UCF Graduate Accounting Program
Financial Accounting for Governmental and Nonprofit Organizations Class
4000 Central Florida Blvd,
Orlando, FL 32816

March 29th, 2020

Technical Director, File Reference No. 2020-100
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: the Proposed Statement on Not-For-Profit Entities, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*

Dear Technical Director,

As members of the Advanced Financial Accounting for Governmental and Nonprofit Organizations class at the University of Central Florida we appreciate the opportunity to offer our comments on the Proposed Statement on Topic 958 Not-For-Profit Entities, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. We have responded to the six questions posed in the exposure document as part of a graded assignment for our class.

Sincerely,

Amelia Hovey, Brooke Lineberger, Hannah Marlowe, Angus To

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

The additional disclosure requirements are operable. Providing additional information about the nature and use of contributed nonfinancial assets will help the users of not-for-profit's financial statements better understand how nonfinancial asset contributions are used in a detailed way. By providing this information, potential donors may be more likely to donate nonfinancial assets because they know how nonfinancial assets are used by a specific not-for-profit. As these additional disclosure requirements are merely an additional schedule to provide in the notes to the financial statements, and not an overhaul of the statements themselves, the additional disclosure is operable for not-for-profits to implement and provide.

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?

There are many different nonfinancial assets the public could donate to a not-for-profit entity. Some of these donated assets are likely to be low in value and will not materially affect the financial statements of an organization. It is not practical for an entity to list and value every book or piece of clothing contributed every year. Smaller not-for-profit entities may not have the manpower to perform such valuations, in addition to the already complicated accounting work. The public is mainly concerned about assets that have a relatively large value and material impact on the financials. We recommend there be a minimum threshold of the value of contributed nonfinancial assets that must be presented and disclosed. We would suggest this minimum threshold be between $250 and $500 depending upon the size and type of not-for-profit. This threshold will relieve smaller not-for-profit entities of tedious work and allow for more useful, practical, and reliable information on the financial statements.

The scope of the presentation and disclosure requirements should not be extended to business entities. The users of a business entity's financial statements have different needs than the users of a not-for-profit's financial statements. These additional disclosure requirements are unique to a not-for-profit's business and would not apply to a business entity. The new disclosure requires the not-for-profit to describe how the nonfinancial asset will be used in the not-for-profit's various programs supporting its mission and any donor restrictions on those assets. The stakeholders of a business entity do not care about this information and business entities do not have donors or a mission other than to generate profit. These disclosure requirements do not apply to business entities and should remain outside the scope of this new standard.

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 disclosure requirements in paragraph 958-605-50-1A(c) insist on a description of the valuation techniques and inputs used to arrive at a fair value measurement. This includes the principal market (or most advantageous market) if significant, in accordance with paragraph 820-10-50-2(bbb)(1). As stated in the answer to Question 2, we would suggest that these detailed disclosures be required for all categories of items that have been valued over a specific threshold. While it may take some time for not-for-profits to make these disclosures for all categories of items, the threshold requirements should relieve not-for-profit staff of any tedious work. We recommend that this disclosure requirement be made optional for any other contributions of nonfinancial assets that are under the set threshold amount. The category of contributed nonfinancial assets is not important, as every type of not-for-profit will have different types of contributed nonfinancial assets. The important aspect of the disclosure requirements is to disclose significant, otherwise known as material, nonfinancial assets to the users of Not-For-Profit financial statements, regardless of the type of contributed nonfinancial asset.

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.

While a retrospective application would be helpful for users of the financial statements to understand how prior-year nonfinancial asset contributions are utilized by a not-for-profit and might encourage a potential donor to donate a nonfinancial asset, the preparation of such a schedule will put enormous strain on the not-for-profit to prepare such information. Most of these small not-for-profits will not have the knowledge or resources to compile the additional disclosure information required by the new standards. The larger entities with more robust accounting staff will likely already have the information required in these new disclosure requirements on hand and will have little difficulty publishing that information in their financial statements. If larger organizations do not already have the information prepared, they would likely be able to do so in a timely manner.

In order to accommodate the variety of not-for-profits who must apply these standards, there should be an option to use the retrospective approach or the simpler prospective approach. That option should be based on an entity’s size; not-for-profits with large amounts of assets should be required to use the retrospective approach while not-for-profits with small amounts of assets should be allowed to choose between the retrospective approach and prospective approach. This option would allow small entities that do have the prior period nonfinancial asset contribution information available to disclose it to their stakeholders. It would also provide flexibility to those entities that do not have the information available to make the changes going forward or to make the necessary prior period adjustments to apply them retrospectively. This flexibility can help save small not-for-profits both time and resources when they do not have the capability to apply the retrospective approach, while also ensuring they apply the new disclosure requirements going forward.

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

If all not-for-profits are required to apply the retrospective application of the new amendment a minimum of 2 years should be allowed for adoption. This time would allow each not-for-profit to allocate staff, create a plan for implementation and put the plan into action. Some not-for-profits may not have the appropriate individuals on staff to interpret and apply the new amendment, the two year transition period would allow them to consult with or hire the proper individuals. Alternatively, if the suggested plan of allowing small not-for-profits to apply the new standard either retrospectively or prospectively is used, the adoption timelines should be amended to reflect the difference in application. Small not-for-profits who use the retrospective approach would be allotted the 2 years previously suggested for adoption. Small not-for-profits who use the prospective approach should be required to adopt the new amendments in the next fiscal year.

Early adoption should be permitted for this new standard. If a not-for-profit's is ready and equipped to implement the new standards before the required deadlines, it should be allowed and able to do so.

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?

The amendment directs not-for-profits to review 820-10-50-2(bbb)(1) for guidance about how to value nonfinancial assets. The authoritative literature and illustrated examples within the literature should be sufficient in providing a foundation for not-for-profits on how to value their nonfinancial assets. The standard should link to all of the appropriate examples within the literature so not-for-profit staff with limited accounting knowledge can quickly and easily find the relevant examples.

However, it could be beneficial to include a few additional examples of situations not-for-profits are more likely to experience. For example, it would be helpful to include an illustrated example of the valuation of a donated item that will be monetized versus the valuation of the same donated item that will not be monetized. This example could help illustrate the differences in valuations for the smaller not-for-profits who may not have experience in this area.