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FASB enhances presentation and disclosure requirements for NFP gifts-in-kind

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KPMG reports on ASU 2020-07[1], which enhances presentation and disclosure requirements for not-for-profit entities that receive contributed nonfinancial assets.

Applicability

All not-for-profit entities (NFPs) that receive contributed nonfinancial assets.

Key facts and impacts

This ASU addresses stakeholders' concerns regarding the lack of transparency about how certain gifts-in-kind are valued and used in an NFP's programs and other activities. The ASU enhances presentation and disclosure requirements as follows.

- Contributed nonfinancial assets are presented in a separate line item in the statement of activities (i.e. apart from contributions of cash and other financial assets).
- The amount of these contributions is disaggregated by type in the notes.
- For each type, the following is disclosed:
  - qualitative information about whether the contributions were either monetized or used during the reporting period;
  - description of the programs or other activities in which the contributions were used, if applicable;
  - policy (if any) about monetizing contributed nonfinancial assets;
  - donor-imposed restrictions (if any);
  - valuation techniques and inputs used in the fair value measurement at initial recognition; and
  - the principal (or most advantageous) market used in the fair value measurement if it is a market in which the NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial asset.

The ASU does not change the recognition and measurement requirements for gifts-in-kind. The FASB decided not to change existing fair value measurement requirements in US GAAP because those requirements apply to a broad spectrum of transactions of all types of entities and any changes could have unintended consequences.

[1] ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASC 958)

Which gifts-in-kind are in scope?

The amendments apply to gifts-in-kind that are nonfinancial. NFPs present contributed nonfinancial assets in their financial statements using different terms such as gifts-in-kind, gifts, donations or grants. Nonfinancial assets include land, buildings, use of facilities or utilities, materials and supplies, intangible assets and services.[2]

Contributed securities and other financial assets are outside the scope of the ASU. The FASB decided not to include these types of contributions within the scope of the ASU because contributed financial assets other than cash typically are monetized immediately and used similarly to cash, rather than directly in an NFP's programs or other activities.

KPMG observation – Contributed services

Prior to the ASU, contributed services were the only type of contributed gifts-in-kind with specific disclosure requirements[3]. Those requirements remain in place, i.e. the disclosure requirements included in the ASU are incremental. Entities that receive contributed services are required to describe the programs or activities in which the services were used, including the nature and extent of contributed services received for the period and the amount recognized as revenues for the period. This disclosure of contributed services is required regardless of whether the services are recognized as revenue in the financial statements. This differs from the incremental disclosures in the ASU, which are based only on contributions recognized in the statement of activities.

Principal (or most advantageous) market

The FASB's fair value measurement framework requires an entity to use the principal (or most advantageous) market to measure fair value.[4] The principal market is the market with the greatest volume and level of activity for the asset or liability. The most advantageous market is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transportation costs.[5] If the principal (or most advantageous) market used in the fair value measurement of a contributed nonfinancial asset is a market in which the NFP is prohibited by donor-imposed restrictions from selling or using the contributed nonfinancial asset, it must be disclosed.

KPMG observation – Donor-imposed restrictions

The FASB proposed to require disclosure of the principal (or most advantageous) market for all contributed nonfinancial assets. Given consideration of constituents' concerns about whether this disclosure should apply to all categories of nonfinancial assets, the FASB ultimately decided to limit this requirement to circumstances where the NFP has used, for valuation purposes, a market in which the donor has prohibited the NFP from selling or using the contribution. This disclosure was deemed most useful in this circumstance to provide greater transparency that donor-imposed restrictions do not affect valuation. Fair value is a market-based measurement, not an entity-specific measurement. Because donor-imposed restrictions are generally specific to the recipient and not transferred to market participants, the fair value of the contributed asset is not affected by such a restriction. The restriction would be reflected instead through the classification of the contribution revenue and associated net assets and relevant disclosure.

[2] FASB ASC Master Glossary

[3] Previously ASC 958-605-50-1, now ASC 958-605-50-1B

[4] Topic 820, Fair Value Measurement

[5] FASB ASC Master Glossary

Format of disclosure

The ASU does not prescribe how the required information should be disclosed. The information may be disclosed using a table, narrative or combination. The table below illustrates the disclosures primarily in tabular form.

Illustrative example disclosure

Contributed nonfinancial assets

The Organization's policy is to use contributed nonfinancial assets for programmatic or other purposes unless the assets have no utility consistent with the Organization's mission. In those instances, the assets would be monetized. Revenues from contributions of nonfinancial assets were as follows.

	20X2	20X1	Usage in programs/ activities	Donor-imposed restrictions	Fair value techniques and inputs
Building	$ 1,050,000	$ -	Management & General	None	Recent comparable sale prices in the real estate market of the building.
Medical supplies	750,450	950,170	Natural Disaster Program	None	Estimates based on US wholesale prices of identical or similar products.
Pharmaceuticals	1,345,075	745,230	International Health Program	Use outside the US	Pharmaceuticals legally permissible for sale in the US were valued using the Federal Upper Limit based on the weighted average of the most recently reported monthly Average Manufacturing Prices that approximate wholesale prices in the principal market (US). Pharmaceuticals not legally permissible for sale in the US were valued using third-party sources that represent wholesale prices in the principal market (African market in which the products may be legally sold).
Medical services[6]	250,750	300,450	International Health Program	None	Estimates based on current local rates for similar medical services.
Total	$ 3,396,275	$ 1,995,850			

6 This table illustrates the incremental disclosures required by the ASU and does not illustrate the previously-existing disclosure requirements for contributed services (now in ASC 958-605-50-1B).

Effective dates and transition

The amendments are effective for:
— Annual periods – Fiscal years beginning after June 15, 2021
— Interim periods – Fiscal years beginning after June 15, 2022
Early adoption is permitted.
The amendments are applied on a retrospective basis.
Transition disclosures are required in the first interim and annual period of adoption. These include: — nature of, and reason for, the change in accounting principle; and — method of applying the change including: – a description of the prior-period information that has been retrospectively adjusted, if any; and – the effect of the change on relevant financial statement line items.

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