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Proposed Accounting Standards Update: Not-for-Profit Entities (Topic 958), *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets*

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

#### GENERAL PERSPECTIVES

The Committee is pleased to comment on the Proposed Accounting Standards Update 2020-100: Not-for-Profit Entities (Topic 958), *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets*. We commend the FASB for its efforts to date and its responsiveness to concerns raised by regulators, including the California Attorney General's office. As discussed below, we believe that the disclosure and presentation measures proposed are operable and will provide greater clarity regarding gifts in kind ("GIK") received and used by not-for-profit entities. We believe this proposal will increase the transparency, disclosure, and presentation of GIKs to the benefit of all stakeholders.

When reviewing prior concerns raised by state charity regulators, the Committee concluded that the current fair value measurement guidance provided under GAAP (ASC 820) for GIK should be evaluated to ensure that misleading information is not being used. Specifically, when valuing GIK, entities are required to make hypothetical assumptions about the principal (or most advantageous) market for the GIK. Current guidance, however, may result in valuations that are not reflective of an asset's actual marketability and use (e.g. as a result of donor-imposed restrictions). These circumstances, while not applicable to many not-for-profits and GIKs, raise questions regarding the reasonableness of such values. Accordingly, the Committee believes that the FASB should undertake a separate project to evaluate existing fair value measurement guidance applicable to the valuation of GIK received when an asset's use or marketability may be impacted by donor or other restrictions on use.

## SPECIFIC RESPONSES

***Question 1:*** *Are the amendments in this proposed Update operable? If not, which proposed amendment or amendments pose operability issues and why?*

The Committee generally believes the amendments in this proposed update are operable. The Committee believes that the information necessary to provide proposed presentation and disclosures is readily available and should not pose operability issues. The Committee is aware of certain concerns raised regarding the increased burden imposed on smaller non-for-profit entities. However, the Committee believes that the benefit of the proposed presentation and disclosures outweigh the limited cost and efforts of providing such information.

However as discussed above, financial statement should be presented in a manner that provides a faithful representation of transactions and events and are not misleading. In this regard, the Committee believes the proposed changes to GAAP set forth in ASU 2020-100 are not sufficiently responsive to our concerns regarding the fair value measurement of GIK by not-for-profit entities.

***Question 2:*** *Should the scope of the presentation and disclosure requirements apply to all contributed nonfinancial assets? If not, what types of nonfinancial contributions should be excluded from the scope and why? Should the scope of the presentation and disclosure requirements be extended to business entities? If yes, why?*

The Committee generally believes the amendments in this proposed update should apply to all contributed nonfinancial assets. If material, the presentation and disclosure requirements proposed in ASU 2020-100 would provide decision useful information within the financial statements of not-for-profit entities. Given the differences described above and the unique needs of not-for-profit financial statement, the Committee believes that the scope of the presentation and disclosure requirements should not be extended to business entities.

***Question 3:*** *Should the disclosure requirements in paragraph 958-605-50-1A(c) be required for each category of contributed nonfinancial assets? If not, please explain why.*

The Committee believes that disclosure describing the valuation techniques and inputs used to arrive at a fair value measure, including the principal market (or most advantageous market) if significant, should be required for not-for-profit entities when valuing GIK. This disclosure is particularly relevant in the absence of new measurement guidance responsive to the Committee's concerns discussed above.

***Question 4:*** *Would retrospective application of the proposed amendments be operable and would that application provide decision-useful information? If not, please explain why and what you would recommend.*

The Committee believes retrospective application of the proposed amendments is operable. To achieve period-over-period comparability, the Committee also believes a retrospective application of the proposed presentation and disclosures would provide decision-useful information.

**Question 5:** *How much time would be needed to adopt the proposed amendments? Should early adoption be permitted?*

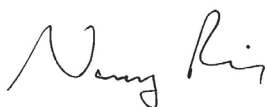
The Committee does not believe significant time would be required to adopt the proposed amendments given the expected availability of information necessary to comply with the proposed presentation and disclosures requirements. However, given the current disruption to most businesses, including not-for-profits, the Committee believes that adoption of such guidance should occur no earlier than for annual and interim reporting periods beginning after December 15, 2020.

**Question 6:** *Is education or implementation guidance needed on the valuation of contributed nonfinancial assets?*

The Committee agrees that additional education and implementation guidance regarding valuation of contributed nonfinancial assets is needed. Specifically, the guidance should remind preparers and auditors of the need to arrive at answers that are not misleading

We thank you for the opportunity to comment on these matters. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Nancy A. Rix, Chair  
Accounting Principles and Assurance Services Committee  
California Society of Certified Public Accountants