

Accord Network Interagency Gift-in-Kind Standards

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Accord Interagency GIK Standards
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*Glossary entries are indicated by ***bold, italicized, underlined text.***

Accord Interagency GIK Standards December, 2019

Introduction

The purpose of Accord GIK Standards:

Accord Standards serve to raise the bar of ethics in the industry so that by transparency and integrity, members are able to increase the level of donor and end-user trust in the way donations are received, distributed and recorded.

Accord Standards serve to establish best practices in the receipt and distribution of GIK, to do no harm to local markets, to enhance rather than deter community development and to build beneficial corporate—Non-Profit Organization (NPO) partnerships.

Accord Standards serve to educate and guide NPO staff, including donor relations representatives, accounting and GIK staff to understand the process and purpose of GIK donations.

Why the Accord GIK Standards are needed:

The users of U.S. Generally Accepted Accounting Principles (GAAP) and Internal Revenue Service (IRS) GIK accounting standards can often benefit from additional guidance to apply the standards consistently. The Accord standards have served to guide our industry's best practices for many years by offering guidance and clarifications on appropriate applications of GAAP relating to GIK accounting.

How Accord GIK Standards are maintained:

We believe the GIK standards can and should be maintained to provide current, relevant guidance to serve our industry in this critical role. To facilitate this, the Accord Board of Directors may deputize a committee comprised of GIK and/or accounting professionals among Accord members to review and revise the standards as needed. The committee should facilitate a collaborative discussion process which may include a broad spectrum of Accord members and other interested organizations and stakeholders. The recommended changes are then presented to the Accord membership for comment at least 30 days prior to the annual forum. A majority vote is required at the annual forum to approve any changes to the standards.

Compliance with U.S. Generally Accepted Accounting Principles (GAAP): Recognizing the Financial Accounting Standards Board's role as the accounting standard setter for entities headquartered in the U.S., Accord members acknowledge that the accounting guidance in the Accord GIK Standards must be guided by GAAP. While every effort has been made to ensure Accord Standards follow GAAP, these Accord Standards are not a substitute for authoritative technical literature. Under the FASB *Accounting Standards Codification*, Accord standards are considered non-authoritative, and they principally provide guidance for transactions when the FASB codification does not specify accounting treatment for a transaction or event.

Summary

Standard #1 - Compliance with Agency Mission: All GIK donations must be used in furtherance of the tax-exempt mission, purpose, and program objectives of the recipient non-profit.

Standard #2 - Product Appropriateness: Each non-profit shall have established written policies and procedures for screening GIK prior to acceptance from the donor and utilization to ensure cultural, social, and programmatic appropriateness. No out-dated products manufactured for human consumption should ever be accepted or shipped. Dating on product should be sufficient to secure, accept, value, distribute, dispense and distribute to be consumed by the intended individual recipients prior to the expiration date.

Pharmaceutical and medical equipment donations should be guided and informed by World Health Organization (WHO) guidelines.

Standard #3 - Valuation Recording Practices: GIK contributions received shall be valued at their fair values as of the date of donation (*FASB ASC 958-605-30-2*).

Standard #4 - Required Documentation: All GIK recorded as revenue and expense by a non-profit organization needs to be supported by documentation relating to product value, donated inventory, verification of receipt and record of end-use or transfer. Although it is not necessary to obtain a record of end-use prior to recording revenue and expense, the document should be obtained for monitoring and evaluation purposes.

Standard #5 - Recognition of Revenue and Expenses: The number of organizations accepting a GIK donation should be limited to those which have critical roles to fulfill in order to help those in need, prioritizing the best interests of the public over the best interests of the charity. Generally, a GIK donation should not be accepted by an organization if acceptance will result in more NPOs than necessary recognizing the GIK revenue between the time it is received from the original donor and when it is given to the end-user. In combination with Standard #1, this guidance will normally limit the organizations which should recognize revenue to those organizations that either had a direct role in the procurement of the GIK from the original donor or distributed the GIK to the final beneficiary. Any other NPO receiving GIK as a donation recipient should only accept the donation if it will take physical possession of the GIK and add significant value by increasing the utility of the GIK, not simply add value to the GIK transaction by providing storage or transportation.

Standard #6 - Service Fees Charged by NPO Service Agencies: Service fees charged [when one NPO donates a gift-in-kind donation to another](#) must not be based upon the value of those gifts but should reflect the expenses incurred to administrate, process, warehouse, manage and handle the GIK provided.

Standard #7 - Disclosure: Financial statements should disclose information about the valuation, source, and use of GIK. The basis and method for valuing donated GIK should be disclosed in an organization's financial statements.

Standards, with Background and Guidance

Standard #1 - Compliance with Agency Mission

1.1 Background: *Concern has arisen over the practice by a few non-profit organizations of accepting GIK donations which are not compatible or consistent with their tax-exempt purposes or mission.*

1.2 GIK Standard — Compliance with Agency Mission: All GIK donations must be used in furtherance of the tax-exempt mission, purpose, and program objectives of the recipient non-profit.

1.3 Guidance: Federal tax laws require non-profit organizations to perform activities or programs consistent with their stated mission and purpose in order to retain their tax-exempt status. This standard simply recognizes that precedent and requirement as it relates to the receipt and utilization of GIK donations. Donations offered which are inconsistent with the non-profit's mission and tax-exempt purpose should not be accepted. In instances where such donations may be offered, options available to the non-profit include: declining the donation or referring the donor to another non-profit which has a mission consistent with the offered product. It must be noted that a non-profit which accepts a donation inconsistent with its tax exempt purpose jeopardizes any tax deductibility of a donation for the donor.

Standard #2 - Product Appropriateness

2.1 Background: *Some non-profit organizations may use a private GIK donation in Accordance with their tax-exempt purpose, but not in a manner appropriate to the needs and context of a given program. Examples could include the provision of women's slacks in a cultural context where only skirts or dresses are appropriate, or the provision of medical equipment for which no training or service is available. In order to help ensure integrity in the utilization of GIK, a standard on appropriateness is proposed. No out-dated products manufactured for human consumption should ever be accepted or shipped.*

2.2 GIK Standard — Product Appropriateness: Each non-profit shall have established written policies and procedures for screening GIK prior to acceptance from the donor and utilization to ensure cultural, social, and programmatic appropriateness. No out-dated products manufactured for human consumption should ever be accepted or shipped. Dating on product should be sufficient to secure, accept, value, and distribute to be consumed by the intended individual recipients prior to the expiration date.

2.3 Pharmaceutical and medical equipment donations should be guided and informed by World Health Organization (WHO) guidelines for drug and health care equipment donations.

2.4 Guidance: In order to effectively use GIK, it is necessary to ensure that the GIK is appropriate for the context in which it will be used. While standards of appropriateness will vary by cultural, programmatic, and organizational context, it is critical that all organizations choosing to utilize GIK do so in a fully responsible and ethical manner. Accord recommends adherence to the InterAction GIK standards related to product appropriateness. Out-dated products intended for human consumption should never be accepted or dispensed. Product offers should be accompanied with full disclosure of labeling information and dating to provide recipients sufficient information to secure, accept, value, distribute and dispense the GIK to be consumed by the intended individual recipients prior to the GIK's expiration date. The method of transportation and the efficiency of each specific distribution system will directly impact the minimum dating requirements an organization establishes for GIK donated for use in its programs.

2.5 All GIK donations accepted from a donor should be used appropriately by the non-profit given their mission and the specific circumstances of their programs. Written policies and procedures can take different forms. To assist non-profits in developing policies and procedures, a suggested approach for a non-profit's internal policies and procedures is attached in Appendix D.

Standard #3 - Valuation Recording Practices

3.1 Background: *The financial recording and reporting of GIK could be the most critical and most confusing issue to many non-profits' GIK programs. Currently organizations use various methods of recording and reporting GIK. As noted in Standard #1, only GIK that can be used to further the tax-exempt purpose of an organization should be accepted. Hopefully all organizations are more concerned with using GIK to increase the impact of their programs rather than with the benefits produced by the valuation and recording of GIK. However, it is important for all organizations to appropriately record and report their GIK activity.*

3.2 *Very little guidance is provided by accounting or regulatory literature concerning the financial recording and reporting of GIK. For example, the Internal Revenue Service directions for completing Form 990 gives the guidance that only contributions received in a form other than cash should be reported, using the market value as of the date of the contribution.¹ FASB ASC 958-605 provides the guidance that non-monetary items generally are recorded at fair value when received. However, if donated items pass through the organization to its charitable beneficiaries and the organization serves only as an **agent** of the donor, the donated items are usually not recorded as revenue. (See Standard 5).*

3.3 *It should be noted that the federal tax regulations do provide guidance for valuation of GIK from the donor's perspective. However, there is a difference between federal tax law and GAAP. This document is concerned with GAAP.*

3.4 GIK Standard—Valuation Recording Practices: GIK contributions received shall be valued at their fair values as of the date of donation (FASB ASC 958-605-30-2).

3.5 Fair Value: GIK donations are to be valued based upon “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants” as of the date of the donation (FASB ASC 820-10-35-2). This is known as an entity’s “exit price.” This assumes the transaction would be an “arms-length” transaction. Given the quantities donated, normally this would approximate wholesale price (not retail price paid by an individual consumer), as the transaction is dependent on who the buyer and seller would be and the expected discount that would have been received by the organization based on the quantity of the GIK exchanged. It should be noted that even though a current buyer may not presently be available for an item, the fair value for GIK is usually not zero and sometimes a hypothetical buyer and market have to be assumed in determining the best estimate of the fair value for GIK under GAAP.

3.6 *Fair value measurements should include the following assumptions:*

3.7 *1) The transaction to sell the asset occurs in the **principal market** (i.e., provides the greatest volume and level of activity for the asset) or the most*

¹ Instructions for Form 990, Return of Organization Exempt from Income Tax, Department of the Treasury, Internal Revenue Service, page 30.

advantageous market (i.e., maximizes the amount received from a sale) if a principal market is not available (FASB ASC 820-10-35-5).

3.8 2) *They should not be adjusted for transaction costs (FASB ASC 820-10-35-7).*

3.9 3) *They assume the highest and best use of the asset by market participants (i.e. maximizes the value of the assets) (FASB ASC 820-10-35-10).*

3.10 Product Encumbrances: A non-profit is primarily concerned with the usability of GIK products within its own programs. Donee organizations must take care to distinguish between asset-specific and entity-specific encumbrances. GIK donations that, at the time of receipt, are impaired or encumbered by considerations that limit the usefulness of the asset, must be valued in a manner that reflects the limitation on the use of the asset if market participants would consider the effect of the impairment or encumbrance in pricing the asset. If there is an encumbrance on the GIK donation that is entity-specific (for example, a donor-requested ***restriction*** on the asset's distribution) the ***value*** of the donation will not necessarily be affected because the ***utility*** of the asset itself is intact. The reduction in fair value must reflect the seriousness of the asset-specific impairment or encumbrance. For example, product with a 25% shelf life remaining has a reduced value from product with a full 100% shelf life.

3.11 If GIK is received at an initial fair value and put into inventory, and at a later date it is determined that the value is less than the original amount recorded, then there are two options for recording an adjustment:

3.12 If the organization determines that the initial fair value determination was in error, and should have been lower, then that adjustment should be recorded as a correction of an error, following the applicable GAAP guidance.

3.13 If the organization determines that the initial fair value determination was correct, however, the inventory has subsequently lost value, then the difference between the initial fair value and the current fair value should be recorded as an impairment loss and recorded to expense in the period the impairment is determined to have occurred.

3.14 While encumbrances and impairment may affect the value of the GIK, donor restrictions should not. Donor ***restrictions*** that are specific to the donee are only reflected in the classification of net assets (i.e., unrestricted, temporarily restricted and permanently restricted net assets), not in the measurement of fair value (FASB ASC 958-605-30-3).

3.15 Reasonable Basis: An organization should make all reasonable efforts in order to estimate the fair value of GIK received. There are very few circumstances where a reasonable fair value cannot be estimated for GIK received. "If the gifts have no value, as might be the case for certain clothing and furniture that can not be (a) used internally by the NPO or for program purposes or (b) sold by the NPO, the item received should not be recognized [as revenue]" (2009 AICPA Audit and Accounting Guide, Not-for-Profit Entities 5.95).

3.16 Guidance: Value is **the price that would be received to sell a GIK donation** at a specific time, and valuation is the act of determining that monetary value. Depending upon the **valuation** process, there are several different types of value. These different types of **fair market value** could include appraised value, **retail value**, **wholesale value**, list price, impaired value, and probably many other values. There are also many other factors in determining the value of a GIK. These factors include: the market the goods are to be sold in; current economic, political and technological environment; location; condition, (new or used); plus many more. A few examples of these factors could include the low availability of capital for major purchases, new governmental regulations on a specific item, or the rapid change in computer technology.

3.17 The FASB uses a hierarchy to prioritize the inputs or relevant information for valuation into three levels:

3.18 Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An example of a level 1 input would be the currency exchange markets.

3.19 Level 2 – observable inputs, i.e. available information sources other than quoted prices included in Level 1. This includes quoted prices for similar assets in active markets, (such as generic pharmaceuticals made by a different manufacturer), quoted prices for identical or similar assets in markets that are not active, other observable inputs, or other inputs that are primarily derived from or corroborated by observable market data (such as published price lists).

3.20 Level 3 – unobservable inputs. These inputs apply when there is little or no market activity for the asset or liability at the measurement date, and may include the reporting entity's own data. It should be developed based on the best information available in the circumstances. An entity does not need to undertake an exhaustive effort to obtain information about market participant assumptions, but should use information that is reasonably available without undue cost and effort (FASB ASC 820-10-35-53; 820-10-35-55).

3.21 Accord suggests the following guidance:

3.22 The NPO must decide whether the fair value should be based upon retail price, wholesale price, replacement price, or on some other basis. Our recommended standard is that fair market value will normally be closer to the price a retailer would pay a wholesaler, depending on the circumstances and quantities involved in each donation. In almost all instances for donations of any sizeable quantity, the consumer price in a retail outlet should not be the basis upon which a valuation is recorded.

3.23 The NPO must determine the principal market to utilize for making its fair value calculation, or in the absence of a principal market, the most advantageous market for the asset. Generally speaking, this will not include the donative market or the beneficiaries' market because these markets do not feature reciprocal transactions.

Instead, non-profits will generally look to the commercial market to assign value because this market captures the fair value of an orderly, reciprocal transaction between a willing buyer and a willing seller.

3.24 The donor-assigned value may provide one possible input into the fair value determination. However, the non-profit has a responsibility to determine the appropriate value of the donation in an objective manner. The fair value of a GIK donation actually recorded by the recipient non-profit may differ materially from the value assigned by the original donor. If no reasonable or sufficient basis to determine the value of a donation can be used, no value should be recorded.

3.25 One objective manner for determining an appropriate value for a GIK donation is a like-kind analysis. Like-kind analysis refers to the determination of a value for a given volume of a product donation based upon externally verifiable values for a similar volume and quality of product. A like-kind analysis can be conducted on the basis of reasonable values for the same or similar products, given volume, quality, and condition of the donation. Such analysis can be based on past donation histories, sales in the current market, or average unit values based on analysis of prices for similar products or product mixes.

3.26 The value that a donor claims for income tax purposes is not necessarily related to the value recorded by a non-profit. Federal income tax regulations determine the amount that may be used for income tax deduction purposes, whereas GAAP are used to determine fair value for financial statements prepared in Accordance with GAAP. There may be a ***material*** difference between these two amounts.

3.27 *Utility* should be considered in determining fair value. For-profit organizations are primarily interested in how much a product can be sold for. However, non-profit organizations are concerned with how well the product can be used in the non-profit's programs to further its tax-exempt purpose. If a non-profit can appropriately use a product in its programs, the lack of marketability of a given donated product should not eliminate the reasonable value recorded as revenue by the non-profit.

Standard #4 - Required Documentation

4.1 Background: *Due to the lack of clear guidelines in the accounting and regulatory literature concerning documentation requirements necessary to record the value of a GIK donation, a wide variety of practices exist. Some of the problems resulting from this situation include a frequent lack of a consistent and prudent basis for valuation of GIK donation; a frequent lack of inventory information for a given GIK donation such as product description and quantity; a frequent lack of sufficient documentation concerning the receipt and use of GIK donations.*

4.2 GIK Standard—Required Documentation: All GIK recorded as revenue and expense by a non-profit organization needs to be supported by documentation relating to product value, donated inventory, verification of receipt and record of end-use or transfer. Although it is not necessary to obtain a record of end-use prior to booking revenue, the document should be obtained for monitoring and evaluation purposes.

4.3 Product Value: Documents should be retained which are sufficient to provide evidence that the fair value determination was in compliance with GAAP, as referenced in Standard #3.

4.3 Donation Inventory: The best and most desirable inventory documentation is a list from the donor of the donated items, including product description(s), quantity, per unit and total value and donor's basis for valuation. If this is not available, it would be acceptable to have an inventory listing prepared by the recipient non-profit including the above information. Recipient organizations are responsible to verify the nature, content and value of the donation.

4.4 Shipping Records: Documentation of GIK from the point of origin to final (end-use) destination is required to verify all shipments, including third party documents such as a bill of lading, waybill, air waybill, customs declaration, or other proof of delivery.

4.5 Verification of Receipt: Recipient non-profits must have written documentation verifying to the donor the receipt of a given GIK donation, including the date of receipt, product description, and quantity. If the donation has been made under special IRS tax provisions [Section 170(e)(3)(A)], documentation provided to the donor must comply with IRS standards for such donations.

4.6 Documentation of End-Use or Transfer: Non-profits should obtain documentation of the final disbursement or end-use of a given GIK donation. In instances where one non-profit donates product to another non-profit, the donating non-profit should obtain written verification from the organization to which they are transferring product that their organization adheres to GIK and accounting standards like those set forth in this document. The recipient non-profit distributing to the end-user should also provide a verification of receipt to the donor non-profit including an indication of the program(s) in which the product will be used and how the product was eventually used.

4.7 This report should include demonstrations of how the use of the product furthered the tax-exempt purpose of the recipient non-profit. In instances where no report is

provided by the recipient non-profit, the donor non-profit must show that a reasonable effort was made; if a complete end-use report cannot be obtained, the donor non-profit should seriously review whether continued activity is appropriate with the recipient non-profit. In instances where a non-profit utilizes a donation within its internal programs, documentation should consist of shipping documents or other appropriate records of disbursement or end-use.

4.8 Records Retention: Documentation of the final disbursement, end-use, or transfer of a given GIK donation must be retained on-site by the non-profit for a reasonable period (as determined by IRS, grantor or audit guidelines) after final disbursement, end-use, or transfer of the product by that non-profit.

4.9 Guidance: Our guidance suggests that the minimum required documentation necessary to record the value of a given GIK donation includes documentation of product value, a specific donation inventory (i.e., "400 bales of used adult clothing" rather than "used clothing") verification of donation provided from the donor, and, though not required prior to the recording of revenue, documentation of the end-use or transfer of the donation. Complete end-use documentation should include: How the donation was used in the recipient non-profit's programs, when the donation was used (timeframe), who used the product (targeted beneficiaries) and who distributed the product to the end-users.

4.10 In certain circumstances, non-profits may internally generate documentation regarding product value, donation inventory, receipt verification, and end-use documentation; such documentation should be standardized and follow internal policies and procedures. When GIK donations are transferred to another organization, external verification of receipt, such as shipping documents, or end-use reporting, or a reasonable effort to obtain such information, is required to support the activities to record revenue and expense.

4.11 While it is recognized that complete end-use reports may not be able to be obtained for all donations, end-use reports should be obtained for all material donations (as determined by an organization's size and donation activity). End-use reports should also be collected from a sufficient overall base of recipients to verify use consistent with the NPO's mission. It is also recommended that organizations adopt standard documentation formats related to the above and consistently utilize such with all GIK donations. Standard documentation should include letters such as **Letter of Donation, Letter of Receipt, Letter of Transfer, and Letter of Acknowledgment.** Examples of these types of letter may be found in Appendix B.

Standard #5 - Recognition of Revenue and Expenses

5.1 Background: *One of the most misunderstood and sometimes abused issues is which organization should record donated GIK as revenue. Organizations involved in complex GIK transactions may inappropriately recognize GIK revenue when accounting standards are improperly interpreted and incorrectly applied. Additionally, when an organization is not procuring the GIK from the original donor or providing it to the end-use beneficiary, the declaration of revenue by the middle organization may be an abuse of GAAP and Accord standards. Guidance on appropriate revenue recognition and donation acceptance is needed to preclude GIK revenue abuses when GIK is given from one NPO to another.*

5.2 Note: *To understand the accounting rules for revenue recognition, it is important to understand the definition of the terms as used in this document: **agency relationship, agent, unconditional, nonreciprocal asset transfer, contribution** (also known as donation), **donor, physical possession, principal** and **variance power**. The definition of these terms as used in this document can be found in the glossary in Appendix A.*

5.3 GIK Standard—Recognition of Revenue and Expense: The number of organizations accepting a GIK donation should be limited to those which have critical roles to fulfill in order to help those in need, prioritizing the best interests of the public over the best interests of the charity. Generally, a GIK donation should not be accepted by an organization if acceptance will result in more NPOs than necessary recognizing the GIK revenue between the time it is received from the original donor and when it is given to the end-user. In combination with Standard #1, this guidance will normally limit the organizations which should recognize revenue to those organizations that either had a direct role in the procurement of the GIK from the original donor or distributed the GIK to the final beneficiary. Any other NPO receiving GIK as a donation recipient should only accept the donation if it will take physical possession of the GIK and add significant value by increasing the utility of the GIK, not simply add value to the GIK transaction by providing storage or transportation.

5.4 In order to receive and account for GIK donations with integrity, organizations should follow GAAP and carefully evaluate whether they have an essential role in a single GIK transaction involving multiple NPOs before they accept **title** to a donation and recognize GIK revenue.

5.5 Follow established accounting principles: GAAP guide when a donation should be recognized as revenue. It is possible for NPOs to be involved in a GIK transaction but not receive title to the GIK or be the recipient designated by the donor.

5.6 To avoid revenue recognition abuse and to be clear when multiple organizations are involved in one transaction, the **donation recipient** organization should obtain a written statement from the donor specifying that it (the recipient organization) has title and discretion over the GIK's use and can choose the GIK's beneficiaries.

5.7 Evaluate whether to participate with other NPOs: Once an organization is designated by the donor to be a donation recipient in a transaction, other organizations potentially

involved downstream in the transaction should consider the significance of their role and whether or not to accept the GIK downstream. Under GAAP, it is permissible for GIK revenue to be recognized subsequently by multiple organizations when GIK is contributed from one organization to another as long as title and variance power are granted by the donor. Accord recommends, however, that an organization should not accept a GIK donation that will result in more NPOs than necessary subsequently accepting and recognizing the GIK revenue between the time it is received from the original donor and when it is distributed to beneficiaries. In combination with Standard #1, this guidance will normally limit the organizations which should accept a GIK donation and recognize revenue to those organizations that either had a direct role in the procurement of the GIK from the original donor or distributed the GIK to the final beneficiary. This is intended to help prevent GIK from being gifted among multiple organizations which can be perceived as abusing GAAP revenue recognition rules.

5.8 Guidance:

5.9 Understanding donation vs. pass-through agency transaction: The accounting rules state that revenue is recognized on a donation when a donor gives an **unconditional, non-reciprocal transfer** to a non-profit organization. Generally speaking, this means that when a donor gives GIK to a recipient with no conditions attached, and no value is exchanged in return for the GIK, the recipient non-profit organization records a donation. (Under certain circumstances, it may be appropriate for an organization to record a transaction which is in part an exchange and in part a contribution. FASB ASC 958-605-55-6 says, “for example, if a donor transfers a building to an entity at a price significantly lower than its market value and no unstated rights or privileges are involved, the transaction is in part an exchange of assets and in part a contribution.”)

5.10 The accounting rules are clear when the transaction involves one donor and one recipient. However, in GIK transactions it is common for organizations to collaborate. When these collaborations exist, proper revenue recognition requires that the organizations involved understand whether they are a **donation recipient**, an **agent** or other **intermediary**.

5.11 When organizations assist one another in the acquisition, transportation, and use of GIK, they each have varying degrees of involvement, discretion and responsibility. Participation in the supply chain between a GIK donor and a GIK beneficiary does not automatically result in GIK revenue to a supply chain participant. Recognizing revenue is based on whether a donor gave a GIK **contribution** (also known as a donation) to an organization, and whether the recipient organization received title, control and discretion over that GIK from the donor.

5.12 **Variance power** is a key factor used to distinguish an organization that records the revenue of a donation from an organization that does not. A recipient organization can record revenue when it has discretion over the GIK donation’s use and can decide which third party beneficiaries it should distribute the GIK to without the consent of the donor. An agent, on the other hand has little or no discretion over the GIK’s use.

5.13 Considering the involvement of multiple organizations, if a donor gives GIK to one organization but also specifies a different organization as the true recipient organization for which the donation is intended, the transferring organization may be an agent rather than a donation recipient. If a donor prevents the transferring organization from having variance power by specifying the intended recipient, the transfer is an agency transaction. If, however, the donor specifically grants the transferring organization variance power for the GIK, the transferring organization may legitimately receive the GIK as a donation recipient instead of as an agent. (See Appendix B Sample Letters: Letter of Donation for sample documentation to identify the recipient organization.)

5.14 According to the FASB ASC 958-605-55-76 “an organization has discretion sufficient to recognize a contribution received if it can choose the beneficiaries of the [GIK].” “Receipts of resources as an ***agent, trustee, or intermediary*** of a donor are not contributions received to the agent because the recipient of [GIK] who is an agent or trustee has little or no discretion in determining how the [GIK] transferred will be used” (FASB ASC 958-605-55-71). Only a donor may give the recipient organization ownership and discretion to use the GIK or to donate the GIK to another organization. If an organization determines it is not a donation recipient but rather an agent or other intermediary, it must not recognize GIK revenue.

5.15 An organization should obtain written documentation from a donor specifying that it received discretion over the assets’ use and can choose the assets’ beneficiaries. Written documentation captures a donor’s intent and supports an organization’s decision to recognize GIK revenue. Written documentation also reduces the potential for misunderstanding the recognition of value when multiple organizations are involved in the procurement, transportation and use of a single GIK donation.

5.16 Donation acceptance considerations: Accord guidance is intended to limit the number of entities which recognize revenue for the same GIK, advising the least required number of entities possible accept donated GIK between the time of receipt from the original donor and distribution by the end-use organization. An organization should carefully consider whether it should participate in a GIK collaboration. Although it may be appropriate under certain circumstances for more than two NPO’s to accept a donation for GIK between the time it is received from the original donor and the time it is distributed to end-use beneficiaries, it should only occur when necessary as this goes against the intent of the Accord standards.

5.17 It is common for an ***original donor*** to prefer working with one organization. This may mean that an organization receives a GIK donation which is larger than it may utilize in its own programs. While this may occur due to a donor’s preference to limit its interaction to one organization, an organization should not seek out donations merely for the purpose of passing them on to another organization without using the GIK in support of its own mission, purpose and programs. Remember, when multiple organizations collaborate on a transaction, it is important to clarify in writing with the donor which organization is the intended donation recipient because a donation is normally executed with one organization.

5.18 Factors to consider in accepting a GIK donation: According to Accord guidance, certain factors should be considered by an organization which is neither the original recipient nor the end-use organization when it is deciding whether to accept a GIK donation. Evaluating these factors will help limit GIK donations to mission-critical organizations, and help limit GIK revenue recognized by multiple organizations:

5.19 Does the GIK support the organization’s mission? A non-profit organization should only accept GIK donations which may be used in support of the organization’s own mission and programs.

5.20 Does the organization ***add value*** by increasing the usefulness of to the GIK? When an organization either acquires GIK from the original donor or uses the GIK in its own programs, the organization fulfills a key purpose within the GIK transaction. If however an organization does not acquire the GIK from the original donor or use the GIK in its own programs, it should evaluate whether it adds value and utility to the GIK before accepting the donation. Examples of activities which add value include warehousing, sorting, repackaging, or facilitating customs clearance for GIK. Remember though, an organization should only recognize revenue for the GIK over which it has title and discretion regarding use and distribution. Adding value alone or participating in collaboration with other NPOs does not give an organization the necessary variance power needed to recognize GIK as revenue.

5.21 Whenever more than two organizations collaborate in a single GIK transaction, any additional NPO accepting the GIK as a donation from another NPO (i.e., having title and variance power) needs to take ***physical possession*** of the GIK and increase the utility of the GIK donation. Under this Accord standard, if the additional NPO would not take physical possession and increase the utility of the GIK, it should not accept the GIK donation. For example, suppose an NPO is offered a GIK donation from another NPO. The receiving NPO would receive a shipment of unsorted, bulk quantities of goods, break down the totes or pallets, sort the product into categories, discard expired or near-to-expire product, perform quality control checks, combine useable product with similar items, inventory, and repackage the GIK. In this circumstance, because the receiving NPO would take physical possession and increase the usefulness of the GIK on behalf of the beneficiaries, the Accord standards allow for acceptance of the donation.

5.22 An entity taking title and physical possession of GIK without adding utility, that is, without increasing the usefulness of the product itself (but merely storing or moving it and transferring it to another agency) should question the value of its role in the transaction, and therefore, question whether or not it should accept the GIK donation under these Accord standards.

5.23 Examples of revenue recognition outcomes for four types of GIK collaborations follow.

5.24 Example 1: In a response to the compelling needs of an emergency relief situation, Original Donor works with Charity A to make a donation. The GIK is appropriate for the program needs of the emergency situation. Charity A desires to respond to the emergency, but does not have an established program near the vicinity of the emergency. Charity B has a project in the vicinity of the emergency and will address the situation by using and distributing the GIK in its project. Charity C offers its warehouse for sorting, packing and shipping the GIK to Charity B and charges a processing fee to cover its expenses. Charity D offers to pay Charity C's processing fees and freight.

5.25 The revenue treatment of this example depends on whether the donor makes a donation to Charity A or works through Charity A to make a donation. Following is a table which provides two alternative accounting solutions based on different assumptions.

5.26	Original Donor	Charity A	Charity B	Charity C	Charity D	Revenue Recognition and Accord Assessment
Party's primary purpose	To provide GIK donation for emergency relief program.	To procure GIK from original donor.	To distribute and use GIK in emergency response program.	To process, sort, pack and ship GIK to Charity B.	To participate in emergency relief by raising funds to pay Charity C's processing fee and freight.	
Collaboration Scenario 1	Gives donation to Charity A to use in emergency response.	Receives title and variance power from original donor and recognizes GIK revenue. Opts to donate GIK to Charity B.	As end-use charity, receives variance power from Charity A and opts to distribute GIK to beneficiaries in need of emergency relief.	Receives physical possession of GIK from donor, but not title or variance power. Acting as an agent, does not recognize GIK revenue.	Pays fees to Charity C. Recognizes expense for fees. Does not recognize GIK revenue.	Original recipient Charity A and subsequently end-use Charity B recognized revenue. No perceived revenue abuse.
Collaboration Scenario 2	Works through Charity A to identify Charity D as recipient. Does not give Charity A power to redirect GIK from Charity D.	Receives title from original donor on behalf of Charity D. Acting as an agent, does not recognize revenue.	As end-use charity, receives variance power from Charity D and opts to distribute GIK to beneficiaries in need of emergency relief.	Receives physical possession of GIK from donor, but not title or variance power. Acting as an agent, does not recognize GIK revenue.	Receives title and variance power from original donor. Opts to donate GIK to Charity B.	Original recipient Charity D and subsequently end-use Charity B recognize revenue. No perceived revenue abuse.

5.27 These alternatives illustrate that GIK transactions are complex and support the conclusion that written documentation is necessary for clear understanding and agreement among the four organizations. The four organizations should request a formal agreement or other substantive written documentation from the donor. In the absence of donor-provided documentation, it would be the responsibility of the organizations to document the donor's intent for which charity received title (ownership) and variance power over the GIK based on the facts and circumstances.

5.28 Example 2: In response to local needs, Charity A uses its large warehouse to receive, sort, repack and distribute GIK. In an attempt to obtain goods which are most relevant for its programs, Charity A obtains GIK donations from original donors and other charities. After receiving two donations, one from Original Donor and one from Charity C, Charity A sorts and repackages the GIK in individual units which are available for distribution to local beneficiaries in its programs. Charity B and Individual, whose needs align with Charity A’s mission, approach Charity A for help and receive GIK donations from the same.

Following is a table which provides two alternative accounting solutions based on different assumptions.



5.29	Original Donor	Charity A	Charity B	Charity C	Individual Beneficiary	Revenue Recognition and Accord Assessment
Party’s primary purpose	To provide GIK donation for those in need	To procure GIK from original donor, sort, warehouse and distribute to those in need.	To obtain GIK from Charity A in fulfillment of its mission, which aligns with Charity A’s mission.	To procure GIK, warehouse, resort, distribute and provide goods to charities in need.	To receive help when in need.	
Collaboration Scenario 3	Gives donation to Charity A to use in its mission and purpose.	Receives title and variance power from original donor. Opts to donate GIK to Charity B and individual beneficiary.	As end-use charity, receives title and variance power from Charity A and opts to distribute GIK to individual beneficiaries.	Not involved in this collaboration.	Receives GIK from Charity A. Revenue not applicable as it is received by an individual beneficiary.	Original recipient Charity A and, subsequently, end-use Charity B recognized revenue. No perceived revenue abuse.
Collaboration Scenario 4	Gives donation to Charity C to use in its mission and purpose.	Receives title and variance power from Charity C. Opts to donate GIK to Charity B and individual beneficiary.	As end-use charity, receives title and variance power from Charity A and opts to distribute GIK to individual beneficiaries.	Receives donation and variance power from original donor. Opts to donate GIK to Charity A.	Receives GIK from Charity A. Revenue not applicable as it is received by an individual beneficiary.	All three charities receive title and variance power and subsequently recognize revenue. (See Accord guidance following.)

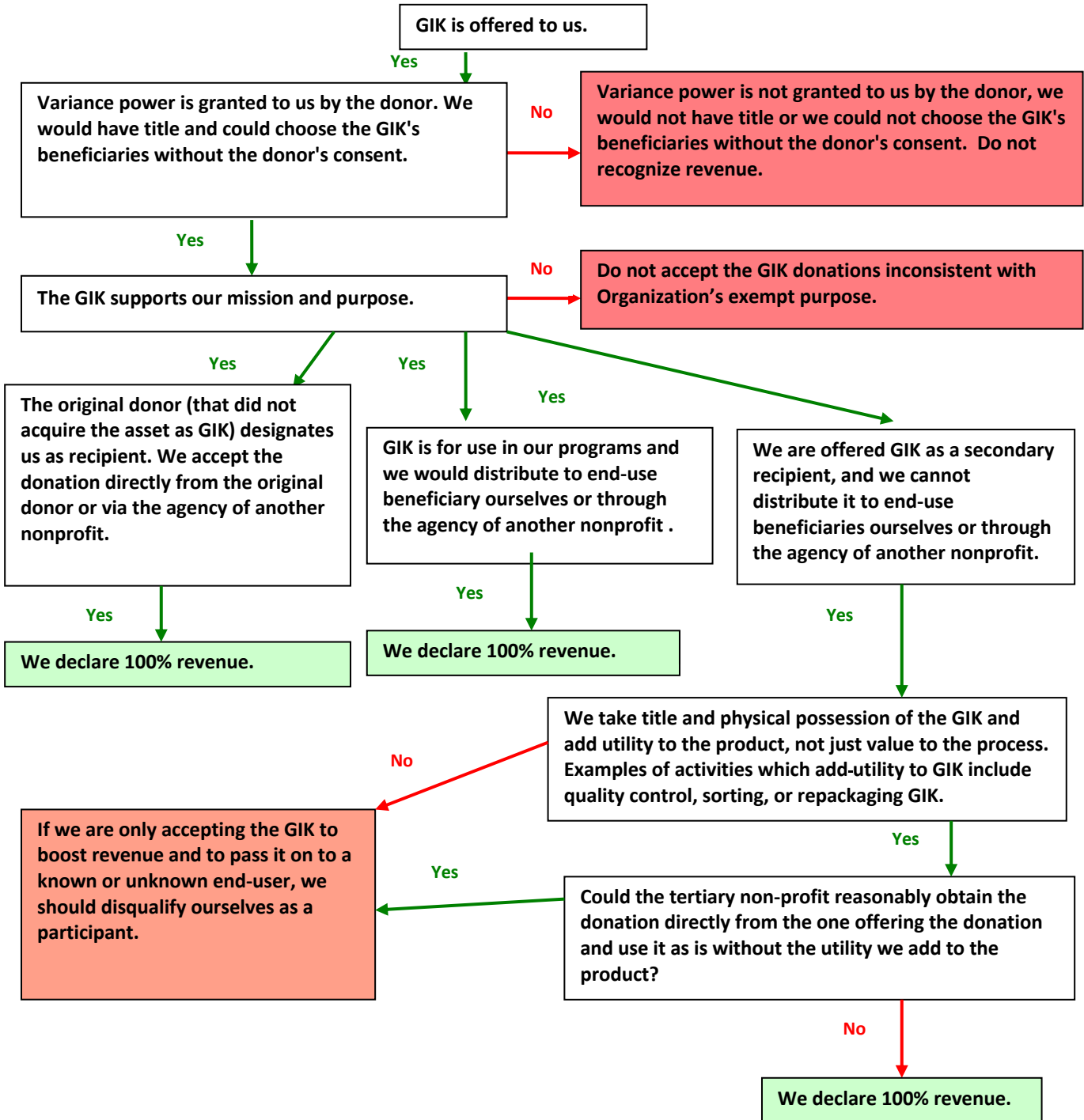
5.30 Whenever three or more charities recognize revenue for the same GIK transaction, as in Collaboration Scenario 4, the perception of revenue abuse may exist. Each charity should evaluate whether the GIK donation supports its mission, purpose and programs and whether it adds sufficient value to the transaction to warrant its participation in the distribution chain between donor and end-user. To comply with Accord standard intent to limit the number of charities involved in a single donation, in this scenario, Charity A could refer Charity B to Charity C and not participate in the collaboration. Or, if the goods Charity B seeks on behalf of its beneficiaries are no longer available from the inventory of Charity C but are available from the inventory of Charity A, Charity B could refer its beneficiary to Charity A and not participate in the collaboration. If the title to the inventory is still held by the donor prior to the collaboration of the three charities, they could determine which organizations offer the greatest benefit to the end-use beneficiary and one charity could opt out of the collaboration.

5.31 The final decision must result in the ultimate public good: that is, not necessarily the outcome which most benefits the charities, but which outcome most effectively meets the needs of the end-use beneficiary.

5.32 The following revenue decision tree may assist in this process.

5.33

When should we participate in a gift-in-kind donation and when do we recognize revenue?
 Chart key: Yes  No 



5.34 GIK Expense and Inventory Accounting Considerations: When recognizing GIK transactions in an accounting system, select a methodology which allows for accurate statement of activities and statement of financial position reporting. Inventory reporting is a key component of GIK accounting, and organizations should proactively establish systems to track and report inventory.

5.35 There are two alternative methodologies to account for the recognition of GIK revenue and inventory/expense. Both methods have strengths and weaknesses, and either method is acceptable. An organization should consider the impact of either method before making a choice.

5.36 Option 1: GIK may be recognized at the date of donation as revenue and inventory. The expense and offsetting inventory reduction is recorded when the GIK is expended in programs.

5.37 Option 2: Initially recognize both revenue and expense at the date of the receipt of the donation. Make a year-end adjustment to recognize the NPO's inventory by reducing expenses and increasing inventory.

Standard #6 - Service Fees Charged by NPO Service Agencies

6.1 Background: *A growing practice in the GIK industry is the collection of fees from other non-profit agencies for the procurement and/or processing of GIK donations which are provided to other non-profit's programs. This practice has led to some for-profit and non-profit organizations realizing substantial gains over and above transaction-related costs often by basing such fees on the value of the GIK provided.*

6.2 GIK Standard — Service Fees Charged by NPO Service Agencies: Service fees charged [when one NPO donates a gift-in-kind donation to another](#) must not be based upon the value of those gifts but should reflect the expenses incurred to administrate, process, warehouse, manage and handle the GIK provided.

6.3 Guidance: Existing IRS code clearly indicates that fees are to be based upon actual costs rather than upon donation value when receipting donations under IRS code 170(e)(3)(A). This instruction is the basis to suggest that non-profit organizations use the calculation of actual expenses incurred as the basis of their fee. [\(NPO's may choose to monetize GIK as a related income generating activity, selling the asset at a profit for the purpose of supporting its programs.](#) Standard 6 does not address transactions of this kind: trade or business activities carried on for the production of income from the sale of goods or the performance of a service.)

6.4 If it is overly burdensome to identify specific administrative, warehousing, and other costs on a donation-by-donation basis, an average expense basis may be used based on the total annual expenses for GIK operations. One method for developing an average expense basis would be to develop a cost pool of all expenses related to the administration, warehousing and other related costs of handling GIK. The cost pool could contain full or partial salaries of staff involved in GIK activities; administration expenses such as office space, photocopying, telephone, and fax services; and warehousing costs (rent or depreciation).

6.5 Once the total cost pool is developed an average expense could be calculated on one of several bases. The average could be based upon the average volume of GIK handled during the year (e.g., 20,000 tons of food supplies), the number of shipments to be made (e.g., forty 20-foot ocean containers), the total value of GIK handled during the year (e.g., \$2,000,000), or another similar basis. If the total expense allocated to the cost pool equaled \$120,000, service fees would therefore be based upon this amount. Using the examples provided above, the service fees would be \$46 per ton of food handled (\$120,000 divided by 20,000 tons), \$3,000 per 20-foot container (\$120,000 divided by 40 containers), or \$.06 per \$1 of value (\$120,000 divided by \$2,000,000).

6.6 Service fee calculations should not be adjusted to reflect the underlying GIK value of the donation. The basis for determining the average cost needs to reflect the actual expenses that would be associated with handling and processing the GIK. For example, if high-dollar-value GIK donation requires the same amount of expenses and effort as low-dollar-value GIK to manage and process, the service fee should not be based upon the dollar value of the GIK. In some cases, a combination of methods to determine an average may be needed to accurately reflect GIK processing expenses.

6.7 Whatever basis is selected for determining the average handling costs, it is important that the cost pool be based upon estimated or actual expense related to the handling of GIK and not arbitrarily determined. If cost pools are based upon budgeted amounts and activities, they should periodically be adjusted to reflect actual costs.

Standard #7 - Disclosure

7.1 Background: *Limited guidance has been available with respect to a consistent minimum set of information that should be disclosed by organization regarding their GIK donation activities in financial statements prepared in Accordance with GAAP. Accord Standards recommend a minimum set of consistent disclosures appropriate to providing essential information relative to GIK donations and program activities.*

7.2 GIK Standard — Disclosure: Financial statements should disclose information about the valuation, source, and use of GIK. The basis and method for valuing donated GIK should be disclosed in an organization's financial statements.

7.3 Guidance: The major sources of GIK revenue such as governments, private donors, other non-profits, and others should be disclosed, in total, by source. Financial statements should also contain a disclosure of the amount of GIK used by the organization in its own programs and the total amount of GIK donated to other non-profit organizations. Additionally, for GIK donated to other non-profits, the amount of GIK for which physical possession was taken and the amount which was shipped directly from the donor to other organizations should be disclosed. Organizations are also encouraged to disclose the value of GIK which were not recorded in the financial statements, but for which the organization acted as an agent or facilitated the procurement and/or use.

7.4 A sample disclosure is provided in Appendix C.

Appendix A - Glossary

Add Value: To add value to a GIK donation is to play a significant role in the process of transferring an asset from a donor to a beneficiary. Examples of added value include procurement from the original donor, warehousing, sorting, repackaging, storage, customs clearance and distribution to end-use beneficiaries. Adding value alone, however, does not give an organization the discretion to recognize a contribution as revenue unless it owns the assets and has ability to use or redistribute the GIK as it chooses.

Agency Relationship: This type of relationship arises when a donor and an organization or two organizations consent that one shall act for the benefit, and under the direction, of the other. (See agent and principal).

Agent: An entity that acts for and on behalf of another. Although the term agency has a legal definition, the term is used broadly to encompass not only legal agency, but also the relationships described in Topic 958. A recipient entity acts as an agent for and on behalf of a donor if it receives assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to a specified beneficiary. A recipient entity acts as an agent for and on behalf of a beneficiary if it agrees to solicit assets from potential donors specifically for the beneficiary's use and to distribute those assets to the beneficiary. A recipient organization also acts as an agent if a beneficiary can compel the organization to make distributions on its behalf (FASB ASC Master Glossary).²

Contribution: Voluntary, unconditional transfers of assets to an entity by another entity acting other than as an owner. They do not include agency, trustee, or intermediary transactions, exchange transactions, or conditional transfers (a condition is a donor-imposed stipulation basing the non-profit's right to keep the asset on some future event which may or may not occur) (FASB ASC 958-605-15-5).

Donor: Any entity—individual, non-profit or for-profit organization or government—possessing title over a commodity and exercising donative intent by giving title to a designated donation recipient.

Donation Recipient: Any entity, non-profit or for-profit designated by the donor to receive title and variance power over the GIK being gifted.

End-Use Organization: The organization that is the ultimate or final user of a GIK within the U.S. or overseas or provides a GIK to an overseas user.

Fair Market Value: Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (FC 820-10-35-2) in the market in which the reporting entity would transact, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market

² The donor specifies the beneficiary.

participant that holds the asset or owes the liability. Therefore, the definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price).

According to FASB, fair value is a market-based measurement, not an entity-specific measurement. Therefore a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, [there is established] a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from sources independent of the report entity (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The notion of unobservable inputs is intended to allow for situations in which there is little, if any, market activity for the asset or liability at the measurement date. In those situations, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity must not ignore information about market participant assumptions that is reasonably available without undue cost and effort.³

Gift-In-Kind (GIK): Goods and services usually received as excess product, services or inventory from corporations and other private donors. For the purpose of these proposed standards, GIK does not include governmental food commodities, real property, services or appreciable personal property. The purpose of gift-in-kind is to assist an organization in carrying out the purpose for which it was organized.

Impaired or Encumbered: A consideration against the value of an item determined by any of the valuation methods, but then reduced because the item has some condition limiting its usability or utility. Consider whether an encumbrance is an attribute of the entity or an attribute of the asset. Asset attributes, such as a product expiration date should be taken into consideration in determining an asset's fair value. Entity attributes, such as a donation received under IRS code 170(e)(3)(A) would not be an attribute of an asset. In considering a hypothetical market for the goods, identical items would have the same market regardless of whether they were received under 170(e)(3)(A).

Intermediary: Although in general usage the term intermediary encompasses a broad range of situations in which an entity acts between two or more other parties, in this usage, it refers to situations in which the recipient entity acts as a facilitator for the transfer of assets between a potential donor and a potential beneficiary (donee) but is neither an agent or trustee nor a donee and donor (FASB ASC Master Glossary). An intermediary may or may not charge a handling fee or commission.

Letter of Acknowledgement: Letter completed by a recipient organization to the non-profit organization that provided the donation. This Letter is furnished in conjunction

³"Summary of Statement No. 157: Fair Value Measurements"
<http://www.fasb.org/summary/stsum157.shtml>

with the Letter of Transfer and should contain all the information contained in a letter of receipt, but should also contain information on how the donation will be used.

Letter of Donation: Letter completed by the donor to acknowledge that a donation is being made. The letter includes a detailed description of the donated products, the quantity donated, condition of products, and estimated fair value of products. The estimated fair value should include the basis (retail, wholesale, etc.) the valuation is based upon. This letter would also indicate any restrictions placed upon the gift, including special IRS code 170(e)(3)(A) restrictions, if applicable. This is different from a letter of transfer in that a letter of donation is signed by an original donor, and a letter of transfer is written by an organization who may have received the original donation.

Letter of Receipt: Letter written by the receiving organization to acknowledge the donation of the donor. The Letter includes the date of receipt, detailed description of the products being donated, quantity donated, and condition of products. It is the responsibility of the donor to determine the fair market value of in-kind gifts for their own tax purposes. This letter would also indicate any restrictions placed upon the gift by the donor, including special IRS code 170(e)(3)(A) restrictions, if applicable. This letter should also inform the donor of how the gift is intended to be used by the receiving organization.

Letter of Transfer: Letter written by a non-profit organization when it donates GIK to another non-profit organization. The Letter includes a detailed description of the donated products, quantity donated, condition of products, and estimated fair value of products. The estimated fair value should include the basis (retail, wholesale, etc.) the valuation is based upon. This letter should also inform the organization of how the gift should be used and indicate any restrictions placed upon the gift by the donor, including special IRS code 170(e)(3)(A) restrictions, if applicable. This is different from a letter of donation. A letter of donation is completed by an original donor, and a letter of transfer is written by an organization that was not the original donor. Through a letter of transfer, a receiving organization would know it is not the original recipient of a donation.

Materiality: Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cutoff point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Original Donor: An entity—individual, for-profit, non-profit organization or government— that donates GIK to a nonprofit organization that did not acquire the asset as a GIK donation.

Physical Possession: Taking delivery of an asset over which the organization has ownership and the ability to control usage.

Principal: The person or organization that is first responsible for the fulfillment of an obligation and may authorize others (agents) to work on their behalf. Either a donor or a recipient organization may be a principal.

Principal market: The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability (FASB ASC 820-10-35-5). See "fair market value."

Restriction: A donor may impose a time or purpose restriction on an assets use. Temporarily restricted assets become unrestricted when the restriction is fulfilled. Permanently restricted assets are required by donor restriction or law to be maintained by the organization in perpetuity.

Retail Value: The price of an item in the market where it is most commonly sold to the public or ultimate end-user.

Service Agency: A recognized 501(c)(3) organization that has as part of its mandate or mission to supply or support humanitarian, relief, or development programs through the procurement, shipping, or distribution of GIK.

Service Fee: A fee charged by a non-profit or for-profit organization related to the procurement and/or processing of GIK donations for other non-profit organizations (sometimes referred to as a handling charge).

Title : Having ownership (risk of loss) and ability to control use of a GIK donation. Having title may include either actual physical possession (through delivery) or constructive possession (such as receiving a paper title).

Trustee: An entity that has a duty to hold and manage assets for the benefit of a specified beneficiary in Accordance with a charitable trust agreement. (FASB ASC Master Glossary)

Unconditional, non-reciprocal asset transfer: An asset is transferred without a donor stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the GIK it has transferred or releases the promisor from its obligation to transfer its GIK. Conditions are not restrictions. (See *restriction*.)

Utility: The quality or condition of being useful; usefulness.

Value and Valuation: Value is the monetary worth of a gift-in-kind at a specific time, and valuation is the act of determining that monetary value. Depending upon the valuation process, there are several different types of values which could include fair market value, appraised value, retail value, wholesale value, list price, impaired value, and probably many other values.

Variance power: The ability of a recipient organization to exercise control over the GIK donation to direct or redirect it without prior consent of the donor (within donor imposed time or use restrictions). When a donor specifies a beneficiary, a recipient organization has title and variance power and may record revenue when it has the unilateral power to redirect the use of the GIK to "an entity or individual other than the

specified beneficiary or beneficiaries” (FASB ASC 958-605-25-25). When a donor specifies a beneficiary but does not provide an organization variance power, the organization is an Agent (See Agent).

Wholesale Value: The price of an item in the market where it is most commonly sold by the wholesaler to a retail buyer who will ultimately sell the item to the public or final end-user.

Appendix B - Sample Letters

Letter of Receipt (regular version)

[DATE]

[PRESIDENT OF DONATING CORPORATION]

[NAME OF CORPORATION]

[ADDRESS]

[CITY/STATE/ZIP]

Dear [PRESIDENT]:

On behalf of [YOUR ORGANIZATION], I would like to extend our sincere thanks and appreciation for your generous donation of [ITEMIZED DESCRIPTION OF GOODS/PRODUCTS]. We have provided this donation to [END-USE RECIPIENT] for distribution to the needy in [END-USE LOCATION].

All donations will be used for the purpose of [Organization's mission]. Donations are tax deductible as allowed by law.

Please complete and return the enclosed donation confirmation form (by fax or mail) as soon as possible. We sincerely appreciate your cooperation.

Just a reminder, in Accordance with IRS regulations, it is the responsibility of the donor to determine the fair market value of in-kind gifts for their own tax purposes. No goods or services were provided in exchange for this gift. [YOUR ORGANIZATION] is a registered non-profit corporation under Internal Revenue Code 501 (c)(3), Tax ID Number [91-XXXXXXX].

Should you have a question concerning this donation, or should additional product become available, please contact [PROCUREMENT CONTACT] at [PHONE NUMBER].

Sincerely,

[NAME]

[TITLE]

[DONATION REFERENCE #]

Letter of Receipt (IRS 170(e) (3)(A) Version)

[DATE]

[PRESIDENT OF DONATING CORPORATION]

[NAME OF CORPORATION]

[ADDRESS]

[CITY/STATE/ZIP]

Dear [PRESIDENT]:

On behalf of [YOUR ORGANIZATION], I would like to extend our sincere thanks and appreciation for your generous donation of [ITEMIZED DESCRIPTION OF GOODS/PRODUCTS]. We have provided this donation to [END-USE RECIPIENT] for distribution to the needy in [END-USE LOCATION].

All donations will be used solely for the care of the ill, needy, and infants in compliance with IRS 170(e)(3)(A) and will not be bartered, sold, or exchanged. Donations are tax deductible as allowed by law.

We have enclosed a donation confirmation form that our auditors require our donors to complete. Please complete and return this form (by fax or mail) as soon as possible. We sincerely appreciate your cooperation.

Just a reminder, in Accordance with IRS regulations, it is the responsibility of the donor to determine the fair market value of in-kind gifts for their own tax purposes. No goods or services were provided in exchange for this gift. [YOUR ORGANIZATION] is a registered non-profit corporation under Internal Revenue Code 501 (c)(3), Tax ID Number [91-XXXXXXX].

Should you have a question concerning this donation, or should additional product become available, please contact [PROCUREMENT CONTACT] at [PHONE NUMBER].

Sincerely,

[NAME]

[TITLE]

[DONATION REFERENCE #]

Letter of Donation

[DATE]

[PRESIDENT OF DONATING CORPORATION]

[NAME OF CORPORATION]

[ADDRESS]

[CITY/STATE/ZIP]

[DONATION NUMBER]

Dear [PRESIDENT]:

For prompt service regarding your donation, and for our annual audit, we need to know if your organization's donation of [ITEMIZED DESCRIPTION OF GOODS] which we provided to [END-USE RECIPIENT] was completed to your satisfaction.

Please complete the following questions, noting any changes between what was originally offered for donation and what was donated. Please complete and return this form (by fax or mail) as soon as possible.

Will you be receiving a tax deduction? Yes No

VALUE OF DONATION (Fair Value): \$ _____

TYPE OF VALUE: Wholesale __ Retail __ Other _____

Your donation to [NON-PROFIT ORGANIZATION NAME], the specified recipient, may be directed at the recipient's discretion in Accordance with its mission and purpose without your prior consent. Yes No

If no, please explain: _____

COMMENTS: _____

Signed: _____

Title: _____

Date: _____

In order that we may comply with our annual audit, this form MUST be returned to our office within 60 days of the donation date or prior to the close of our fiscal year on _____, whichever is sooner.

Letter of Transfer

[DATE]

[RECIPIENT]

[ATTENTION:]

[ADDRESS]

[CITY/STATE/ZIP CODE]

[RE: "DONATION"] [CONTAINER #:] [IDENTIFICATION #]

Dear [NAME],

We at [YOUR ORGANIZATION NAME] are very pleased to send you this shipment of [INSERT PRODUCT DESCRIPTION]. [YOUR ORGANIZATION NAME] is a non-profit, tax exempt 501(c)(3) corporation. We are donating these supplies to you in compliance with the provisions of the special IRS code 170(e)(3)(A). [YOUR ORGANIZATION NAME] maintains adequate books and records made available to the Internal Revenue Service upon request.

These donated items must only be used for the ill, needy, or infants (minors) for their care, or be retained for their care and may not be sold, bartered, or traded for services. We trust that the goods in this shipment will be useful in helping the people of [INSERT COUNTRY and/or DESIGNATED BENEFICIARY].

Please complete and return the attached "Letter of Acknowledgement" upon receipt of the goods, sending it to [CONTACT NAME] at [CONTACT E-MAIL] or faxing it to [FAX NUMBER], Attention: [CONTACT NAME].

Our donation to [RECIPIENT], the specified recipient, [may/may not] be directed at the recipient's discretion in Accordance with its mission and purpose without our prior consent.

Within three (3) months of clearing customs, please complete the enclosed "End-Use Report" form and return it to [YOUR ORGANIZATION NAME] as detailed above.

If possible, please include photographs of the goods being distributed or used. Thank you for the opportunity to work with you and those you are serving.

Sincerely,

[NAME]

[TITLE]

Letter of Acknowledgement

[DATE]

[RECIPIENT ORGANIZATION PRESIDENT]

[RECIPIENT ORGANIZATION]

[ADDRESS]

[CITY/STATE/ZIP]

Dear [PRESIDENT]:

We recently provided a product donation to your organization from [DONOR].

In order that we may comply with our annual audit, this form MUST be returned to our office upon receipt of the donation.

Please complete the following questions, noting any changes between what was originally offered for donation and what was RECEIVED. Please return this form, along with any copies of INVENTORY, PACKING SLIPS OR INVOICES, to our office by fax or return mail. Thank you.

CONTACT MADE AND DONATION RECEIVED YES NO

COMMODITY RECEIVED _____

QUANTITY OF COMMODITY RECEIVED _____

DATE DONATION WAS RECEIVED _____ (Essential for our records)

COUNTRY DESIGNATION: _____

COMMENTS: _____

Date: _____

Signed: _____

Title: _____

****BY SIGNING THIS FORM YOU ACKNOWLEDGE THAT THE DONATION WILL BE USED SOLELY FOR THE CARE OF THE ILL, THE NEEDY OR INFANTS AND WILL NOT BE BARTERED, SOLD OR EXCHANGED PER IRS CODE 170(e)(3)(A).**

Appendix C - Sample GIK Disclosure

Gift-in-Kind Received: [YOUR ORGANIZATION NAME] receives donations of GIK for use in programs that support its mission and purpose. Such gifts are recorded at their estimated fair value at the date of donation based upon the quantities donated, their condition and utility for use.

GIK Contributions were provided by the following donation sources for the years ended [Year End Month and Day]:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
USAID	\$X,XXX	\$X,XXX
Other Governments	X,XXX	X,XXX
For Profit Corporations	X,XXX	X,XXX
Non-Profit Corporations	X,XXX	X,XXX
Individual Donors	<u>X,XXX</u>	<u>X,XXX</u>
	\$XX,XXX	\$XX,XXX

United States Agency for International Development

We receive [COMMIDITY A, B, C] from USAID, which are valued using guidelines published by the United States Department of Agriculture and the USAID.

Other Government Agencies

We receive [COMMIDITY A, B, C] from [AGENCY], which are valued using [METHOD].

For Profit Corporations

We receive [COMMIDITY A, B, C] from for-profit corporations, which are valued using [METHOD].

Non Profit Corporations

We receive [COMMIDITY A, B, C] from non-profit organizations, which are valued using [METHOD].

Individual Donors

We receive [COMMIDITY A, B, C] from individual donors, which are valued using [METHOD].

Gift-in-Kind Distributed: [YOUR ORGANIZATION NAME] distributes GIK for direct program use and to other agencies/organizations in support of [YOUR ORGANIZATION NAME] mission.

GIK distributions consisted of the following as of [Year End Month and Day]:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
[DIRECT BY YOUR ORG]	\$ X,XXX	\$X,XXX
[THROUGH PARTNERSHIPS]	X,XXX	X,XXX
[AS AN AGENT TO OTHER ORGANIZATIONS]	<u>X,XXX</u>	<u>X,XXX</u>
	<u>\$ XX,XXX</u>	<u>\$XX,XXX</u>

Of the amounts distributed to other organizations \$XX,XXX,XXX were delivered to [YOUR ORGANIZATION NAME] before being distributed, while \$X,XXX,XXX were shipped directly from the donor to other organizations.

[YOUR ORGANIZATION NAME] only records the value of those GIK over which it receives and exercises variance power, the discretion to distribute or redistribute the commodity without the donor's prior consent in Accordance with its mission and purpose.

Appendix D - Sample GIK Acceptance Criteria

Considerations to review prior to accepting GIK donations:

[Your Organization Name]

[Your Organization Mission Statement]

1. Mission/Programmatic Impact:

Can the donation be used to support our mission, strategy and programming? Will it:

- Relieve human suffering?
- Save lives?
- Stimulate transformational, sustainable development?
- Increase the self-reliance of local communities?
- Be consistent with the field program's overall strategy?
- Meet specific requests or needs?
- Not be a disincentive to the local economy?
- Not create artificial dependencies when product is no longer available?

2. Appropriateness:

Will the donation be appropriate for the end-user? Please consider:

- Culture
- Climate
- Political conditions
- Medical/health conditions
- Local availability of the same or similar product

3. Usefulness:

Can the GIK be used as is? Will it:

- Be easy to use? Have easy-to-follow instructions in the local language?
- Not need unavailable or unsustainable companion product(s) or maintenance?
- Have correct voltage and cycles?

4. Restrictions:

- Are there donor restrictions which need to be accounted for? For example, was the donation a result of a special appeal which limits the use of the GIK to specific need or region?

5. Encumbrances:

- Are there known or suspected encumbrances, such as expiration dating, defects, or seconds that may limit its usability or create importation or logistical challenges?

6. Capacity:

- Does our staff have the experience and expertise to handle, store, transport, distribute and dispense the GIK efficiently and effectively?
- Does our warehouse have available space?
- Are we currently overstocked with the same or similar product?
- Will this donation require additional handling or sorting?
- Could a collaborating agency manage this donation more effectively?

7. Donor Relationship

- What potential exists for future donations (quantity/type/ministry fit)?
- What potential exists for consistent donations (link to forecasting shipments)?
- What was the condition of prior donations from this donor (excessive sort, applicability, significant variance in quantity, timing or quality of donations)?

8. Financial Criteria

- Does the donation have sufficient value to justify the cost of transport? (The ratio of value to cost for GIK accepted by [YOUR ORGANIZATION NAME] should match or exceed [4 to 1].)
- What impact will the acceptance of this GIK have on our freight budget?
- What processing fees, if any, will be charged?
- How many other non-profits have been involved in the distribution of this product as donation recipients?

Appendix E – Interaction Pharmaceutical Valuation Guidelines

In May, 2019, the Accord Network Board of Directors voted to affirm Interactions' Pharmaceutical Valuation Guidelines. We include the following guidelines as a helpful resource for GIK practitioners. Accord does not view this as prescriptive, but asks members to be guided and informed by these guidelines.



The largest alliance of U.S.-based international nongovernmental organizations focused on the world's poor and most vulnerable people.



Adopted December 2018

Introduction

With support from its members, PQMD and other interested parties, InterAction has developed a recommended methodology and a list of valuation sources to assist nonprofit organizations in determining the financial valuation of donated pharmaceutical products received in pursuit of their missions. The methodology is intended to help organizations to select an approach to recording GIK donations in their financial statements that is fair, appropriate and aligned to IRS requirements, FASB guidance, and GAAP principles. Additionally, the methodology serves as the basis for InterAction's NGO Standards related to valuation of donated goods.

Purpose

The purpose of the methodology is to guide decision-making by an individual organization. Ultimately, each organization is responsible to determine the valuation it records based on its own professional judgement and in consultation with its auditors. To ensure a consistent approach, however, the methodology is based on AICPA guidance related to gifts-in-kind valuation, which can be found here: [AICPA Website](#). The methodology is illustrated by the included [Decision Tree](#). In addition to the methodology, InterAction has assembled a [Pharmaceutical Pricing Inputs Catalog](#) that can be used to determine the value of specific products.

Decision Tree

The Decision Tree guides users through questions that help determine whether a procured product can be considered a donation and, if so, whether its valuation should be based on a U.S. market price, or an international price. The key questions are:

- *Is there a fee associated with GIK procurement? And, if so, is the fee paid substantially less than the rate commonly available to any individual or organization?* This question will lead to a decision as to whether a product has been procured through donation, and therefore recordable as donation revenue, or through purchase, which is not recordable as a donation.
- *Is the pharma GIK legally permissible for sale in the U.S.? And, is the U.S. the principal market as compared to any individual international market?* These two questions support decisions about whether donated products should be valued based on a U.S. market price, or an international price. Note that international price in this context is meant to refer to pricing available on the international market, as opposed to within any specific country.

Based on a decision to use U.S. or international pricing, the Decision Tree then guides a user to utilize available pricing sources that are generally easy to use and include data based on a significant level of volume and activity.

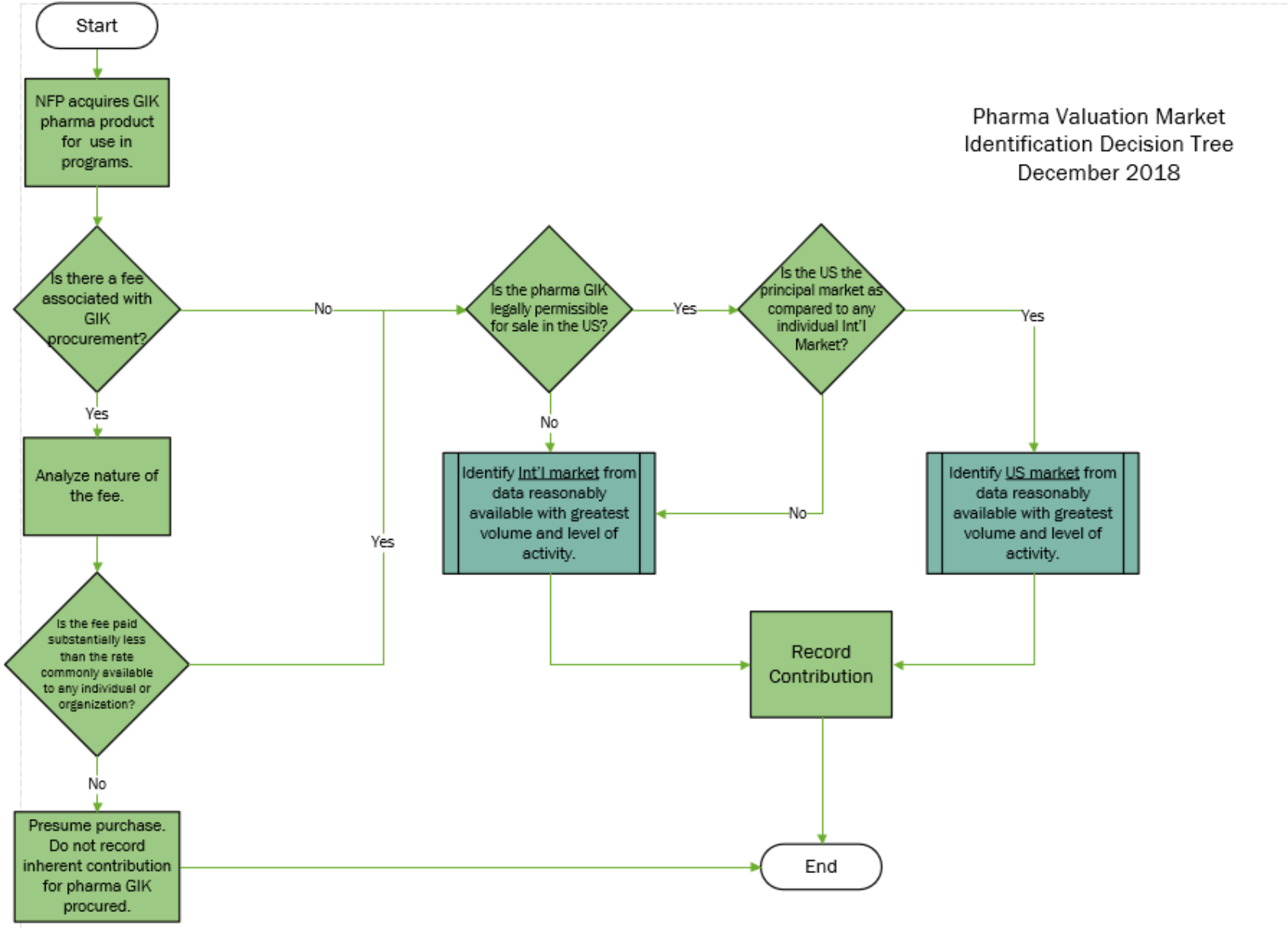
Pharmaceutical Pricing Inputs Catalog

Included along with the methodology is a list of potential international and U.S. pricing sources which is intended to provide organizations with insight into what the sources represent. Organizations should consider how to use these sources when valuing donated pharmaceutical products. InterAction and PQMD are not recommending the use of any specific source, but rather seeking to inform organizations about key source considerations so that organizations may exercise informed professional judgement in determining how to value its GIK. This source list is not intended to include all potential sources.

Transparency

In addition to utilizing these Decision Tree and Sources for Valuation resources, it is essential that each organization documents in writing, and makes available to the public, the rationale for its policy and practice related to pharmaceutical valuation. It is recommended this written rationale be included in annual financial statements and be published on appropriate pages of an organization's website.

Pharma Valuation Market Identification Decision Tree
December 2018



*Legally permissible in this flow chart refers to those restrictions that affect the asset and not those affecting the entity. Legal restrictions that only affect the NFP do not affect the underlying value of the asset's fair value.

Pharmaceutical Pricing Inputs Catalog – December 2018

The Pharmaceutical Pricing Inputs Catalog should be used alongside the flowchart and narrative guidance to assist organizations in selecting one or more appropriate pricing sources for donated pharmaceuticals.

To use this Pharmaceutical Pricing Inputs Catalog, first, review the flowchart provided in the guidance. Determine where the product is legally permissible for sale (US or International). Then carefully review the possible sources noted as appropriate for international or US valuations. Because some sources do not include all market adjustments, your organization may determine that additional adjustments to source values are necessary to appropriately value the donated products under the GAAP definition of Fair Value, “the price that would be received to sell an asset...in an orderly transaction between market participants at the measurement date”.

This catalog represents the sources most commonly used for donated valuations at the time of publication. It is not an exhaustive list of all pharmaceutical pricing sources.

Source	General Description	US/Int'l	Cost	Considerations for using this data source
Distributor / Manufacturer Price	Value provided by donating pharmaceutical company or value paid for purchased generic pharmaceuticals from distributor or manufacturer.	Int'l	Transaction based	<p>When value provided by the donating company, ensure the value represents your organization’s valuation methodology.</p> <p>If executing a purchase of pharmaceutical product for use in programs, determine if the fee paid represents a “handling fee”. If so, the NGO should evaluate if the handling fee is representative of active marketplace transactions. If it is, then the “handling fee” is the product value. If not, then the market price, less the acquisition fee is the representative value assessed for the product. The market price would be determined using one of the valuation sources below.</p>
International Medical Products Price Guide (IMPPG)	Formerly called International Drug Pricing Indicator Guide. The purpose of the guide is to provide a range of prices from international suppliers and buyers of medical products.	Int'l	Public, Free	<p>The IMPPG can be found at: http://mshpriceguide.org. It is published by the Management Sciences for Health (MSH)</p> <p>Purpose of the guide is to make price information more widely available to improve procurement of quality-assured medicines for the lowest possible prices. It represents prices paid by both buyers and suppliers, within the publication timeframe</p> <p>Organizations can use this to establish market price in international markets, and could be used when the product from the specific manufacturer is not permissible for sale in the US market.</p>

Pharmaceutical Pricing Inputs Catalog – December 2018

<p>Company which aggregates pharmaceutical procurement data – can be international or US only.</p>	<p>Provide aggregated market pricing for specific drugs based on specific attributes.</p>	<p>Int'l</p>	<p>Fee based</p>	<p>These companies document a variety of specific attributes from actual market transactions, typically aggregating them annually. Attributes can include things such as country, manufacturer, month, wholesale/retail/manufacturer, etc. Data reflects only those transactions from participating manufacturing, wholesale, or retail entities (clinics, pharmacies, hospitals, etc.).</p> <p>Examples of companies are below. All are fee-based services</p> <p>http://www.imshealth.com/ - this is a subsidiary of IQVIA. It gathers data on both FDA and non-FDA approved manufacturers/products world-wide. It would likely be used to establish values for products where the US is NOT the principle market because the drug from the specific manufacturer is not permissible for sale in the US market</p> <p>www.analysource.com – this is a division of DMD America. It gathers information on FDA approved drugs, and would likely be to establish values where US is the principle market because the drug from the specific manufacturer is permissible for sale in the US market</p> <p>www.fdbhealth – this is the managing company for First Databank. This source draws on their partnership with DMD America, and uses their Analysource tool in pricing analysis. Using this source is the same as using Analysource</p>
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Pharmaceutical Pricing Inputs Catalog – December 2018

<p>Federal Upper Limit (FUL)</p>	<p>Affordable Care Act Federal Upper Limits (FUL) based on the weighted average of the most recently reported monthly average manufacturer price (AMP) for pharmaceutically and therapeutically equivalent multiple source drug products that are available for purchase by retail community pharmacies on a nationwide basis</p>	<p align="center">US</p>	<p>Public, Free</p>	<p>Also called Medicaid FUL, it is the upper price limit by which the Federal Government will reimburse for Medicaid pharma products. This is no less than 175% of the average manufacturer price (AMP).</p> <p>The information is based on actual sales information and is updated monthly. It can be located at this link: https://data.medicaid.gov/Drug-Pricing-and-Payment/Federal-Upper-Limits-2018-02/cm7-uy43/data</p> <p>This source could be used for products from a manufacturer permissible for sale in the US.</p>
<p>National Average Drug Acquisition Cost (NADAC)</p>	<p>Calculated value intended primarily for use by state Medicaid.</p>	<p align="center">US</p>	<p>Public, Free</p>	<p>Originally developed in 2010 as an alternative to AWP. The NADAC survey process focuses on retail community pharmacy drug ingredient costs. The survey collects acquisition costs for covered outpatient drugs purchased by retail community pharmacies, which include invoice purchase prices from independent and chain retail community pharmacies</p> <p>https://www.medicaid.gov/medicaid/prescription-drugs/pharmacy-pricing/index.html</p> <p>This source could be used where products from the specific manufacturer are legally permissible for sale in the US.</p>
<p>State Maximum Allowable Cost (MAC)</p>	<p>The maximum amount a given state will reimburse for Medicaid pharma products.</p>	<p align="center">US</p>	<p>Public, Free</p>	<p>Based on actual sales information and updated monthly. An example is the Ohio MAC at the link below. https://druglookup.ohgov.changehealthcare.com/DrugSearch</p> <p>This source could be used where products from the specific manufacturer are legally permissible for sale in the US.</p>

Pharmaceutical Pricing Inputs Catalog – December 2018

<p>Wholesale Acquisition Cost (WAC)</p>	<p>The wholesale acquisition cost (WAC) is an estimate of the manufacturer's list price for a drug to wholesalers or direct purchasers, but does not include prompt pay or other discounts, rebates or reductions in price.¹</p>	<p align="center">US</p>	<p align="center">Fee Based</p>	<p>WAC is most commonly used as a benchmark in pharmacy purchases of drugs.</p> <p>It can be accessed through sources like Redbook, Medi-Span and First Databank. They can be linked at: https://www.fdbhealth.com/ http://www.micromedexsolutions.com/micromedex2/4.31.0/webhelp/RED_Book http://www.wolterskluwer CDI.com/drug-data/medi-span-electronic-drug-file/</p> <p>This source could be used where products from the specific manufacturer are legally permissible for sale in the US.</p> <p>WAC is not based on actual sales transactions, and organizations should consider whether an adjustment is advisable if using WAC as a basis for valuation.²</p>
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¹ Definition of WAC: https://www.ssa.gov/OP_Home/ssact/title18/1847A.htm for source of this legal definition.

² This language based on 2005 DHHS OIG's investigation into the price differences between AMP and WAC/AWP (see pg 3). <https://oig.hhs.gov/oei/reports/oei-05-05-00240.pdf>. This is also referenced by one of the publishers of WAC: <https://www.wolterskluwer CDI.com/blog/ful-story-what-you-need-know-about-new-aca-ful-pricing/>

Pharmaceutical Pricing Inputs Catalog – December 2018

<p>Average Wholesale Price (AWP)</p>	<p>An estimate of the list price retail pharmacies pay for drugs from their wholesale distributor. This price is calculated and published by 3rd party companies. It does not reflect actual prices paid for drug products, nor any discounts, rebates, or other price reductions.³</p>	<p align="center">US</p>	<p align="center">Fee based</p>	<p>AWP is most commonly used as a benchmark in pharmacy purchases of drugs and often reflects a 20% markup compared to WAC.⁴</p> <p>It can be accessed through sources like Redbook, Medi-Span and First Databank. They can be linked at: https://www.fdbhealth.com/ www.micromedexsolutions.com/micromedex2/4.31.0/webhelp/RED_Book http://www.wolterskluwer CDI.com/drug-data/medi-span-electronic-drug-file/</p> <p>This source could be used where products from the specific manufacturer are legally permissible for sale in the US.</p> <p>AWP is not based on actual sales transactions, and organizations should consider whether an adjustment is necessary if using AWP as a basis for valuation.⁵</p>
<p>Average Manufacturer Price (AMP)</p>	<p>The average price paid to the manufacturer for the drug in the United States by wholesalers for drug distribution to retail community pharmacies and retail community pharmacies that purchase drugs directly from the manufacturer.</p>	<p align="center">US</p>	<p align="center">Public, Free</p>	<p>The AMP is statutorily defined and its calculation is based on actual sales transactions. It is not inclusive of any rebates or discounts, and is based on actual sales data and updated monthly.</p> <p>This source provides the baseline to determine the Medicaid FUL. It typically represents a price that is substantially lower than both the average wholesale price and the wholesale acquisition cost.</p> <p>This source would likely not be used as is, but is a contributor to the Federal Upper Limit.</p>

³ AWP is not based on actual market transactions: https://www.wolterskluwer CDI.com/sites/default/files/documents/WKH_AWP_Policy.pdf

⁴ Per Red Book publisher: https://www.micromedexsolutions.com/micromedex2/4.31.0/WebHelp/RED_BOOK/AWP_Policy/AWP_Policy.htm

⁵ This language based on 2005 DHHS OIG's investigation into the price differences between AMP and WAC/AWP (see pg 3). Additional information can be found at this AWP publisher's site: <https://www.wolterskluwer CDI.com/blog/ful-story-what-you-need-know-about-new-aca-ful-pricing/>