

# Center for Plain English Accounting

## AICPA's National A&A Resource Center

### **Implementing ASU 2020-07 Presentation & Disclosure Examples**

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ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, is effective for fiscal years ending on June 30, 2022, and calendar years ending on December 31, 2022<sup>1</sup>. This is a major standard affecting the presentation and disclosure of gifts-in-kind (GIKs) and CPEA members have been contacting us with requests for illustrative examples and questions about its implementation. Presented in this report are excerpts from recently prepared financial statements, illustrating the adoption of ASU 2020-07. This report also provides answers to some common implementation questions.

For an understanding of the requirements of ASU 2020-07, see the CPEA July 2021 [report](#) titled, *Gifts-in-Kind Presentation & Disclosure: Tips for Complying with ASU 2020-07*.

#### **Answers to Common ASU 2020-07 Implementation Questions**

**Question:** Is there flexibility in not presenting or disclosing immaterial GIKs?

**CPEA Answer:** Yes, practitioners should consider materiality when complying with ASU 2020-07 presentation and disclosure requirements. For example, a large university may not need to provide ASU 2020-07 disclosures due to the relative immateriality of such items unless they have a major building donated to them.

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<sup>1</sup> The amendments in ASU 2020-07 should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted.

Keep in mind that AU-C 450, *Evaluation of Misstatements Identified During the Audit*, specifically AU-C 450.A4 now requires an aggregation of disclosure misstatements that are more than clearly trivial. Some firms may not have historically aggregated more than clearly trivial disclosure misstatements and we have found that third party practice aides did not always have explicit practice aides to document an aggregation of disclosure misstatements. Assessments regarding quantitative and qualitative disclosure misstatements may be aided by AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, (specifically AU-C 315.A142) and AU-C 320, *Materiality in Planning and Performing an Audit*, (specifically AU-C 320.A1) which provide guidance to auditors for evaluating the quantitative and qualitative aspects of materiality related to disclosure.

Also keep in mind that AU-C 580.14 requires the auditor to request management to provide written representations about whether it believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole. And AU-C 260.13 requires the auditor to communicate matters about uncorrected misstatements to those charged with governance.

**Question:** ASU 2020-07 requires NFPs to disclose a disaggregation of the amount of GIKs recognized within the statement of activities by category that depicts the type of GIKs. Is there flexibility in the categories used for disclosure?

**Answer:** Yes, the types of categories presented by an NFP will be based on the specific activities of the NFP and applying professional judgment in assessing financial statement user needs. The categories can be broad. For example, a foodbank may choose to have categories of types of food, compared to non-foodbanks which just may have a single food category.

**Question:** Can there be an “other GIKs” category?

**Answer:** Yes, ASU 2020-07 does not preclude an entity from presenting an “other GIKs” category as a catch all for smaller items.

**Question:** Is contributed cryptocurrency a financial asset or a nonfinancial asset, the latter of which would be subject to the requirements of ASU 2020-07?

**Answer:** Generally, cryptocurrency is not a financial asset (not a contractual right to receive cash) and is, therefore, subject to the requirements of ASU 2020-07. As indicated in the AICPA’s “Accounting for and Auditing of Digital Assets” practice aid (nonauthoritative), an investment company applying FASB ASC 946, *Financial Services — Investment Companies*, should determine whether its holdings of digital assets represents a debt security, equity security, or an other investment and apply the guidance

in FASB ASC 946-320 for investments in debt and equity securities or FASB ASC 946-325 for other investments.

### ASU 2020-07 Presentation and Disclosure Examples

The following excerpts from recently prepared financial statements are intended to help practitioners implement the requirements of ASU 2020-07. Individuals must exercise professional judgment in using these examples as a basis for complying with the presentation and disclosure requirements of ASU 2020-07. These examples should be used as a general guide and should be tailored based on entity-specific information. These examples are not a substitute for the original authoritative accounting guidance. Accountants and practitioners are urged to refer directly to the requirements of ASU 2020-07. The CPEA and the AICPA are not providing assurance that these illustrative financial statement notes comply with ASU 2020-07.

#### **Example 1 – Save the Children Federation**

	<b>2021</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Operating revenue:			
Contributions of cash and other financial assets	\$ 252,941	65,867	318,808
Contributions of non-financial assets (note 2(d))	4,418	58,399	62,817
U.S. government grants and contracts (note 14)	419,008	—	419,008
Child sponsorships	—	73,169	73,169
Commodities and freight (notes 2(d) and 14)	64,480	—	64,480
Fee for service contracts	992	—	992
Bequests (note 2(c))	6,309	570	6,879
Net investment return appropriated for operations (notes 3 and 5)	5,637	1,655	7,292
Other	454	145	599
	<u>754,239</u>	<u>199,805</u>	<u>954,044</u>

#### **(d) Gifts-in-Kind, Donated Services, and Commodities**

The Organization receives various forms of gift-in-kind (GIK) including media, food and non-food items such as books and household goods, in-kind services, pharmaceuticals and medical supplies, and cryptocurrency. GIK are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. GIK are valued based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Donated GIK are not sold and goods are only distributed for program use. Cryptocurrency is held only until sold by a third party crypto donation platform.

<u>Non-financial contributions category</u>	<u>Type of contributions for beneficiaries</u>	<u>Valuation</u>	<u>2021</u>	<u>2020</u>
Media	Digital, broadcast, and public service announcements	Third-party estimates using billing rates in like circumstances	\$ 29,037	54,431
Food and non-food items	Food, books, hygiene products, and household goods	U.S. wholesale prices of identical or similar products	27,289	21,095
In-kind services	Professional services such as human resources consulting and legal pro bono services	Standard industry pricing for similar services	1,088	635
Pharmaceuticals	Pharmaceuticals and medical supplies	Based on where distributed, the International Drug Price Indicator is used for wholesale prices where the GIK are distributed	—	130
Cryptocurrency	Digital currency	Converted to cash by third party processor	5,403	361
Total			<u>\$ 62,817</u>	<u>76,652</u>

## Example 2 – Feeding America

	2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating activities:			
Public support and revenue:			
Public support:			
Individual contributions	\$ 293,503	\$ 33,912	\$ 327,415
Corporate contributions	112,662	43,939	156,601
Foundations	18,025	8,653	26,678
Corporate promotions	76,928	38,800	115,728
<b>Total fundraising</b>	<b>501,118</b>	<b>125,304</b>	<b>626,422</b>
Donated goods and services	3,520,792	-	3,520,792
<b>Total public support</b>	<b>4,021,910</b>	<b>125,304</b>	<b>4,147,214</b>

**Donated goods and services:** Feeding America reports the fair value of donated food over which it has control (i.e., variance power) as public support, without donor restrictions, and immediately thereafter, as expense when donated to the network. Other donated goods and services meeting recognition criteria under U.S. GAAP are also recorded as public support and as expense, based on estimated fair values. Feeding America did not monetize any contributed nonfinancial assets and unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

**Adopted accounting pronouncement:** In fiscal year 2021, Feeding America elected to early adopt Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

**Note 6. Donated Goods and Services**

Donated food and other goods and services for the fiscal years ended June 30, 2021 and 2020, included in the financial statements, were as follows:

	2021	2020
Food	\$ 3,379,879	\$ 2,961,835
Media	134,939	-
Supplies (personal protection equipment)	4,907	-
Transportation	624	509
Consulting services	229	2,210
Legal services	189	276
Hotels and airline miles	25	168
	\$ 3,520,792	\$ 2,964,998

Food includes the following main categories: proteins, produce, dairy, bread and beverages as well as a minimal amount of essential household and personal products.

## **Donated Goods**

During the fiscal years ended June 30, 2021 and 2020, Feeding America donated 1,888 million pounds and 1,702 million pounds, respectively, of food product to its network members. The food product was donated to Feeding America by approximately 400 national donors and their subsidiaries. The donated food is recorded in the financial statements as public support and as expense at the estimated average fair value of one pound of donated food product at the national level of \$1.79 and \$1.74, for the fiscal years ended June 30, 2021 and 2020, respectively. These values were determined based upon calendar year 2020 and 2019 studies performed by Feeding America. Each of the annual studies involves a review of 31 product categories and wholesale prices using a national wholesaler's pricing catalogs. Other independent sources may also be used as necessary for items not included in the catalogs. The average value of one pound of donated product will vary from year-to-year based on the mix of product items donated. As part of the study, Feeding America analyzes and reviews the results to determine the accuracy and understand the key components of the valuation and the year-over-year changes.

Feeding America has entered into written contracts with national donors to distribute food products directly to its local food bank members. These contracts provide Feeding America explicit variance power and authority over the distribution of the food. A majority of the pounds reported above by Feeding America, totaling 1,553 million pounds and 1,374 million pounds for fiscal years ended June 30, 2021 and 2020, respectively, were donated to member food banks under these contract arrangements. The remainder was directly donated to Feeding America and then donated by Feeding America to the member food banks (335 million pounds and 328 million pounds for fiscal years ended June 30, 2021 and 2020, respectively). Donations made directly to local member food banks from national donors with whom Feeding America does not have a written agreement are not included in the financial statements because Feeding America does not have written agreements with such donors granting Feeding America explicit variance power and authority over the distribution of such donated goods and services.

## **Donated Services**

Feeding America produces public service announcements (PSAs) that run on media outlets across the country. Outlets include television, radio, print and digital media. Feeding America's PSA campaigns are developed in partnership with several donated media suppliers. Feeding America distributes these PSAs to third parties who then distribute them to various media outlets. The media outlets provide placements to Feeding America, free of charge, as a contribution to help communicate Feeding America's mission and engage the general public. Feeding America has contracted with independent outside agencies to track PSA placements and estimate the fair value of the donated media based on the date, time and market in which the PSA is placed. These donated advertisements are recognized as in-kind contributions (donated goods and services) at fair value, with a corresponding expense allocated to the programs benefitted, as they are delivered to the public. Feeding America considers the extent of its involvement with donated media, including factors such as its ability to control where media coverage occurs, or media placements are made. The estimated fair value of these in-kind services for fiscal year 2021, based on information provided by third parties and independent outside agencies, is \$134,939. Prior to fiscal year 2021 and a change in a primary donated media third party, donated media activity did not meet all requirements for in-kind revenue recognition and therefore was not recorded in the financial statements. In fiscal year 2020, the estimated (unaudited) fair value of donated media totaled \$93,655. Other paid advertising costs are expensed as incurred.

In addition, a number of individuals and organizations have made in-kind donations or volunteered their services to Feeding America. Contributed services recognized include professional services from attorneys and consultants advising Feeding America on various strategic, administrative and legal matters, and other services. Donated supplies, transportation, hotel and airline miles are provided to Feeding America to help defray the costs of those goods and services that would otherwise have been purchased. Contributed services and supplies are valued and are reported at the estimated fair value in the financial statements based on current market rates for similar legal, consulting, travel and other services and supplies. For those services that do not require special expertise, the estimated value of such donated services has not been recorded in the financial statements. Feeding America did not monetize any contributed nonfinancial assets. Unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

### Example 3 – Wounded Warrior Project, Inc. & Subsidiary

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and support:</b>			
Contributions	\$ 311,012,062	\$ 5,207,593	\$ 316,219,655
In-kind contributions	58,657,907	-	58,657,907
Interest and dividends, net of investment fees	8,469,047	100,761	8,569,808
Net realized and unrealized gain on investments	48,254,855	264,412	48,519,267
Other revenue	1,939,338	-	1,939,338
Net assets released from restrictions	<u>7,570,747</u>	<u>(7,570,747)</u>	<u>-</u>
Total revenue and support	<u>435,903,956</u>	<u>(1,997,981)</u>	<u>433,905,975</u>

#### **Recently Adopted Accounting Pronouncements**

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by *Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The Organization early adopted the standard on October 1, 2020. The standard did not have a material impact on the consolidated financial statements. The Organization has updated disclosures as necessary (See Note 8 In-Kind Contributions).

#### **8. IN-KIND CONTRIBUTIONS**

The Organization's consolidated financial statements include the following in-kind contributions revenue and support, and associated expense:

### Public Service Announcements

Public service announcements (“PSAs”) help improve the American public’s awareness and understanding of the needs of wounded warriors and their family members, while also making warriors and their families aware of the free programs and services available to them through the Organization. The Organization produces and distributes public service television, radio, internet, and newspaper announcements that focus attention on the challenges of wounded warriors and family members, and the programs and services the Organization provides. These PSAs are broadcasted or delivered nationwide, at no charge to the Organization, to assist in the achievement of its mission. These PSAs are recognized as in-kind contributions at fair value, with a corresponding PSA expense allocated to the programs benefitted, as they are delivered to the public. The Organization contracts with independent outside agencies to track and estimate the fair value of each PSA based on the date, time, and market in which it is displayed.

### Public Awareness

The Organization receives free advertising through billboard, magazine, and rental truck advertisements that serve as platforms to market and brand its mission. These donated advertisements are recognized as in-kind contributions at fair value, with a corresponding expense allocated to the programs benefitted, as they are delivered to the public. The valuation of these advertisements is provided by the service provider, who estimates the fair value based on the date, time, and market in which each is displayed.

### Professional Services

The Organization receives donated professional services that would typically be purchased if not provided as an in-kind contribution. These services, which require specialized skills, are recognized as in-kind contributions at fair value when the pledge is made and are expensed when the services are rendered. The estimated fair value of these professional services is provided by the service provider, who estimates the fair value based on the date, time, and market in which each service is rendered.

### Other

Other in-kind contributions consist primarily of event tickets and recreation activities which are used to defray program costs, or as part of fundraising events. These items are recognized as in-kind contributions at fair value, with a corresponding expense, as they are used. The Organization values these items at either face value or fair value on the date received depending on the nature of the item.

During the year ended September 30, 2021, the Organization received the following in-kind contributions:

Public service announcements	\$ 53,746,536
Public awareness	2,306,970
Professional services	540,888
Other	2,063,513
<u>Total in-kind contributions</u>	<u>\$ 58,657,907</u>

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