	47,944	Used at Clinics	None	Fair Market Value
Media (advertising)	<u>18,000</u>	Fundraising	None	Standard Industry Pricing for Similar Services
Total	<u>\$ 3,718,013</u>			

Examples

- **Examples of contributed nonfinancial assets:**
 - Food
 - Used clothing and household items
 - Supplies
 - Pharmaceuticals
 - Medical equipment
 - Intangibles
 - Contributed use of long-lived assets
 - Contributed services
 - Contributions of items for auction fundraisers
 - Donated rent / lease space
 - Services/costs allocated to the organization from an affiliated entity



Opportunities and Best Practices

- **Opportunities** to identify previously unrecorded contributed nonfinancial assets:
 - Donated goods
 - Volunteers
 - Donated Rent or Lease Space
 - Free or Discounted Catering
 - Creation of an Asset
 - (EX: A group of volunteers working to build a home for low-income families)
- **Best Practices:**
 - Detail maintained throughout the year
 - Methodology for how fair market value is determined and recorded
 - Donation Processes
 - Separate accounts to record donated items vs. cash contributions

Audits of Contributed Nonfinancial Assets

- Be prepared to provide valuation methodologies
- Process walkthroughs
- Detail testing of amounts recorded – what backup do you have to support the balances?





990 Reporting + Examples

Doreen Merz, CPA

Fair Market Valuation Methods

- Cost or Selling Price
- Sale of Comparable Items
- Replacement Cost
- Opinion of Experts



Factors That Affect FMV

IF the factor you are considering is...	THEN you should ask these questions...
<p>cost or selling price</p>	<p>Was the purchase or sale of the property reasonably close to the date of contribution?</p> <p>Was any increase or decrease in value, as compared to your cost, at a reasonable rate?</p> <p>Do the terms of purchase or sale limit what can be done with the property?</p> <p>Was there an arm's-length offer to buy the property close to the valuation date?</p>
<p>sales of comparable properties</p>	<p>How similar is the property sold to the property donated?</p> <p>How close is the date of sale to the valuation date?</p> <p>Was the sale at arm's-length?</p> <p>What was the condition of the market at the time of sale?</p>
<p>replacement cost</p>	<p>What would it cost to replace the donated property?</p> <p>Is there a reasonable relationship between replacement cost and FMV?</p> <p>Is the supply of the donated property more or less than the demand for it?</p>
<p>opinions of experts</p>	<p>Is the expert knowledgeable and competent?</p> <p>Is the opinion thorough and supported by facts and experience?</p>

Reporting Non-Financial Assets

Part VIII Statement of Revenue

			(A) Total revenue	
CONTRIBUTIONS	1a	Federated campaigns	1a	
	b	Membership dues	1b	
	c	Fundraising events	1c	
	d	Related organizations	1d	
	e	Government grants (contributions)	1e	
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	
	g	Noncash contributions included in lines 1a-1f	1g	\$
	h	Total. Add lines 1a-1f		

Requires four classifications

- Source (a-f)
- Classification (g)
- Type (Schedule M)
- Description (Schedule B)

Donation of Non-Financial Assets (cont.)

SCHEDULE M (Form 990) Noncash Contributions OMB No. 1545-0047

2022 Open to Public Inspection

Complete if the organizations answered "Yes" on Form 990, Part IV, lines 29 or 30. Attach to Form 990. Go to www.irs.gov/Form990 for instructions and the latest information.

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"/>			

Schedule B (Form 990) (2022) Page 3

Name of organization _____ Employer identification number _____

Part II Noncash Property (see instructions). Use duplicate copies of Part II if additional space is needed.

(a) No. from Part I	(b) Description of noncash property given	(c) FMV (or estimate) (See instructions.)	(d) Date received
		\$ _____	

(b) Determined by organization's recordkeeping practices.

Non-cash Income from Fundraising Event



Donated Auction Goods

- Fair Value of item recorded as event gross income. Fair Value also recorded as event expense.
- Auction Bid in excess of Fair Value of item is recorded as special event contributions.

Goods and services provided

- Entertainment
- Non-cash prizes

Reporting a Fundraising Event

Gimbel Art Museum (Gimbel), a Section 501(c)(3) organization, held a dinner and auction. Event tickets sold for \$300 each (FMV of each ticket was \$75, and 250 tickets were sold). Direct expenses of \$5,000 were incurred. Ticket sales receipts (\$75,000) and direct expenses (\$5,000) were reported as follows:

Fundraising event income	\$18,750 ($\$75 \text{ FMV} \times 250 \text{ tickets}$)	Part VIII, 8a
Contribution income	\$56,250 ($\$75,000 - \$18,750$)	Part VIII, 1c and line 8a within the parenthesis
Direct expenses	\$5,000	Part VIII, 8b

The auction generated \$20,000 of revenue. The FMV of the items donated to Gimbel for the auction were \$16,000. Assume the auction participants had a charitable intent for the excess paid over FMV. The auction receipts were reported as follows:

Donation of auction items	\$16,000 (FMV)	Part VIII, 1f, 1g, and 8b (cost of goods sold)
Sale of donated auction items	\$16,000	Part VIII, 8a
Cash contributions	\$4,000 ($\$20,000 \text{ auction proceeds} - \$16,000 \text{ FMV}$)	Part VIII, 1c and 8a within the parenthesis

Reporting a Fundraising Event

Identify three elements

1. Gross Receipts – Total funds received
2. Gross Income – Portion of 1. that represents direct benefits received by donor (generally FMV)
3. Contributions – portion of 1 that exceeds 2

Reporting a Fundraising Event

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
8a	Gross income from fundraising events (not including \$ <u>60,250</u> of contributions reported on line 1c). See Part IV, line 18 . . .				
8b	Less: direct expenses . . .				
8c	Net income or (loss) from fundraising events . . .	13,750			13,750 ^a

TIP – loss on line 8c can be confusing to readers of Form 990. Consider reporting in Schedule O the true economic benefit of the fundraiser.

Reporting a Fundraising Event

Part II Fundraising Events. Complete if the organization answered “Yes” on Form 990, Part IV, line 18, or reported more than \$15,000 of fundraising event contributions and gross income on Form 990-EZ, lines 1 and 6b. List events with gross receipts greater than \$5,000.

		(a) Event #1	(b) Event #2	(c) Other events	(d) Total events
		Annual Dinner (event type)	(event type)	(total number)	(add col. (a) through col. (c))
Revenue	1 Gross receipts	95,000			95,000
	2 Less: Contributions	60,250			60,250
	3 Gross income (line 1 minus line 2)	34,750			34,750
Direct Expenses	4 Cash prizes				
	5 Noncash prizes				
	6 Rent/facility costs				
	7 Food and beverages	5,000			5,000
	8 Entertainment				
	9 Other direct expenses	16,000			16,000
10 Direct expense summary. Add lines 4 through 9 in column (d)				21,000	
11 Net income summary. Subtract line 10 from line 3, column (d)				13,750	

Record Keeping is Critical

- Written acknowledgement of the portion of payments in excess of FMV for charitable deduction. Incorrect reporting may result in higher than allowed deduction to the donor.
- Failing to provide written acknowledgement for quid pro quo contributions in excess of \$75 is a \$10 penalty per donation up to \$5000 per event.
- If expenses are greater than revenue the organization may be spending time and energy on activities that do not provide funds to the organization.
- Expenses related to special events are not included on Form 990 Part IX statement of functional expenses. Fundraising expenses can appear understated.
- Shifting revenue from special event revenue (not public support) to contribution revenue (public support) artificially raises the public support percentage.

Reporting Disposition of Donated Assets



- Donor claims charitable deduction greater than \$5,000 must file Form 8282 if sold or disposes of the property within three years.
- Not required if an organization uses or distributes noncash property in a way substantially related to exempt purpose.
- Not required unless the organization receives a Form 8283 or has reason to believe it should have received one but did not.
- Cryptocurrency is considered property. Dispositions must be reported on Form 8282 unless exceptions are met.

GAAP Tax Reporting Differences

Donated Services and the Use of Facilities

- Services that create or enhance non-financial assets or require a special skill which would otherwise need to be purchased.
- **Board Service:**
 - Not recognized as donated services on Form 990.
 - Creates GAAP-Tax Difference
- **Donation of Facilities:**
 - Not recognized for Form 990.
 - Creates GAAP-Tax Difference



GAAP Tax Reporting Differences (cont.)

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 32, 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 on Schedule O)	9	
10	Net assets or fund balances at end of year. Combine lines 3 through 9 (must equal Part X, line 32, column (B))	10	

GAAP Tax Reporting Differences (cont.)

Schedule D (Form 990) 2022

Page 4

Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return.

Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.

1	Total revenue, gains, and other support per audited financial statements		1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12:			
a	Net unrealized gains (losses) on investments	2a		
b	Donated services and use of facilities	2b		
c	Recoveries of prior year grants	2c		
d	Other (Describe in Part XIII.)	2d		
e	Add lines 2a through 2d		2e	
3	Subtract line 2e from line 1		3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1:			
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a		
b	Other (Describe in Part XIII.)	4b		
c	Add lines 4a and 4b		4c	
5	Total revenue. Add lines 3 and 4c . (This must equal Form 990, Part I, line 12.)		5	

Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.

Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.

1	Total expenses and losses per audited financial statements		1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25:			
a	Donated services and use of facilities	2a		
b	Prior year adjustments	2b		
c	Other losses	2c		
d	Other (Describe in Part XIII.)	2d		
e	Add lines 2a through 2d		2e	
3	Subtract line 2e from line 1		3	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:			
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a		
b	Other (Describe in Part XIII.)	4b		
c	Add lines 4a and 4b		4c	
5	Total expenses. Add lines 3 and 4c . (This must equal Form 990, Part I, line 18.)		5	

Other Reporting Items



- Donation of artwork, historical treasures or qualified conservation easements may require special reporting considerations.
- Donations of intellectual property may require additional reporting on Form 8899
- Distributions of goods are reported as grants.
- Use of a third party to solicit, process or sell noncash contributions is disclosed in Sch M. (Excludes use of a broker to sell publicly traded securities)



Gift Acceptance Policy

Doreen Merz, CPA

Gift Acceptance Policy



- Considered “best practice” for managing relationships with donors and an organization’s risk
- Avoid potential burden on the organization related to proposed gift (costly upkeep, insurance, etc.)
- Avoids gifts that run counter to an organization’s mission or values.
- Form 990 Sch M question regarding the review of nonstandard contributions.

Policies Should Cover the Following Elements

Types of cash and non-cash gifts that are acceptable, including virtual currency

Types of donor-imposed restrictions on gifts that are acceptable

Means by which the organization will administer gifts received

Levels of gift approval by authorized personnel in the organization

Means by which the organization will vet the prospective donor + the donor's ownership of a gift.

How donors will be recognized and reporting requirements.

Other Policy Considerations



- **Do Not Record:**
 - Non-usable condition
 - For the benefit of another organization
 - Undeterminable Value
- **Donation Receipt**
 - Responsibility for determination of value is on the recipient, not the donor organization
 - Gift receipts should NOT state a value – only the value of goods/services received in exchange.

Question + Answer



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Thank you!