



Helping Donors Give Wisely

April 10, 2020

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. 2020-100

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

Dear Mr. Kuhaneck:

Thank you for the opportunity to comment on this proposed ASU that, if adopted, will significantly improve the transparency and presentation of contributed nonfinancial assets by nonprofit organizations. CharityWatch is in the unique position of advocating for the interests of individual donors, foundations, and other grantmakers who want to make informed giving decisions in consideration of how their cash contributions to charity will be used. In our more than 25-year history, a significant portion of the wrongdoing we have reported on has been related to nonprofits exploiting loopholes in their measurement and presentation of in-kind goods and services as a means of inflating their program spending and misleading donors in the process. In our analysis of the audited financial statements and tax filings of nonprofits, we have observed organizations spending as little as 10-20% of their annual cash budgets on programs while simultaneously advertising to donors in their fundraising materials program spending of 80-90% or more. This is achieved by aggregating cash and noncash resources in their presentations of financial information.

The negative consequences of the above are two-fold. First, bad actors within the nonprofit sector are encouraged to procure and inflate the value of contributed nonfinancial assets knowing that doing so will obscure the reporting of how efficiently and effectively they are spending their cash resources. This allows them to siphon from the donating public valuable financial support that could otherwise be directed to efficient and effective organizations operating for public benefit in good faith. Second, nonprofits that, in good faith, value the in-kind goods and services they receive more reasonably appear less financially efficient than the bad actors with which they are competing for donations. This strains the ethics of some nonprofits that are put in the difficult position of valuing their contributed nonfinancial assets reasonably while competing for donations with organizations that are not committed or incentivized to do the same. By improving the presentation and disclosure requirements of contributed nonfinancial assets in nonprofit financial reporting, CharityWatch and other stakeholders can more easily help educate donors on how to identify efficient and effective charities to support.

While CharityWatch continues to have concerns related to the overvaluation of in-kind goods and services by not-for-profit entities in general, we limit our commentary in this document to the presentation and disclosure issues at hand. Requiring the segregation of cash and noncash resources in the presentation of a nonprofit's financial reporting provides donors and other stakeholders with a means to understand how a charity is utilizing its cash, irrespective of whether or not a nonprofit is overvaluing its nonfinancial assets. For this reason, we believe the FASB's proposed ASU will improve existing guidance. Please see the attached Appendix for our responses to questions outlined in the Exposure Draft.

Sincerely,



Laurie Styron
Executive Director
CharityWatch

Appendix : Responses to Questions

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

CharityWatch believes that the proposed amendments are operable. Nonprofits already research and utilize available guidance to make a determination as to the values of contributed nonfinancial assets when initially recording this revenue. Organizing this information to adhere to the additional presentation and disclosure requirements proposed in this ASU should therefore not present an undue burden for most 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?*

CharityWatch believes that the scope of the presentation and disclosure requirements should be applicable to all contributed nonfinancial assets of not-for-profit entities. We withhold comment on the applicability to business entities at this time given our inability to appropriately research the issue by the comment period deadline.

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.*

CharityWatch believes that the disclosure requirements in paragraph 958-605-50-1A(c) should be applied to each category of contributed nonfinancial assets.

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?*

CharityWatch believes that retrospective application of the proposed amendments is operable. Further, we believe it would provide decision-useful information to donors and other stakeholders.

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

Not-for-profit entities are already required to research and utilize available guidance to measure and disclose fair value (958-605-30-2), and to distinguish between contributions with and without donor-imposed restrictions (958-605-45-3) in their financial reporting.

For this reason, most of the information necessary to comply with the proposed ASU should be readily available and not pose an undue burden for non-for-profit entities. CharityWatch supports early adoption.

Question 6: *Is education or implementation guidance needed on the valuation of contributed nonfinancial assets? If yes, what type of guidance or additional education should be developed?*

Education and implementation guidance is needed to improve consistency and comparability among not-for-profit entities that report contributed nonfinancial assets. In particular, guidance related to the valuation of pharmaceuticals is critical, as it is the area in which we have observed the most abuse by bad actors within the nonprofit sector, as detailed in our commentary. Also, public service announcements (PSAs) often make up a significant portion of a recipient not-for-profit entity's total revenue and expenses, and stakeholders could benefit from improved guidance in this area.

In addition, more guidance is needed related to the valuation and recording of nonfinancial assets in cases where the recipient organization would be unable or unwilling to pay the market price for such goods or services had they not been contributed. In our analysis of notes to audited financial statements, CharityWatch has observed nonprofits interpreting the guidance in differing ways that are not comparable among nonprofits. In some cases a charity might value its contributed nonfinancial assets at an amount five times greater than its annual cash contributions. For example, if a charity receives a PSA and values it at \$5 million, but it has an annual cash operating budget of only \$1 million, better guidance is needed related to how the entity should determine whether or not to record this revenue, and how it should determine and apply the appropriate valuation method.