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Why Recording In-Kind Donations Matters For Your Nonprofit – Transcript

Jess Birken 00:00:02 Welcome to Charity therapy, the podcast where we explore the ups and downs of the nonprofit sector and answer your burning questions. I'm your host, Jess Birken, owner of Birken Law Office, and I'm excited you're here. Imagine hanging out with me and my super smart, funny, nonprofit expert pals. You get to ask them anything about your nitty gritty nonprofit life and get their wisdom for free. Whether you're a seasoned pro or just strapping on your nonprofit boots, we're here to share stories and remind you you're not alone on this journey. So get ready to join the conversation and bring me the tough questions I ain't scared. Ready to rock? Let's dive in. Hello and welcome to this episode of Charity therapy. I am here with my intrepid co-host Meghan. Hi.

Meghan 00:00:53 It's Meghan, I am here with just the robotics game announcer. She's just getting her announcing chops going for the year. Oh, It's true. I am just coming off of. I actually feel like my voice sounds like I've been talking for three days a little bit, because I've been on the microphone at a First Robotics FRC.

Jess Birken 00:01:16 It's high school robotics people. It's high school robotics. They make industry sized robots. They're insane. They they don't beat each other up. They play a game, they build a robot that plays a game. And these kids are so inspiring. And it's just like an epically good time. And I love it. And it's also exhausting. And then I'm wondering, why didn't I take one day off? Right, exactly. It's the real question if you're going to be game announcing all weekend, that's just chaos. But also, I need the listeners to know that Jess is committed enough that she bought two pairs of metallic sneakers in different colors so that she could have one shoe of each color of the team so that she is the unbiased and fair Announcer. Moderator. So yes, it's very festive. I have a red shoe

and a blue shoe because half the field is red and half the field is blue. It's fun. We have fun. It's great, it's great, I love it. I love getting the updates.

Meghan 00:02:15 And then hearing your announcer voice ring out. There we go. We'll put it. Maybe we put a link to a robotics match in the show notes. Yeah. Do it. Why not? Okay. If any, if any of the charity therapy listeners want to get into the world of high school robotics, we're so want to see to convert all the fuss is about. I have sleep posted up. Let's let's do let's do the the nonprofit stuff now. So we have a listener question today. But before we get into that, I have a primer. Question for you, Jess. What is an in-kind donation? So an in-kind donation is anything that's basically like not money. So if you have some, you get a new couch and you're taking your old couch to the thrift store and donating it. Your couch is an in-kind donation. If you're donating food to the food shelf. The canned goods are an in-kind donation. It can also be your time if you volunteer to paint a fence. Your your time is an in-kind.

Meghan 00:03:15 It just basically means not money. Great. Great. So let's talk about where that can get a little confusing. So I have a listener question for you here. They write in and say I work for a tiny nonprofit where the employees, office space, equipment and so on are all paid for by a for profit company and are given to our nonprofit. Because of this, our financials make it look like we're not doing anything. We bring in peanuts and contributions, so it looks like we have almost no income, and most of our expenses are paid for and written off by the for profit company. I've been tasked to find some new major funders for the nonprofit, and I'm running into trouble. The narrative we put out just doesn't match up with the numbers I can give them. And I think it's giving funders pause. What do I do? Okay. This is a very common problem, especially for small nonprofits that maybe are doing their own books or like don't have a professional accountant helping them because it just doesn't even occur to you that, like if somebody gives you a can of soup that you could record that can of soup as a dollar donated, but you actually can you anything that you receive, you can try and figure out what it's worth.

Jess Birken 00:04:37 Now this gets a little hairy. And I want to make sure that it's I'm very clear that we we're not telling the donor for their tax purposes what their donation was worth. That's a different thing. That's that's for them to figure out on their side. But we can give like a, a book value or some sort of fair market value to in-kind donations. So

for this organization, if the for profit company is donating office space to you. Well, like, they either own or they rent their office space and they can ask a realtor to give them the price per square foot for their space. If they don't know. Or you just look at your lease and figure out what it costs you to rent that space, and now you know the amount of square footage you have and what it's worth. And you can book that as a donation of the space. Same thing with employees. If they're like, hey, we're going to like kind of lend you some of our team to do some things for you, and maybe they are doing accounting for you, but they're working at a for profit company.

Jess Birken 00:05:46 They don't know about all of the ins and outs of non profit accounting. they're they can do a time study maybe for two weeks, once a quarter or something like that. Kind of figure out like what percentage of Sandy's time, what percentage of Leanne's time goes to working for the nonprofit for free. And now we know what her salary and benefits are, and we can do the math and figure out how much of that employee is donated to our organization. And we can record that on the books as an in-kind contribution. So that kind of helps flesh out that picture for the funder who's like, y'all are a rinky dink outfit. You say you're doing all this stuff, but I don't see how that's possible. Right? You know, kind of helps with that. That's exactly what I was thinking, because this is actually a very good question. And pointing out something big, which is that when you're asking for money and approaching major funders or you are trying to put together a proposal or anything like that, anybody who's actually looking at it is trying to get a sense of what you actually do and what your capacity is, and it is really important that your narrative line up with the financial story that's being told.

Jess Birken 00:07:09 And if you are literally just explaining the like dollars in dollars out on your books and you don't have it anywhere else, and it it would look really fishy. Like you could understand that from an outside point of view to say, okay, you say you do all these things, but that's literally not possible with the money in your bank account. And so it's the question of how do we tell our story and through our financials to kind of be able to, validate what we are saying, that we are doing what we claim we have the capacity to do, and all of that kind of stuff as you are building that relationship. Yeah. A thing that I feel like people don't realize is that sometimes you can even create a more attractive proposal to a funder by talking about, like, what you're going to bring to the table. So if you're saying, hey, and we have no idea from this question, like, I have no idea what their mission is or what they're doing or whether they use volunteers.

Meghan 00:08:11 But let's just pretend that they're they're trying to get a grant to do something that they're going to use a volunteer, a bunch of volunteer labor to accomplish it. But there are some hard costs in the need of grant to cover those hard costs. Well, you could make your proposal in a way that shows what you're bringing to the table. And you can say, hey, we estimate that we are going to provide matching contributions of XYZ, thousands of dollars in volunteer time to accomplish this. And we're going to match your gift dollar for dollar with our volunteers. Time and effort dollar essentially. So there are even things you can do to make your your grant proposal look more like, hey, it's not just you giving us money. Like we are also bringing something to the table. Back when I was in-house, this was a big thing that we did with competitive grants where it might even be like a factor that you got scored on. Like whether you had match, they call it match like a matching contribution.

Jess Birken 00:09:16 And some of your match might be the time that your volunteers are going to put in to go collect the wildflower seeds in the prairie, or to paint the fence or to work with, you know, getting the rescue animals rescued or whatever it is. And there are ways that you can document that with time sheets and having a supervisor say, yes, this person was here, and then you can go out to the independent sector's website to figure out what is the value of that person's hour. Right. And so there are all sorts of ways that you can sort of show with the numbers, the, the, the like heft, the work, the lift that you're making, even if you it's not like physically costing you anything. Right. Well, and I think that is the important thing here too, of like, you know, the goodwill is not necessarily looking at every single ratty t shirt you donate, and adding it as an in-kind donation to their books. Like, it doesn't necessarily have to be that granular, but in some circumstances, you do need some very granular information about what kinds of donations are being given to you beyond just the cash.

Jess Birken 00:10:34 Yeah, I mean, my guess, honestly, I have no actual knowledge of what Goodwill Industries or any of those types of nonprofits are claiming. But my guess is that when you bring in £600 of used clothing, you can sell it as like a bail for \$3 or something like that. And that's probably the value you're writing down \$20 worth of, you know, gently worn women's clothing, and they're writing down \$0.02 because it's, you know, a pound of clothing or whatever. Yeah, yeah. And I'm sure it just gets on a pallet. It's a giant crate. And like, there's like a price per weight where you can. Like get rid of used fabric in this market. And that's the value that they ascribe to it. Yeah. And so like

how and what you're going to book it as like Jess, you are not an accountant. I am not an accountant or a bookkeeper. So this would be, you know, work with someone who works with nonprofits to get this showing on your books in a way that makes sense for the organization and for your funders to be able to tell that story, because it's not as simple as dollars and dollars out on an Excel spreadsheet.

Jess Birken 00:11:50 Yeah. And you do, you know, you need to keep track of things in the right category. So like for this organization, they're getting donated office space. Well, you probably are going to want to tag that as rent because when you do your 990 there's a separate line for occupancy. And how that all gets reflected on the books when there's no actual dollars is the the realm of the accounting people. And so my hunch they didn't say this, but my hunch is when there's a for profit that's basically donating all the operating stuff to a nonprofit. My hunch is that their accounting team, their internal accounting staff are helping. And so, you know, I would just recommend that go on Facebook and find Meghan Turnbull's non-profit accounting group. Like, there are lots of, like, community resources available. If you don't know exactly how you would record those things on the general ledger and how to express them in the financials so that it comes out for the 990 in the right way. There's a whole community of people out there who are willing to help you figure that out, because this this is a thing and there is a way to do it.

Meghan 00:13:06 So just you just need to tap into those resources. Absolutely. And it's also the.

Jess Birken 00:13:11 Kind of thing. And as a nonprofit grows, you know, as it was doing more simple things before. Maybe you could have the volunteer figure this out on their own. And as you level up and get some major funders, like, maybe it's time to consider that you do need someone with more specialized expertise or whatever that looks like. So it's sort of adapting to what the nonprofit needs in this moment, as you are growing and expanding and changing and starting to look for new major funders, is definitely a time to build out that infrastructure and platforms so that you are not drowning. If you do get a big infusion of of money that you need to manage on the way in.

Meghan 00:13:48 100%, 100%.

Meghan 00:13:50 Okay, I have a couple of takeaways here from this conversation. First, any noncash donation you get is an in-kind donation, and that is something that can show up on your books. So even though it is not a dollar figure that sits in your bank account, you can in an oftentimes do want to be tracking those in-kind donations on your books.

Jess Birken 00:14:14 Second, your financials tell a story. And so you want the story that you tell in words to match up to the story that you tell in numbers. And a lot of nonprofit professionals are not in it because they love the numbers. So this is that leads directly into my third piece, which is know that nonprofit bookkeeping and accounting is different and specialized, and work with people who have some expertise in that, or at least know that it's different and are ready to do the research and try to roll up their sleeves and get it done right, because it can impact things like your nine 90s, like your fundraising proposals and different things like that. I think those are all my main takeaways. Just did I miss anything.

Jess Birken 00:14:58 I would just throw in? Remember, we don't give donors tax advice. So when we're valuing something, we're not telling the donor what it's worth. We are valuing it. The donor gets to say, I gave \$20 for a market value of gently used clothing. The nonprofit's valuation Metric is \$0.03 for £600 of fabric.

Jess Birken 00:15:21 Like we don't we don't give donors tax advice. That'd be the only thing to add in there.

Meghan 00:15:27 That's a key one for sure. Yeah.

Jess Birken 00:15:30 All right, well, folks, if you want to give me an in-kind donation, you should like this podcast and subscribe and click the buttons. Share it with a friend. If you've got a small nonprofit in your life that's not tracking in-kind contributions, send them this episode. It might change their fundraising for the better. If you've got a question or a story to tell, get at me online. Charity therapy Dot show is the site and as always, thanks for listening.

About the Author



Hi, I'm Jess Birken

I'm the owner of Birken Law Office, I help nonprofits solve problems so they can quit worrying and get back to what matters most – The Mission. I'm not like most attorneys, I actually have an outgoing personality, and – like you – I like to think outside the box. Most of my clients are passionate and have an entrepreneurial spirit. I'm like that too. My goal is to help you crush it. Getting bogged down in the minutia sucks the joy out of the important stuff. My clients want to do the work – not the paperwork.

Let's connect!

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