Financial Considerations for Nonprofits

Nonprofits that accept gifts-in-kind and other non-cash contributions will have to present and disclose them in a new way on financial statements, under amendments to Generally Accepted Accounting Principles (GAAP).

The Norwalk, Connecticut-based Financial Accounting Standards Board (FASB)'s Not-for-Profit (NFP) Advisory Committee held its semiannual meeting via teleconference where staff provided an overview of amendments in Accounting Standards Update 2020-07 – Not-For-Profit Entities (Topic 958): Presentations and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets.

FASB issued the update to improve GAAP by "increasing the transparency" of contributed nonfinancial assets for nonprofits through "enhancements to presentation and disclosure." Amendments address certain concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by nonprofits as well as the amount of contributions used in an organization's programs and other activities.

Amendments in this update require that a nonprofit present contributed nonfinancial assets as a separate line item in the statement of activities, separate from contributions of cash and other financial assets.

Nonprofits also will have to disclose a "disaggregation of the amount of contribution nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets."

For each category of contributed nonfinancial assets recognized, organizations would have to disclose:

- Qualitative information about whether assets were either monetized or used during the reporting period, and if the latter, disclose a description of the programs or other activities in which they were used;
- The nonprofit's policy about monetizing rather than using such assets;
- A description of any donor-imposed restrictions associated with the assets;
- A description of the valuation techniques and inputs used to arrive a fair value measure, at initial recognition;
- Principal market (or most advantageous market) used to arrive at a fair value measure if it's a market in which the nonprofit is prohibited by a donor-imposed restriction from selling or using the assets.

The amendments are effective for nonprofits for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. A period of two years until the time of the first annual disclosures for nonprofits with June 30 annual period year-ends is "consistent with the approximate lead time that many respondents indicated was appropriate for the proposed changes," and also provides additional time given the pandemic and the disruption it's caused for nonprofits.

Gifts-in-kind (GIK) and noncash contributions have become a flashpoint at times between nonprofits and regulators over the years. The California Attorney General's Office issued cease-and-desist orders in 2018 to three charities over valuations made on pharmaceutical donations and how they were presented in marketing and direct mail appeals.

Legislation proposed in California in 2019 would have changed how charities value GIK, an issue that nonprofit advocacy groups said would undermine FASB by setting different accounting standards in the state.

Source: Tech Soup