



Accounting for Donated Services

Many nonprofit organizations receive a significant amount of donated services varying from volunteers performing simple tasks, such as cleaning a park, to professional services like accounting and legal services. The accounting treatment for donated services depends on ***whether the services create or enhance a nonfinancial asset, require special skills and would need to be purchased if they were not donated.*** If none of those requirements are met, the organization would not record any donated service revenue or expense.

Donated services that ***create or enhance a nonfinancial asset*** include services provided for projects such as constructing a new building. Related services should be recognized as in-kind contribution revenue with a corresponding entry to capitalize the service as an asset, regardless of whether or not the service was a specialized skill. For example, if an organization is constructing a new building and has volunteers painting the rooms of the building, the fair value of the painting services should be recorded as a capitalized asset as part of the cost of constructing the new building and recorded as contributed services revenue.

Donated services that ***require special skills*** should always be recorded as in-kind contributions and in-kind expense as long as they meet two additional requirements: (1) the services are performed by someone who possesses those skills and (2) the services would need to be purchased if they were not donated. Examples of such services include attorneys, accountants, physicians, electricians, architects and other professionals.

It is important to distinguish the difference between ***needing to purchase skilled services*** and whether the organization could afford to purchase the services at fair value. Skilled services are needed if they represent an integral part of the organization's programs, are required for ongoing administrative requirements (such as an annual audit and preparation of Form 990) or similar services are also purchased from third parties when volunteer services are not available. The organization does not need to support that they could afford to purchase the services, only whether the service would need to be purchased.

Accounting for donated services also pertains to courtesy discounts received for services requiring skills listed above. For example, if an organization receives an audit and they receive a courtesy discount, the difference between the fair value (not necessarily the standard billing rate) of the audit and the amount actually billed should be recorded as in-kind contribution revenue and related expense. If the fair value of an audit would be \$25,000, and the accounting firm gave a 20% courtesy discount, the \$5,000 discount should be recorded as an in-kind donation (revenue and expense).

Board members with specialized skills, offering specialized services, do not result in revenue recognition and valuation unless the services would be purchased if not donated. A board member who is a CPA and spends time reviewing financial statements and reporting to the board does not result in revenue/expense being recorded. This is considered the board member's responsibility. However, if the board member were to provide a specialized service such as preparing the IRS Form 990, or completing an audit of the financial statements, this is something that would need to be purchased if the board member had not volunteered. Accordingly, this would be recognized as donated services.

Accounting for donated services can be subjective and should be assessed individually for each circumstance. If your organization would like assistance with accounting for a potential donated service, please contact Bob Stillman, Jennifer Osburn or Marc Otte at 614.221.1120.