Almost all nonprofit organizations receive some form of in-kind donation, whether it is a noncash contribution or a contributed service. The types of in-kind donations are endless and include gifts of tangible or intangible assets, such as food, supplies, clothing, medicine, trademarks, leased space, investment securities, vehicles, and advertising. They can also include services received by lawyers, accountants, doctors, architects, computer programmers, contractors, affiliated organizations and other volunteers. The various types of in-kind donations received require careful analysis and consideration for how a nonprofit records these items in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The following 10 tips will help you avoid some common pitfalls related to in-kind donations.

Nonprofits often receive free or discounted use of buildings, telephone or electric utilities, or other long-lived assets from the legal owner of the property. The value of the benefits received, in excess of any amounts paid, should be measured at fair value and the entire contribution should be recorded as revenue in the period the contribution is received or pledged. The amount recognized as a contribution should not exceed the fair value of the long-lived asset at the time unconditional promise is made. The resulting expense should be recognized during the period of use. A common consideration when estimating the fair value of the contributed use is whether the nonprofit would otherwise be willing to pay the market price for the same asset if its use was not contributed. Nonprofits should record the entire fair value of the contributed use and not take into account whether they could otherwise afford the asset being used. The free or discounted use of long-lived assets may often be long-term in nature. If so, a temporarily restricted contribution receivable should be recognized as an asset for the value not yet used up. The pledge would initially be measured at fair value on the date of the contribution and then amortized to expense in the subsequent periods the assets are used. For clarity, the contribution receivable may be described in the financial statements based on the item whose use is being contributed, such as “Contributed Use of Building.” If the donor has also specified the purpose for which the facilities or other long-lived assets are to be used, restricted net assets will be released once both the purpose has been met and the time has elapsed. Recording a pledge receivable for the use of longlived assets is often a large asset addition. If it is not properly identified early, you could end up with a significant accounting adjustment to your beginning net assets.

Example: A city constructs a performing arts center and leases it to a local nonprofit theater company on January 1, 2014 at $10,000 a year for 20 years, and does not specify any purpose restrictions. Also assume the lease does not meet the criteria for a capital lease. The performing arts center would normally be rented out for $100,000 a year, based on an analysis of comparable rentals. The total contribution of $1,800,000 ($90,000 discounted annual rent X 20 years) is recorded at an estimated fair value of $1,200,000, based on present value techniques. The following initial entry would be recorded on January 1, 2014:

Dr. Cr.

Promised use of performing arts center $1,800,000

Unamortized discount on promised use $ 600,000

Temporarily restricted contribution income $ 1,200,000

At December 31, 2014, the balance of the unamortized discount on the promised use of the performing arts center is now $580,000. The following entries would be recorded at December 31, 2014 related to the promised use of the performing arts center:

Dr. Cr.

Rent expense $ 90,000

Promised use of performing arts center $90,000

Net assets released from restriction temporarily restricted $90,000

Unamortized discount on prmised use $20,000

Temporarily restricted contribution income $20,000